

**2006.** A challenge with a Brazilian dimension.



**2006** | AnnualReport

## Good practices on paper

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When we reached the final phase in defining the format of this Annual Report, we decided that it should represent, in all its details, the values that are fundamental to Energias do Brasil. As a company endeavored in good corporate practices and business transparency, our intent was to use paper produced according to processes causing as little environmental impact as possible. Thus, we acquired 2.8 tonnes of the Evergreen Write model, a post-consumption 100% recycled paper - a novelty in Brazil. Nine hundred copies of this Annual Report are among the first products in Brazil to utilize this high quality recycled paper, making Energias do Brasil a pioneer in yet another sustainable initiative. 75 trees, 115,000 liters of water and 9,200 KWh of energy have been saved with the use of Evergreen.

In addition, 2.9 tonnes of gases and 1.6 tonnes of solid waste were prevented from being released into the environment. It is just another example of our commitment to a socially responsible management which is all-encompassing: from strategically important decisions to the selection of the paper on which we account for our actions.



# Energias do Brasil, para o Brasil.

Incentivo à educação infantil.





bandeirante  
energias do brasil

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energias do brasil

Iluminando o Futuro  
de Nossas Crianças

Iluminando o Futuro  
de Nossas Crianças

Iluminando  
de Nossas

ENCO DO BRASIL  
DEDIC  
Grupo Portugal Telecom  
LUBRIL PARALICERA  
MITRA

Apoia:  
BRAS  
Eletrobras  
DEDIC  
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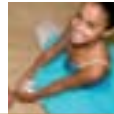
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# 2006. A challenge with a Brazilian dimension.

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Energy not only moves a country - it also unites its people. Brazilians are particularly known for their dynamic character in bringing in new solutions and overcoming setbacks. In 2006, Energias do Brasil celebrated 10 years of existence, selecting sustainable development as one of its priorities. Thus, in addition to seeking an equilibrium between productivity and environmental preservation, the Company actively participates in social projects of great relevance in building the welfare of communities where it operates, and of Brazil as a whole. Some of these projects have served as a lesson for us about how to build up our forces, multiply resources and gather surprising results. We hope that the commitments portrayed here will serve as an inspiration to you.

# Introduction



**Nosso desafio é unir forças para crescer com responsabilidade.**

Gestão do Capital Humano.







# Profile

Energias do Brasil operates as a holding of a group of electric power generation, distribution and trading companies. The Group is present in the Southeast, Mid-West and Northern regions of Brazil, with activities in the states of São Paulo, Espírito Santo, Mato Grosso do Sul and Tocantins. The Company is controlled by EDP - Energias de Portugal, one of the largest European operators in the electric power sector. Energias do Brasil has its shares traded at the São Paulo Stock Exchange (Bovespa) New Market, a segment which encompasses the companies with the best corporate governance practices.

Concerning **distribution**, the Company wholly owns the companies Bandeirante Energia S.A. (Alto Tietê, Vale do Paraíba and Northern Seacost of the State of São Paulo), Espírito Santo Centrais Elétricas S.A. - Escelsa (state of Espírito Santo) and Empresa Energética de Mato Grosso do Sul S.A. - Enersul (state of Mato Grosso do Sul). The group of companies serves more than 3.1 million customers and distributed 23.9 thousand GWh in 2006.

Concerning **generation**, the company held interest in ventures representing 1,018 MW of installed capacity at the end of 2006:

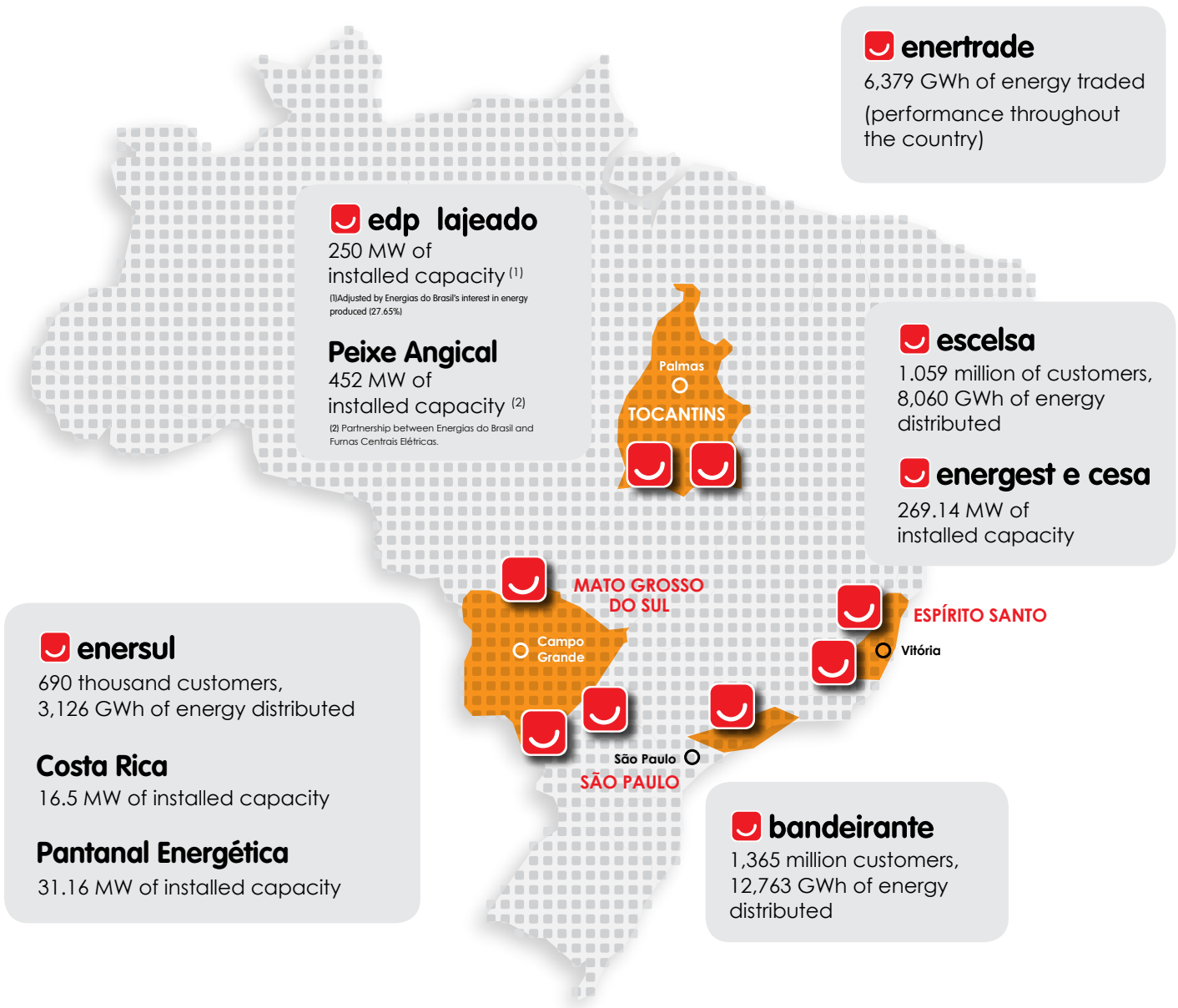
- EDP Lajeado Energia S.A. - subsidiary that manages the 27.65% interest on voting capital (23.05% of total capital) in Luís Eduardo Magalhães Hydroelectric Power Plant (Lajeado), in the state of Tocantins.
- Enerpeixe S.A. - manages Peixe Angical Power Plant, in the state of Tocantins, concluded in 2006. Construction was carried out by Energias do Brasil (60% interest in the capital) in partnership with Furnas Centrais Elétricas S.A. (40%).

- Energest S.A. - Subholding of Energias do Brasil, which directly and indirectly controls generation assets derived from the deverticalization process of Escelsa and Enersul, owning 16 power plants with a total installed power of 316.8 MW.

Concerning **trading**, the Company wholly owns Enertrade Comercializadora de Energia S.A., which operates in the free energy market and traded 6.7 thousand GWh in 2006.

In 2006, net revenues of R\$4.6 billion accounted for a growth of 5.5% compared to the previous year. EBITDA (earnings before interest, taxes, depreciation and amortization) amounted to R\$1.1 billion, a 17.6% increase, and net income amounted to R\$394.1 million, 10.3% lower than in 2005. Not taking into account extraordinary effects in 2005 and 2006 results, net income would have increased 34% (more details in item operational expenses, under section Analysis of Economic-Financial Performance). At the end of 2006, the Company had 3,010 direct employees.





# Information about the Report

As a holding created in 2005, Energias do Brasil presents its first sustainability annual report based on Global Reporting Initiative (GRI) guidelines. Following this model, structured according to GRI-G3 criteria, we present the sustainability results and practices of the Group's companies.

The collection of Information and the consolidation of this document, covering the period between January 1 and December 31, 2006, took approximately four months to complete and represented the efforts of all Group areas. The results were based on periodical evaluations of specific satisfaction and performance indicators and in compliance with prevailing legislation.

The presentation of this report aims at getting closer to and strengthening Energias do Brasil 's relationship with all types of strategic public, herein composed of employees, shareholders, the government, communities, suppliers and customers. The Company shares relevant information about its impacts and social, environmental and economic performances in the regions in which it operates, as well as initiatives aimed at the sustainable development of the Group and of the country.

The inclusion of a specific chapter on responsibility in the production chain meets the needs of demonstrating efforts in promoting the sustainable behavior of suppliers.

The economic and financial indicators of this report are audited. The EN22 indicator was verified among the economic, social and environmental performance indicators envisaged by GRI (total weight of waste, by type and method of disposal) integrating work carried out by EDP - Energias de Portugal.

Should any doubts arise related to this report and its content, the Group offers various communication channels whereby we may be contacted. We can be reached via the following websites:

**[www.energiasdobrasil.com.br](http://www.energiasdobrasil.com.br),**  
**[www.bandeirante.com.br](http://www.bandeirante.com.br),**  
**[www.escelsa.com.br](http://www.escelsa.com.br),**  
**[www.enersul.com.br](http://www.enersul.com.br),**  
**[www.enertrade.com.br](http://www.enertrade.com.br)** and  
**[www.enerpeixe.com.br](http://www.enerpeixe.com.br).**

In addition, call centers are also available for you to express any concerns and may be accessed by telephone: Bandeirante - 0800 055 0800; Escelsa - 0800 390 196; Enersul - 0800 647 3196 and Enerpeixe - 0800 6464 555. Questions may also be forwarded via Mail to Mail Box 55001, Santo Amaro, São Paulo, SP, CEP 04733-970.



# 2006 Highlights

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- Conclusion of works of the **Peixe Angical Hydroelectric Power Plant**, in the state of Tocantins. The first generating set of the power plant starts started-up operation in June. The third and last turbine starts operationInitiated operations in September, amounting to 452 MW of installed capacity.
- The commercial operation of the fourth machine of the **Mascarenhas Hydroelectric Power Plant (UHE)** startsstarted in October, in the state of Espírito Santo, adding 50 MW of installed capacity to UHE.
- Conclusion of the worksconstruction of **São João Small Hydroelectric Power Plant (PCH)**, in the state of Espírito Santo, with an installed capacity of 25 MW. The operation license was obtained in February 2007.
- Creation of a **Voluntary Resignation Redundancy Program (PDV)**. Resignations are phased until the end of 2007 and take necessary replacements into account. This will imply a net 16% reduction in personnel. The costs related to the program (R\$51.2 million) were fully recognized in June and the benefits will be fully absorbed as from 2008 on.
- Issue Issuance of **R\$851.5 million in debentures** by distributing companies Bandeirante, Escelsa and Enersul, with the purpose of rescheduling the indebtedness profile and reducing the average cost of commitment.
- Creation, with support of the Board of Directors, of the **Sustainability and Corporate Governance Committee**, in charge of ensuring the company's longstanding existence, as well as the practice of ethical and sustainable development principles in all business decisions.
- Adhesion to the principles of **Global Compact**, an initiative of the United Nations (UN), which proposes corporate citizenship as a means of contributing to the development of a more sustainable and inclusive global economy.
- Adoption of a consistent salary and job position plan for the entire Group, assessment policy of performance and variable compensation, recruiting and selection policy and development and training program.
- Information Technology Projects: **SitBrasil**, which aims at unifying information systems based on geoprocessing, estimated to be concluded midway through the first six-month period of 2007; **Integration**, which aims at promoting improvements in business management processes, estimated to be concluded by the end of 2007.
- The Company's shares joinjoined the **Corporate Sustainability Index (ISE)** of the São Paulo Stock Exchange. The shares also begin to integrate other important capital market indexes, among them, the Brazil Index (IBr-X), the Electric Power Index (IEE) and the Bovespa Value Index (IVBX-2).
- **Corporate Governance IBGC Award** is granted under the category of Publicly-held Companies. Public recognition granted by the Brazilian Corporate Governance Institute (IBGC).
- The Company winswon the **Abamec Award as the Best Publicly-held Company** in 2005 and Honors from IR Magazine Awards 2006.

# Performance Indicators



	2004	2005	2006	Change % 06-05
<b>Results (R\$ million)</b>				
Gross revenues	5,107.6	5,862.7	6,221.8	6.1
Net revenues	3,692.1	4,323.2	4,561.4	5.5
Manageable and non-manageable expenses	3,143.2	3,650.4	3,775.2	3.4
Service Income (EBIT)	548.9	672.8	786.2	16.9
EBITDA <sup>(1)</sup>	775.2	912.6	1,073.6	17.6
Financial Income	-270.4	-279.2	-377.8	35.3
Income before minority interest	278.5	445.9	431.4	-3.3
Net income	106.9	439.4	394.1	-10.3
<b>Margins (%)</b>				
EBITDA Margin (EBITDA/Net Revenues)	21.0	21.1	23.5	2.4pp
Net Margin (Net income/Net revenues)	2.9	10.2	8.6	-1.6pp
<b>Financial</b>				
Total assets (R\$ million)	7,761.9	8,955.4	9,577.6	6.9
Shareholders' equity (R\$ million)	1,368.8	3,509.8	3,705.6	5.6
Minority interest (R\$ million)	844.2	609.1	662.3	8.7
Net debt (R\$ million) <sup>(2)</sup>	2,344.7	1,701.7	1,879.4	10.4
Net debt/Shareholders' equity (times)	1.7	0.5	0.5	0.1
Net debt/EBITDA (times)	3.0	1.9	1.8	0.1
Investments (R\$ million)	1,051.2	1,150.7	830.0	-27.9
<b>Shares</b>				
Number of shares (thousand)	-	165,017	165,017	-
Net income per share (R\$)	-	2.66	2.39	-10.2
Share closing price - common share (R\$)	-	26.61	33.00	24.0
Appreciation in the year (%)	-	52.2	24.0	NA
Market capitalization (R\$ million)	-	4,519.8	5,445.5	24.0
<b>Operational</b>				
<b>Distribution</b>				
Energy distributed (GWh)	22,396	23,061	23,948	3.8
Energy sold to end customers (GWh)	16,956	15,863	14,853	-6.4
Residential	4,387	4,553	4,837	6.2
Industrial	7,433	6,112	4,488	-26.6
Commercial	2,595	2,758	2,957	7.2
Rural	739	757	834	10.2
Other	1,802	1,682	1,738	3.3
Conventional supply (GWh)	317	302	336	11.3
Energy in transit (GWh)	5,104	6,874	8,738	27.1
Own consumption (GWh)	19	22	21	-4.3
Average price of energy sold to end customers (R\$/MWh) <sup>(3)</sup>	204.82	234.21	256.52	9.5
Energy purchased (GWh)	19,554	20,371	20,038	-1.6
Technical and commercial losses (GWh)	2,907	3,475	3,560	2.4
Technical and commercial losses (%)	11.5	13.1	12.9	-0.2 p.p.
<b>Generation</b>				
Energy generated (GWh) <sup>(4)</sup>	2,643	2,756	3,929	42.6
Average price of energy generated <sup>(5)</sup>	-	73.62	96.52	31.1
<b>Trading</b>				
Sale of energy (GWh)	4,849	6,379	6,702	5.1
<b>Performance and Quality</b>				
Number of customers (thousand)	2,896	2,972	3,114	4.7
Energy distributed by customer (MWh)	7.7	7.8	7.7	-0.1
Number of employees	3,484	3,461	3,010	-13.0
Productivity (MWh/employee)	6,428	6,663	7,956	19.4
Number of customers/employee	831	859	1,034	20.4
<b>Environmental</b>				
Investments in environment (R\$ million)	20.6	138.1	43.9	-68.2
<b>Social</b>				
Social investments (R\$ million)	3.3	6.4	9.0	40.6

<sup>(1)</sup>EBITDA = Earnings before taxes, interest, depreciation, amortization and non-operating income.

<sup>(2)</sup>Net debt = gross debt - cash and marketable securities - net balance of regulatory assets.

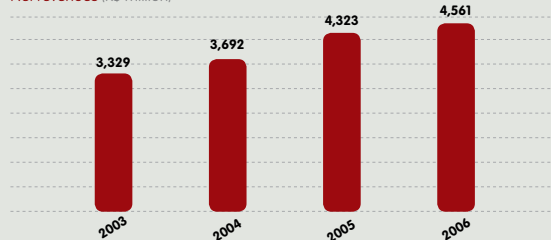
<sup>(3)</sup>Average price of energy sold to end customers = revenue billed from end customers/volume of energy sold to end customers.

<sup>(4)</sup>In 2004, it excludes the volume produced of 236 GWh by Fafen Energia S.A., power plant sold in December 2004.

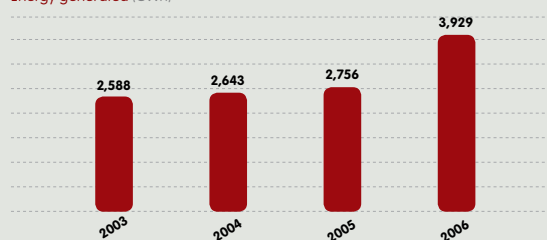
<sup>(5)</sup>Average price of energy generated = net revenues of generation segment/volume of energy sold of generation.

The information is in accordance with Brazilian Corporate Law, based on audited financial information.

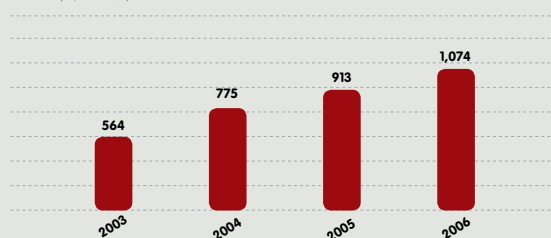
Net revenues (R\$ million)



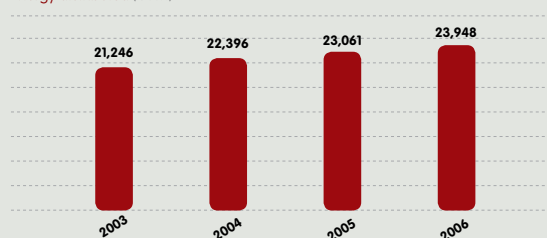
Energy generated (GWh)



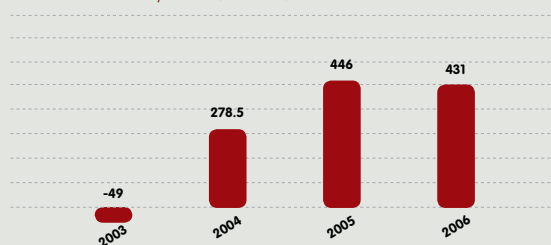
EBITDA (R\$ million)



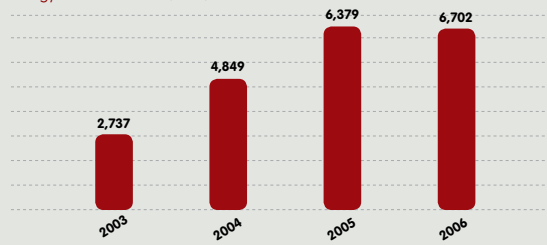
Energy distributed (GWh)



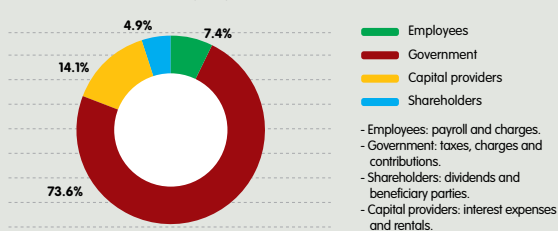
Income before minority interest (R\$ million)



Energy commercialized (GWh)



Distribution of Added Value (DVA)



## Message from the Chairman of the Board of Directors

Energias do Brasil is on the right path in fulfilling its objective of becoming a benchmark in the Brazilian electricity sector in terms of generating value and sustainable growth.

In view of a worldwide scenario in which concern with global warming and its effects is intensifying, 2006 was a year of great relevance for our company.

We doubled our installed capacity by inaugurating the Peixe Angical power plant and the fourth machine of Mascarenhas. Thus, we balanced the Company's portfolio and reduced business risk, significantly increasing the weight of generation in operating revenue.

We are also a company committed to business sustainability, social involvement and respect for the environment.

Within the context of the current social and environmental situation, Energias do Brasil also stood out in 2006 for the successful experience in the development of Peixe Angical, its Negotiation Forum and its 30 environmental programs; the adhesion to the Corporate Sustainability Index (ISE) of Bovespa; the granting of the IBGC award for the best corporate governance among the listed companies in the country; the signing of United Nations' Global Compact; and Clean Development Mechanism projects (MDL) of the Company under analysis at the United Nations, which may generate credits of nearly 1 million tonnes of CO<sub>2</sub>.

**Antônio Mexia**  
Chairman of the Board of Directors



Under the scope of the Board of Directors, we have created the Sustainability and Corporate Governance Committee, which, among other issues, will monitor the Group's social and environmental responsibility initiatives. In 2006 alone, more than R\$50 million was invested in environment and social responsibility causes.

Keenly aware of the country's needs of growth and a higher supply of electric power, we are ready to make available to the Brazilian electricity sector all the experience of a large Group with a know-how that is internationally recognized.

As we carry on, we remain attentive to all market growth opportunities in order to expand in terms of generation, overcoming any difficulties in market conditions related to both greenfield projects and regulatory requirements.

Dear Shareholders: I thank you for all your support and trust and I am certain that the results we achieved were only possible with the contribution of the people of Energias do Brasil, to whom I am grateful for their efforts and dedication.





In a steady macroeconomic scenario, with a significant reduction in country risk, interest rates and inflation, and with the awareness of a better definition of the regulatory system, Energias do Brasil developed its activity in 2006 in a distinguished manner, fully meeting the commitments assumed by its stakeholders.

Under this scope, and aligned with strategic backbones announced in the IPO in July 2005, the Company has:

- doubled its generation capacity to 1.018 MW, with the startup of the Peixe Angical (452 MW) power plant and the intensification of power from Mascarenhas (from 130 MW to 180 MW);
- implemented a vast operational efficiency program, culminating with the launching of the PDV (Voluntary Resignation Program), which will allow the reduction of the number of permanent employees by 16% by the end of 2007 and annual recurring savings of R\$69 million. Within this grasp, the Company also intensified the loss prevention program, based on investments in new equipment and land inspection backups (more than 700 thousand, by detecting 228 thousand frauds), which allowed the reversal of the previous upward trend of commercial losses;
- reinforced financial sustainability, proceeding with the recovery of capital structure initiated in 2005, by issuing debentures in the amount of R\$851 million, which allowed for the rescheduling of the debt structure and the reduction of the respective average cost, as well as keeping the indebtedness capacity high for future investments;
- intensified the exchange of know-how with the controlling shareholder, particularly in what concerns risk management, human capital, IT and supply policies, in addition to the technical and economic assessment of new generation investment opportunities.

Notwithstanding, a landmark in 2006 was undoubtedly the conclusion and startup of

the Peixe Angical power plant, built in partnership with Furnas within a record time and with a minimum budgetary deviation, corresponding to an investment of R\$1.6 billion, of which 13% referred to the environment. In these aspects, we point out flora and fauna protection programs, as well as the support and settlement of affected populations, in addition to infrastructure backup and improvement.

The creation of a discussion forum and negotiations involving the executive and judiciary branches, the affected populations, NGOs, sponsors and builders was an innovating fact to point out and undoubtedly a decisive element for the successful venture.

Hence, the year 2006 saw Energias do Brasil increase its business, with more than 43% of energy generated (3,929 GWh), an additional 3.8% of energy distributed (23,948 GWh) and an additional 5.1% of energy traded (6,702 GWh), in relation to the previous year.

This evolution corresponded to a growth of 5.5% in net revenues, which reached R\$4,561 million and 17.6% in EBITDA, which recorded R\$1,074 million.

The net income of R\$394 million, although lower than in 2005 from the accounting point of view, actually corresponds to a growth of 34% when compared to 2005, if we discount the extraordinary effects occurring in both years.

With total investments of R\$830 million, the Company's total assets reached R\$9.6 billion and shareholders' equity amounted to R\$3.7 billion, growth of 7.0% and 5.6% respectively in relation to 2005.

At same time, Energias do Brasil's shares showed an appreciation of 24% in 2006, which allowed the Company to reach a market value of approximately R\$5.5 billion at the end of year.

Notwithstanding the results achieved, it is worth mentioning the difficulties faced by the Brazilian electricity sector in increasing terms of generation, although we acknowledge that Brazil annually requires nearly 4 thousand MW in new capacity, according to official projections.

**Antônio Fernando Melo Martins da Costa**  
Chief Executive Officer



On the one hand, the difficulty in obtaining environmental licenses has prevented the development of new hydroelectric power plants in auctions, in addition to the fact that the mechanisms of such auctions have not been the most attractive ones to ensure investment with adequate return.

On the other hand, the thermal via still depends either on the guarantee in the supply of natural gas or on mechanisms to transfer acquisition costs of raw materials imported to energy sales prices.

Solutions such as wind or biomass energy, although promising, are still under very early phases of development.

Thus, Energias do Brasil expects the announced Growth Acceleration Plan (PAC) for 2007 to contribute to solve this situation, and actively continues proceeding with its growth efforts in this domain, working in various fronts, including:

- the attendance of new energy auctions and botox;
- the preparation of feasibility studies for new hydroelectric power plants;
- the execution of river basin inventory studies;
- the construction of PCHs, already estimated for 2007 is the start of works in Santa Fé, in the state of Espírito Santo (29 MW);
- power reinforcement of already existing plants;
- the study and construction of coal and natural gas-driven thermal plants, should the conditions concerned evolve favorably;
- an investment feasibility analysis in wind and biomass energy;
- the acquisition of assets already in operation.

With this scenario, Energias do Brasil remains confident about the accomplishment of the vision mentioned herein of becoming a benchmark company in the Brazilian electricity sector, believing in growth, with contained risk and adequate return, based on its main competitive advantages:

- higher corporate governance (IBGC 2006 Award);
- adherence to the best principles of corporate sustainability, in its social, environmental and

economic components (joining the ISE of Bovespa, and adhesion to UN's Global Compact);

- financial strength and access to capital and debt markets;
- success in operational efficiency;
- quality of its ownership structure, particularly in pinpointing the know-how existing in its controlling shareholder.

A final comment on Energias do Brasil's contribution to an integrated development of society, which may be viewed through the following 2006 figures:

- taxes and contributions paid to the government: R\$2.463 billion;
- payroll and other contributions in favor of employees: R\$293.1 million;
- compensation paid to shareholders (dividends and interest on own capital): R\$169.9 million;
- payment to suppliers and service providers: R\$468.8 million;
- investment in social responsibility actions: R\$9.0 million;
- investments in the environment: R\$43.9 million.

A final word of thankfulness to all shareholders and to the members of the Company's governance bodies for the trust and support that they have demonstrated; to the customers for their permanent motivation; to our employees for the dedication and professionalism that they have shown; to our business partners, for the relationship we have achieved; and to the authorities, for the ongoing openness and support that they have expressed.

# Corporate Governance

The composition, independence and qualification of the members of the Board of Directors and the transparency practices were determining factors in the selection of Energias do Brasil as the winner of the 2006 IBGC Corporate Governance Award, granted by the Brazilian Institute of Corporate Governance. This public acknowledgment reflects the Company's commitment to better relationship practices with its shareholders and investors, as well as with all the parties interested in the business, a characteristic of the holding's performance since it went public, in July 2005, at the São Paulo (Bovespa) New Market Stock Exchange.

The consolidated standards of the New Market Listing Rules broaden shareholder rights, improve the quality of information rendered by the companies, and, when determining solutions to conflicts by means of an Arbitration Panel, these offer investors a safe, more flexible and customized alternative. When maintaining only voting right common shares, Energias do Brasil extended to all shareholders the right of inclusion in public tender offers, as a result of the disposal of control by identical price per share of control block (100% tag along).

The Company also maintains Policies for the Trading of Shares and Disclosure of Information, In addition to a Code of Ethics, which sets out rules of conduct for relations with all interested parties: employees, customers, suppliers, partners, communities and governments.

Management integration with the parent company, EDP - Energias de Portugal was strengthened during the year, with the election of the Chief Executive Officer of Energias do Brasil for the position of member of the EDP Executive Board of Directors, a body equivalent to the Board of Executive Officers at Energias do Brasil. Concurrently, the Chairman of EDP's Executive Board of

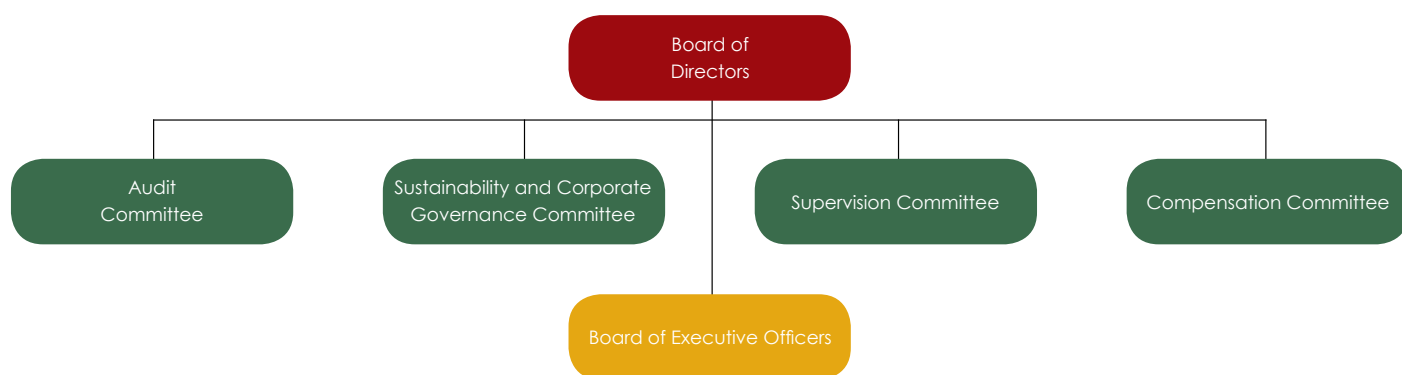
Directors became Chairman of Energias do Brasil's Board of Directors. In addition to easing the flow of know-how and better practices between the two companies, this situation reveals the relevance given by the controlling shareholder to the Brazilian operation and the alignment of interests.

## Board of Directors

The Board of Directors is composed of nine members, of which four are independent members, two of whom are appointed by minority shareholders. The Board of Directors is liable for establishing general businesses policies and guidelines (including long-term strategies), electing the members of the Board of Executive Officers and inspecting its operation, in addition to the activities defined by law and in the Company's Bylaws. The term of office of the current board members expires at the Annual General Meeting to be held in the first four-month period of 2007. Re-election for one-year terms of office is permitted. In 2006, the Board of Directors held four ordinary and eight extraordinary meetings.

The Board's performance is ruled by a specific regulation, which was improved in 2006. The changes involved the introduction of an assessment policy of the Board of Directors and its members and the creation of a fourth committee of Sustainability and Corporate Governance, which has been added to the committees of Audit, Supervision and Compensation.

At the next Annual General Meeting in 2007, the board members' compensation proposal will be submitted separately from the compensation of the Board of Executive Officers, as a means of offering more transparency to this process.



### Board of Executive Officers

The Board of Executive Officers is liable for managing and practicing the acts necessary for executing the Company's purposes, as well as for carrying out the resolutions taken by the Board of Directors.

Its members have individual responsibilities compatible with the positions they hold. The Board of Executive Officers is composed of six members and one of them is the Chief Executive Officer, elected by the Board of Directors for three-year term of office, with the possibility of re-election. The Board of Executive Officers' meeting is called by the chief executive officer or by any of the members jointly, only instating the meeting with the attendance of the majority of its members. The resolutions are taken by a majority vote of attending members.

### Management committees

All members of the Board of Directors' advisory committees are board members, elected by their peers.

The **Audit Committee** is of a permanent basis, and is liable for overseeing external and internal audit

activities and monitoring the Company's business risks, accounting and information transparency practices. It is also responsible for advising the Board of Directors about the resolutions on matters submitted. It is composed of three members selected among the Board of Directors' members, one of whom is an independent board member (who holds the position of chairman of the Committee), another who is appointed by controlling shareholders and another who is appointed by non-controlling shareholders.

### Sustainability and Corporate Governance Committee -

a permanent committee in charge of ensuring the organization's longevity, with a long-term vision and sustainability, building up social and environmental considerations when defining its businesses and operations. It must also ensure the adoption of best corporate governance practices and highest ethical principles, with a view to increasing value of the society, easing the access to capital at lower costs and generally contribute to its longevity. Among its duties, we point out the proposition of an assessment system of the Board of Directors and its members, as well as the analysis and the monitoring of all





related parties' businesses. It is composed of three board members, one of them, the chairman is an independent member.

**Supervision Committee** - a permanent joint-resolution advisory committee, which is liable for issuing opinions and recommendations for resolutions related to the activities of the Company and its subsidiaries, as well as the execution of its respective duties. It is composed of three members selected among the members of the Board of Directors: the chairman of the Board of Directors (also chairman of the Committee) and Board members with executive duties concurrent with the Board of Executive Officers.

**Compensation Committee** - a non-permanent joint-resolution advisory committee which is liable for advising the Board of Directors in resolutions related to the compensation policies of the Company and its subsidiaries. It is composed of three members selected among the members of the Board of Directors, two of whom are appointed by the controlling shareholder and one independent board member.

### **Sarbanes-Oxley**

During 2006, key control tests of main operational processes of Energias do Brasil Group were carried out, observing the parameters and determinations of the Sarbanes-Oxley Act.

In addition to the commitment to maintaining high governance standards, Energias do Brasil met the main requirements of this Act through an alignment with its parent company, Energias de Portugal, the shares of which are traded at the New York Stock Exchange.

The results of these undertakings have already been reported to the controlling shareholder, and, once audited, will be part of the reports and financial statement of the Energias de Portugal Group.

### **Independent Audit**

The policy in relation to the engagement of independent registered public accountant services not related to external audit services ensures that there is no conflict of interest, loss of independence, or objectivity. Energias do Brasil has had its results audited by KPMG since July 2005 and, in 2006, no other services not related to the external audit were contracted from this company, exceeding by 5% the amount of annual compensation.

### **Investor relations**

Deemed as strategic area of the Company, the Investor Relations area administers the Company's entire relationship with capital markets. During 2006, nine meetings were held with capital market professionals and analysts, as well as four conference calls to disclose its quarterly results. These initiatives have been acknowledged with the Seal of Apimec, the Brazilian Association of Capital Market Professionals, which attests to the Group's regular attendance in its meetings with market representatives. There is an Investor Relations section in the Company's Website, containing updated information on its businesses and economic and financial performance.

### **Policies**

The Policy for the Disclosure of Information and Confidentiality is applied to all persons retaining relevant information, by setting forth secrecy and confidentiality rules and assigning direct and subsidiary liability for the disclosure of material fact to the Investor Relations officer and to the addressees bearing personal awareness about material fact, respectively.

A Policy for the Trading of Securities is also maintained, which sets parameters and limits for trading the Company's securities, so as to avoid the use of information related to material facts in order to obtain advantages in the stock market.

## Ownership Structure

The company's total capital is represented by 165,016,604 million common shares (ON).

Energias de Portugal is the controlling shareholder with 62.36% of total capital.

## SHAREHOLDERS' AGREEMENTS

**GTD** - The shareholder GTD is entitled to appoint one member to the Board of Directors, provided that GTD and its shareholders own, on a continuous basis up to July 31, 2008, at least 4,948,834 shares issued by Energias do Brasil.

The mechanisms used to exercise these rights are subject to laws and applicable regulations, including restrictions provided for in New Market rules.

**Enerpeixe** - Agreement executed with Furnas, on February 4, 2004, regulating (1) the exercise of voting rights, (2) the exercise of control power, (3) the purchase and sale of shares and the exercise of pre-emptive right to acquire them and (4) the form of capitalization of Enerpeixe with a view to building, operating and maintaining the Peixe Angical Hydroelectric Power Plant. The agreement will take effect until the expiration of concession agreement and in the event of renewal it will be automatically renewed for a new period.

**Investco** - On November 17, 1997, Investco's shareholders executed an agreement aiming at: (1) regulating the exercise of voting rights in Investco's general meetings resolving on the election of Board of Directors members; (2) regarding pre-emptive rights in the disposal of shares; (3) establishing rules for participation in the bidding process of Lajeado Hydroelectric Power Plant; (4) establishing criteria for capital contributions in Investco; and (5) regulating the form of allocating the energy produced by Lajeado Power Plant between shareholders, amongst others.

**EDP Lajeado** - the agreement executed on February 15, 2006 with shareholder Eletrobrás, regulates

(1) voting rights in general meetings regarding the election of Board of Directors members; (2) Eletrobrás' right in relation to certain issues pertaining to the conduction of EDP Lajeado's businesses; (3) Energias do Brasil's obligation of preserving unaltered the rights and preferences attributed to the preferred shares issued by EDP Lajeado, as well as the characteristics of founder's shares issued by EDP Lajeado and sold to Eletrobrás; (4) the pre-emptive right by EDP Lajeado's shareholders in the disposals of preferred shares and founder's shares issued by EDP Lajeado; and (5) the criterion to assess and distribute dividends to EDP Lajeado's shareholders.

## Members of the Board of Directors

**António Luis Guerra Nunes Mexia** - Chairman of the Board of Directors of Energias do Brasil since March 2006 and also Chairman of the Executive Board of Directors of EDP - Energias de Portugal. In Brazil, he also chairs the Company's Supervision and Compensation Committees. With relevant work in the Portuguese energy sector, he was president of the Portuguese Association of Energy for ten years, from 1992 to 2002, in addition to being top executive of companies such as Galp Energia and Transgás, also holding a position from July 2004 to March 2005 at the Ministry of Public Works, Transportation and Communication of the Portuguese government. In the academic field, he stood out as professor of post-graduate European Studies at the Universidade Católica, from 1985 to 1989, and as an assistant at the Economics Department of University of Geneva, between 1979 and 1991.

**António Fernando Melo Martins da Costa** - Vice-chairman of the Board of Directors of Energias do Brasil since March 30, 2005 and chief executive officer as of September 2003 and also is member of the Executive Board of Directors of EDP - Energias de Portugal. He is also chairman of the Board of Directors of Bandeirante, Escelsa, Enersul, Energest, Enerpeixe, EDP Lajeado and Enertrade. He graduated with an MBA in Civil Engineering, from the Universidade do Porto,

with supplementary executive education at Insead (Fontainebleau - France), Aese (Universidade Navarra) and Wharton School (Philadelphia, USA). He was managing officer of insurance companies, pensions and asset management at Banco Comercial Português and the Dutch company Eureko BV, in addition to being vice-president of the Polish company PZU, the largest insurance, asset management and pension fund company in the Central and Eastern Europe.

**Ana Maria Machado Fernandes** - Board member since March 2006 and member of the Sustainability and Corporate Governance Committee. She graduated in 1986 with a degree in Economics at the Faculdade de Economia do Porto. She was Strategic Planning and M&A Officer of Gás de Portugal, directly reporting to the

Company's CEO, as well as administrator of Transgás S.A. and Galp Energia, SGPS, SA, and Chairman and CEO of Galp Power, SGPS, SA. Without abdicating of a solid academic education, she concluded her MBA in 1989 at the Universidade do Porto and in the same year, completed her post-graduate program In Finance by the Faculdade de Economia do Porto, where she was also assistant in Analytic Accounting and Financial Analysis, from 1989 to 1991.

**Antonio José Sellare** - Board member since September 14, 2005, and member of the Supervision Committee, Vice Chief Financial Officer and Investor Relations Officer, as well as being a sitting member of the Board of Directors of Bandeirante, Escelsa, Enersul, Energest, Enerpeixe, EDP Lajeado, and Enertrade and deputy



**Antonio Sellare, Francisco Gros, Pedro Malan, António Mexia, António Martins da Costa, Ana Maria Fernandes, Nuno Alves, Modesto Carvalhosa and Levy Pinto de Castro.**



member of Investco S.A. He completed his studies in Business Administration by the PUC of São Paulo and has accumulated vast experience in financial institutions, having worked in administrative and accounting areas, assets management, operations at stock exchanges and with derivatives, risk management, treasury management and financial products modeling.

**Francisco Roberto André Gros** - Independent board member since September 14, 2005 and chairman of the Audit Committee. He also chairs the Board of Directors of Lojas Renner and he is vice chairman of the Board of Directors of Globex Utilidades S.A. Mr. Gros is a member of the Boards of Directors of Ocean Wilsons Ltda., Fosfertil and Ultrafertil S.A., M. Dias Branco Com. e Ind. Ltda., of the Brazilian Institute of Corporate Governance (IBGC) and The Nature Conservancy (Brazil). He is also member of the Advisory Council of the following companies: Scania Latin America Ltda., Air Liquide Brasil Ltda., Laboratórios Farmasa S.A. e Banco Financia S.A. He graduated in Economics at Princeton University (USA), he was president of Aracruz Celulose, Brazilian Central Bank (twice), Petrobras and BNDES. He was also sitting member of the Energy Crisis Management Chamber and liable for the Revitalization Committee of the Electricity Sector.

**Levy Pinto de Castro** - Board member since March 2006 and member of the Audit Committee. He graduated in Economics at the Universidade do Estado da Guanabara, and since 2003 has been deputy member of the Board of Directors of Perdigão S.A., a position cumulated with member of the Board of Directors of Energias do Brasil. Former secretary of the Espírito Santo state treasury; former member of the Board of Directors of Development Bank of state of Espírito Santo - Bandes; former CEO of Sibra - Eletrosiderúrgica Brasileira S.A. during three terms of office; former Administration and Finance superintendent of the Brazilian Agricultural Research Corporation (Embrapa); former chief financial officer of Support Center of Small and Medium-Sized Companies (Cebrae); and former chief financial officer

of Escelsa, position held in 1991. Mr. Castro has previous connections with national development policies: in the span of nearly two decades, he was connected to the National Bank for Economic and Social Development (BNDES), exercising positions as Superintendent and Head of Department, having retired in 1991 for length of service.

**Modesto Souza Barros Carvalhosa** - Board member since September 14, 2005 and member of the Sustainability and Governance Committee. He is also a member of the Oversight Board of the Universidade Federal de São Carlos and Fundação Padre Anchieta, Board of Directors of Companhia Melhoramentos de São Paulo and Arbitration Panel of the São Paulo Stock Exchange. He graduated in Law at the Universidade de São Paulo with a PhD in Business and Economics Law by USP, he was Business Law professor of USP, legal consultant of the São Paulo Stock Exchange, president of the Ethics Court of the Brazilian Bar Association (OAB) - São Paulo section and member of the OAB Constitutional Commission.

**Nuno Maria Pestana de Almeida Alves** - Board member since March 2006 and member of the Audit and Compensation Committees. Despite having graduated in Engineering and Maritime Construction at the University of Michigan in 1980, Mr. Nuno Alves built his career through the administrative and financial areas. At the same university where he obtained the bachelor's degree in engineering, he obtained a master's degree in business administration in 1985. After three years, he started his professional career as a technician in the direction of studies and planning of Banco Comercial Português. He made a career at the Institution, where he performed various positions until he assumed in 1999 the chairmanship of the Board of Directors of CISF Dealer (investments arm of Banco Comercial Português), and in 2000, the position of Administrator with Pelouros de Tesouraria e Mercado at the currently named Millennium BCP Investimento (formerly Banco CISF).





**Pedro Sampaio Malan** - Currently Mr. Malan performs the position of chairman of the Board of Directors at Unibanco, chairman of the Board of Directors at Globex-Ponto Frio, member of the Advisory Board at Alcoa Alumínio S.A. and member of the Board of Directors at Energias do Brasil. He is professor of the Economics Department of Universidade Católica do Rio de Janeiro and author of numerous works about the Brazilian and international economy published in Brazil and overseas. He was minister of the Treasury Department for a period of eight years, from 1995 to 2002, and president of the Brazilian Central Bank, during the period between 1993 and 1994. He was special consultant and chief negotiator for External Debt Issues of the Treasury Department, during the period between 1991 and 1993; executive officer of the World Bank, from 1986 to 1990 and from 1992 to 1993; executive officer of the Interamerican Development Bank from 1990 to 1992; officer of the United Nations Centre on Transnational Corporations in New York, from 1983 to 1984; officer of United Nations Department of Economic and Social Affairs in New York, from 1985 to 1986. He graduated in Electric Engineering at the Escola Politécnica of the PUC of Rio de Janeiro in 1965. Pedro Malan has a Ph.D. in Economics at the University of California, Berkeley.

### Members of the Board of Executive Officers

**António Fernando Melo Martins da Costa** - Chief Executive Officer of the Board of Executive Officers since September 2003. His biography appears above in the Board of Directors.

**Antonio José Sellare** - Vice Chief Financial Officer and Investor Relations Officer. His biography appears above in the Board of Directors.

**António Eduardo da Silva Oliva** - Vice chief executive officer of Distribution and Technical Services of Energias do Brasil, vice chairman of the Board of Directors, chief executive officer of Escelsa and Enersul and member of the Board of Directors of Bandeirante. He graduated in electrotechnic engineering at the Universidade de

Lourenço Marques in Mozambique, and he has held various management positions in companies of the EDP Group, also acting as executive chairman of the Board of Directors of HDN – Energia do Norte, hydroelectric production company of Energias de Portugal and Hidrocenel – Energia do Centro, another production company of the Group.

**Carlos Alberto Silva de Almeida e Loureiro** - Vice chief executive officer of Trading, chief executive officer and member of the Board of Directors of Enertrade, chief executive officer of Escelsapar, deputy chairman of the Board of Directors of Enerpeixe. He graduated in electrotechnic engineering at the Universidade do Porto, and in business management (Pade) by Aese (Escola de Direção e Negócios), he was business officer of Bandeirante Energia and officer of Management and Commercial Systems of EDP - Distribution. He also performed various functions at the Engineers Association of Portugal and at the European Association of Electrotechnics Engineers Association (Eurel), where he was president. In Portugal, he had intense public activity, having worked as state secretary of Internal Management, governor of the district of Coimbra, vice-president of the Commission of Central Region Coordination and city council member of Coimbra, amongst other titles.

**Custódio Alexandre Rouxinol Miguens** - Vice chief executive officer of Generation and Environment, chief executive officer of generation companies controlled by the Group (Enerpeixe, EDP Lajeado, Energest, CESA, Pantanal Energética and Costa Rica), board member of Energest, Enerpeixe, Investco, Bandeirante, Escelsa and Enersul and deputy member of the Board of Directors of EDP Lajeado. He graduated in electrotechnic engineering by the Instituto Superior Técnico de Lisboa. He was chairman of the Board of Directors and of the Executive Commission of Companhia de Electricidade de Macau. Among other positions, Mr. Miguens has held the position of managing officer of Energia de Portugal, vice-president of Carta Européia da Energia, and member of the Governing Board of the

International Agency of Energy and of Nato's Petroleum Planning Committee and executive manager at EDP International, in addition to being officer of the Portugal-China Chamber of Commerce and Industry.

**João Gomes de Aguiar** - Vice chief executive officer of Distribution and Business Services, vice chairman of the Board of Directors, chief executive officer of Bandeirante Energia and member of the Board of Directors of Escelsa and Enersul. Mr. Aguiar has had a

long career with EDP Group, where he has been working since 1979, cumulating officer positions of various holding companies, among them CPPE (Companhia Portuguesa de Produção de Electricidade) and EDP Distribution, where he got the position as vice chief executive officer. He was administrator of Labelec, a company of EDP Group specializing in quality control of equipment and production systems, transmission and distribution of electricity.



Carlos Loureiro, João Aguiar, António Martins da Costa, António Oliva, Custódio Miguens and Antonio Sellare.

# Commitments

In 2006, Energias do Brasil adhered to the Global Compact, an initiative of the United Nations which proposes private sector involvement in the dissemination and application of ten global principles in order to promote the development of a more sustainable and inclusive global economy. To this end, Energias do Brasil has joined a group which now counts on 3,600 companies which have assumed these commitments around the world.

The Global Compact advocates ten global principles, derived from the Universal Declaration of Human Rights, the International Labor Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on the Environment and Development and the United Nations Convention Against Corruption:



## Human Rights Principles

1. Respect and protect human rights
2. Prevent violations of human rights

## Labor Rights Principles

3. Uphold the freedom of association at work
4. Abolition of forced labor
5. Abolition of child labor
6. Elimination of workplace discrimination

## Environmental Protection Principles

7. Support a cautionary approach to environmental challenges
8. Promote environmental responsibility
9. Encourage the diffusion of environmentally friendly technology

## Anti-Corruption Principle

10. Business should work against all forms of corruption, including extortion and bribery

# Interested Parties Undertaking

Energias do Brasil assumes the following commitments in its Sustainable Development Principles:

- Ensuring an open, transparent and trustworthy relationship with a variety of interested parties.
- Creating consultation and communication channels with interested parties and integration of their concerns.
- Reporting economic, environmental and social performance on a reliable and objective basis, which is made by means of the Annual Report and, as of 2006, by the Sustainability Report.

The Company makes available its Code of Ethics to all its stakeholders, as well as various relationship channels, encouraging the involvement of these types of public in social and cultural activities. By means of this commitment, it broadens its risk management, to the extent that it improves its own perception on the expectations of these types of public. These types of public's evaluation on these initiatives and on the Group's company positioning is verified by means of surveys (in the case of customers) and suggestions and comments presented during joint activities.

**Shareholders** - Periodic meetings are promoted (monthly/quarterly meetings), together with the disclosure of information relevant to the business and its positioning in the market.

**Internal public** - By means of awareness actions about social responsibility, citizenship and environment, the Company ensures that its employees' behavior is aligned with the Group's sustainability expectations. The climate survey is one of the tools for assessing the effectiveness of this positioning.

**Customers** - The Consumer Council, maintained in order to meet the rules on distributing company concession agreements, works as a dialogue forum for the improvement of the offer of products and services. There are also specific channels to serve customers, respecting social, economic, regional and cultural characteristics, which include the call center, service branches, ombudsman and a specific online area created for receiving suggestions and complaints over the Internet.

**Communities** - The Group supports and develops educational and cultural initiatives, the generation of income, environmental awareness and social mobilization. In order to identify the social aspects and impacts of its activities, the Company promotes meetings with neighboring communities, in addition to offering information and providing public consultations on its ventures.

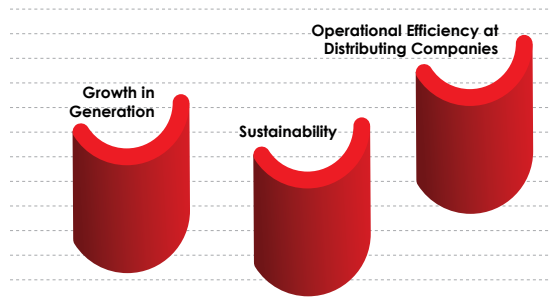
**Suppliers** - The services and products agreements present specific clauses on the prohibition of child and slave-like labor and suppliers are invited to take part in citizenship and social and environmental initiatives.

**Government** - The Group positions itself as an active partner in meeting the demands of society. Hence, the Company carries out social, environmental and cultural projects with a view to endeavoring efforts in the construction of a fairer society with more equal opportunities.

# Strategy and Management Model

Energias do Brasil's management is based on three strategic focuses: growth in energy generation, operational efficiency and business sustainability. Following this direction, the Company seeks to fulfill its vision of becoming one of the leaders in the Brazilian energy sector, ensuring the generation of value to shareholders.

## Management Model



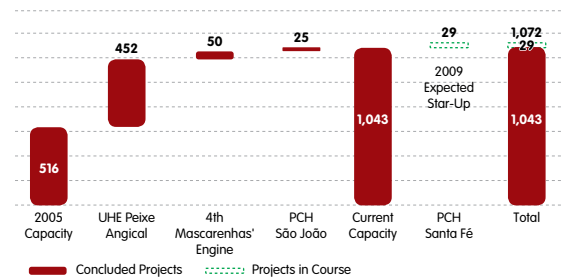
## GROWTH IN GENERATION

The emphasis on energy generation reflects the decision of providing greater balance to the business portfolio, currently strongly concentrated in the distribution area (75.0% of the operational cash generation in 2006), seeking a higher diversification of its regulatory risk.

The Group analyzes different expansion opportunities in this area, with a view of doubling once again its generation capacity by 2010, which amounts to adding approximately one thousand MW. Nevertheless, all investments are assessed by return on invested capital, in order to maintain our commitment to the creation of value. The minimum return rate is calculated according to the macroeconomic conditions and risk of each venture.

All energy sources are studied to identify the best opportunities: water management—both in hydroelectric power plants (UHEs) and small hydroelectric power plants (PCHs) —, coal or gas-driven thermal plants, biomass, wind energy and co-generation.

## Expansion of Generation Installed Capacity (in MW)



## OPERATIONAL EFFICIENCY - VANGUARD PROJECT

Since Energias do Brasil's reorganization in 2005, the Company has been concentrating its efforts in the pursuit of greater efficiency. With a new organizational structure, it has been possible to redesign processes, redimension areas and adopt a uniform integrated management system to optimize the in-house decision-making process and reduce costs.

The major tool has been the Vanguard Project, which aligns different fronts, focusing on operational companies. The objective is to standardize processes and technological platforms to obtain synergies in the technical, commercial and support areas.

In early 2006, SAP/R3 administrative and financial modules were implemented in all the Group's companies, already in their unified version. During 2006, some technical modules were integrated (electric

networks, owned telecommunication networks and technical assistance to customers).

The Integration Project is in progress, destined to promote improvements in information technology systems supporting Business Management (billing, reading, measurement and customer management). The scope of the project involved SAP/R3 new functionalities for business management and Customer Care & Service (CCS) for the business area. This project must be concluded by the end of 2007.

Another project under development is SitBrasil, which aims to unify distribution network management information systems based on geoprocessing, with solutions for planning, projects and operations of distributing companies, estimated to be concluded in early 2007.

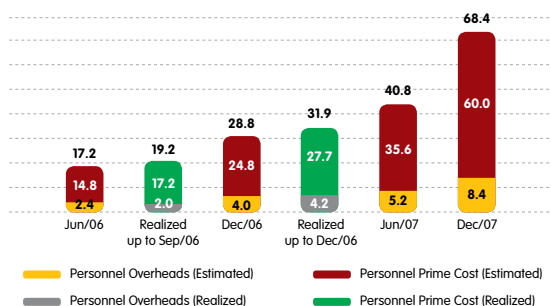
The Vanguard Project also includes a Voluntary Resignation Program (PDV) carried out in phases, according to the evolvement of technology projects (Integration and SitBrasil). The program received the adhesion of 651 individuals and will represent savings of R\$68.4 million by its conclusion. Resignations started in July 2006 and will be extended until the end of 2007.

## Business Sustainability

With the offer of shares to the market, which includes debt capitalization in July 2005 and the adoption of a new business model, Energias do Brasil became self-sustainable from the financial viewpoint, with conditions to put its growth plans into practice. In 2006, R\$851.5 million in debentures were offered to the market by the distributing companies Bandeirante, Escelsa and Enersul. The issues were destined for the replacement of short-term debts. In addition to rescheduling, financial costs lower than those of replaced debt were obtained. In December 2006, Energias do Brasil showed comfortable financial leverage ratios (net debt/ EBITDA = 1,8x).

The business model also incorporates social and environmental responsibility as tools for sustainable growth. Beginning 2007, the executives' variable compensation will be subject to the fulfillment of economic, financial, social and environmental targets. A Sustainability and Corporate Governance Committee was created to support the Board of Directors and to ensure that the concept of sustainability is taken into account in its entirety when taking business decisions.

Evolution of Obtainment of Accumulated Annualized Savings Derived from PDV (R\$ million/year)



\* 2006 values.

# Operational and Financial Performance



**Um ano em  
que superamos  
nossos limites.**

Balé para crianças carentes.







# Energias do Brasil's Business

## Economic scenario in 2006

The scenario of economic stability was maintained in 2006. The major economic indicators repeated the trend seen in 2005: Inflation and a controlled exchange rate, declining interest rates and moderate economic growth.

The exchange rate ended 2006 at R\$ 2.14/US\$ 1, an appreciation of 8.7% in relation to the closing of the previous year. This appreciation is a result of the adequate scenario of Brazilian foreign accounts. In 2006, Brazil accumulated a surplus in trade balances and current transactions of US\$46.1 billion and US\$13.5 billion, respectively. Reserves reached US\$85.8 billion - a record level, which added to the buyback and rescheduling of external debt operations, reinforcing even more the foreign solvency ratios of Brazil, as well as its sovereign rating.

Inflation (measured by IPCA) reached a variation of 3.1%, the lowest rate since the adoption in 1999 of an inflation targets system and below the core of the 4.5% target established by the Brazilian Monetary Council (CMN). The favorable inflation scenario of 2006 was mainly a result of the following factors: exchange rate appreciation, decline of agricultural prices, small variation of prices administered (mostly adjusted by IGP-M) and the maintenance of a rigid monetary policy.

Economic activity maintained the pace observed in the previous year, with a GDP growth of 2.97% (2.3% in 2005). The unemployment rate showed a slight increase, with an average rate (IBGE) of 10% in 2006 (9.8% in 2005). The sectors which exhibited a better performance were those related to mineral

extraction and credit, such as durable goods for the domestic market and homebuilding, which benefited from high commodity prices and the reduction of interest rates to the consumer. On the other hand, sectors connected related to exports of manufactured goods and agricultural activity suffered more with the reduction in the level of exchange rate, falling prices in the international markets and crises deriving from specific events.

The scenario of inflation under control and moderate economic activity enabled the Brazilian Central Bank to reduce interest rates to the lowest level since the start of the inflation targets system: 13.25% p.a. in December 2006, a reduction of 4.75 percentage points in relation to the end of 2005. Referring to taxes, the Brazilian government ended slightly above the primary surplus target of 4.25% of GDP (4.32%), which led to a slight reduction in the debt/GDP ratio to the level of 50%.

The outlook for years to come is the maintenance of the macroeconomic stability scenario, but challenges will continue, demanding an agenda of acceleration of country's economic growth rate. This agenda is focused on the achievement of reforms enabling the increase of private investment, especially in the infrastructure area.

In 2006, the consumption of electric power in Brazil increased by 3.8%, according to data of the Energy Survey Planning Company (EPE), a pace lower than the 4.6% recorded in 2005. With reduced economic activity - a 2.97% evolution of the GDP - and climate factors, Brazil consumed 347,371 GWh.



The industry sector, which accounts for 44.45% of all energy traded, increased demand by only 3.6%. In the commercial sector, the increase was 4.5% and in the residential sector, 3.9%. According to EPE's assessment, milder temperatures and the rainy season restrained the consumption of residential, commercial and services sectors, in addition to reducing the need for connecting engines to water plantations.

## DISTRIBUTION

The three distributing companies controlled by Energias do Brasil serve more than 3.1 million customers, adding up to a population of nearly 10 million people. Activities are developed in regions with distinguished economic features and consumer standards.

**Bandeirante Energia S.A.** - in 28 cities in the regions of Alto Tietê, Vale do Paraíba and Northern Seacoast of the State of São Paulo, where approximately 4.4 million inhabitants reside. It is an area which concentrates relevant economic sectors, such as the aviation and pulp and paper industries, and maintains well-developed transportation, education, health and sanitation infrastructure.

**Espírito Santo Centrais Elétricas S.A. - Escelsa** - serving a population of 3.2 million inhabitants in 70 out of 78 cities of the state of Espírito Santo. Main economic activities are the production of pulp, steel slabs, iron ore, oil, gas, foreign trade and port infrastructure.

**Empresa Energética de Mato Grosso do Sul S.A. - Enersul** - operating in 73 of 78 cities in the state of Mato Grosso do Sul, with a population of 2.1 million. The main economic activity of the region is agribusiness.

The net revenues from distribution business amounted to R\$4,145.5 million in 2006, a 1.8% growth when compared to the previous year. EBITDA of R\$829.0 million increased 3.5%.

The results reflect market consumption growth, especially in Bandeirante's performance area; the positive impact of the Aneel review, the improvement of Regulatory Remuneration Basis Asset Base (BRR) of Bandeirante, referring to 2003, which increased from R\$998 million to R\$1.026 billion, and the tariff adjustment of Escelsa In 2006, which encompassed the positive net recognition of R\$34.4 million, mainly referring to the review by Aneel of the criteria employed in the previous year when treating impacts of the deverticalization of concessionaire assets. A strong recovery of Enersul's market also occurred in the fourth quarter of 2006.



	<b>Bandeirante</b>	<b>Escelsa</b>	<b>Enersul</b>
State	São Paulo	Espírito Santo	Mato Grosso do Sul
Cities served	28	70	73
Inhabitants (million)	4.4	3.2	2.1
Customers (thousand)	1,365	1,059	690
Concession area (km <sup>2</sup> )	9,644	41,241	328,316
Energy distributed (GWh)	12,763	8,060	3,126
Energy sold to end customers (GWh)	7,861	4,276	2,717
Number of employees	1,060	999	732
Productivity (customers/employee)	1,287	1,060	943

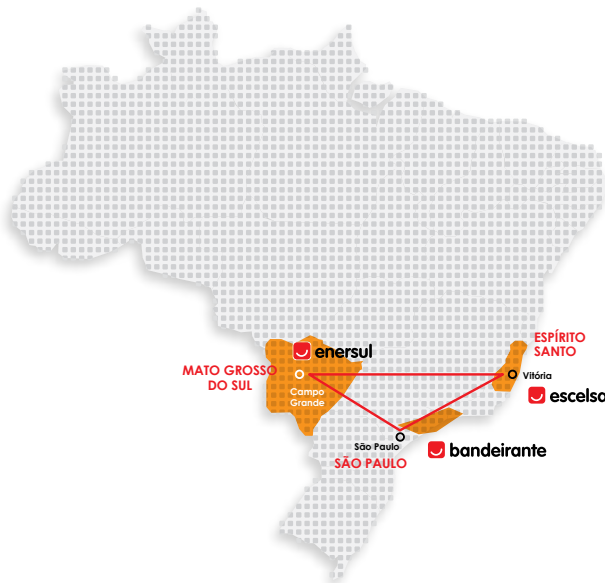


## Characterization of electric system

	Bandeirante	Escelsa	Enersul
Number of substations	57	72	88
• Installed power (MVA)	3,076	2,913	1,589
High voltage Network (Km)	866	2,632	3,569
Medium and low voltage network (Km)	24,922	49,976	50,897
Number of distribution transformers (owned and outsourced)	51,349	102,368	61,137
• Installed power (MVA) - owned	2,582	1,852	1,011
• Installed power (MVA) - outsourced	-	1,827	1,009

## Uniformization

### Location of COSs/CODs



The year stood out for the development of uniformization works of business processes of three distribution companies, based on the upgrade of systems already used at Bandeirante, for further extension to Escelsa and Enersul. With the conclusion of works by the end of 2007, these three companies will have a modern business platform and will be aligned with other business systems.

Another initiative envisaged the unification of call centers, followed by the introduction of improvements in order to monitor customer service standards as defined by Aneel. In addition, improvements were introduced in commercial services by adopting a

customized treatment, from the segmentation of large customers, medium voltage customers and residential customers.

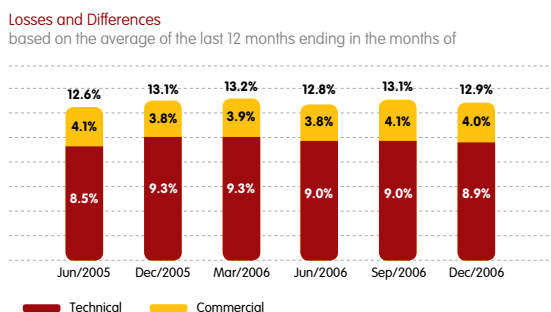
The distribution area is also adopting unified network management systems based on geoprocessing, with positive effects in network maintenance and environmental preservation programs.

System Operation Centers (COS) and Distribution Operation Centers (COD) also were partially unified, with a view to providing more flexibility and cost savings. These centers allow access from large distances to any of the Group's power plants or substations. The Dourados COD was extinguished at Enersul, maintaining only the Campo Grande Center. At Escelsa, the number of CODs was reduced from three to one, centralized in Vitória. At Bandeirante, the Mogi das Cruzes center systems were upgraded. At the conclusion of the SitBrasil Project, the three distributing companies will operate from a single COS.

## Commercial losses

Another work front involves the reduction of commercial losses, thanks to an intensive program aimed against fraud, and underground irregular connections, and focusing on the modernization of the meters complex. The objective is to reduce to 2.8% the consolidated percentage of commercial losses, which involves the inspections of facilities and the removal of underground connections. In 2006, 704,000 field inspections were carried out by removing 214,000 irregular installationsconnections to the grids.

Since the beginning of the program, R\$50.2 million was already recovered in revenues. In addition, by means of proper network dimensioning, we seek to diminish the technical losses associated with the growth of demand.



In 2006, commercial losses remained steady, ending the year at 4.0%. The main difficulty faced by Enersul was that the Company was prevented from executing the suspension of supply and the collection of amounts related to irregularities not attributable to the concessionaire. This was due to court decisions in 2006 injunctions in 2006 provided by the state of Mato Grosso do Sul. As a result, the distributing distribution company's losses strongly increased. The injunction was reversed in November, on a provisional basis, allowing to restart works for the reduction of this indicator as of that date.

## Energy balance

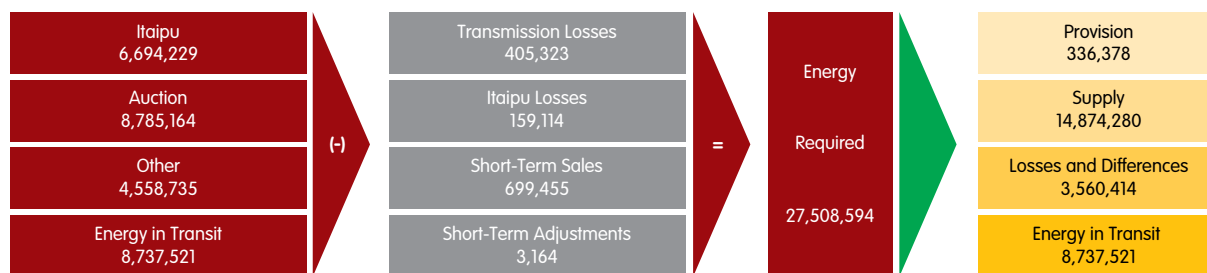
The volume of energy required by the distribution system consisting of concessionaires of Energias do Brasil amounted to 27,509 GWh in 2006. Out of this volume, 51.8% pertained to Bandeirante, 33.8% to Escelsa and 14.4% to Enersul.

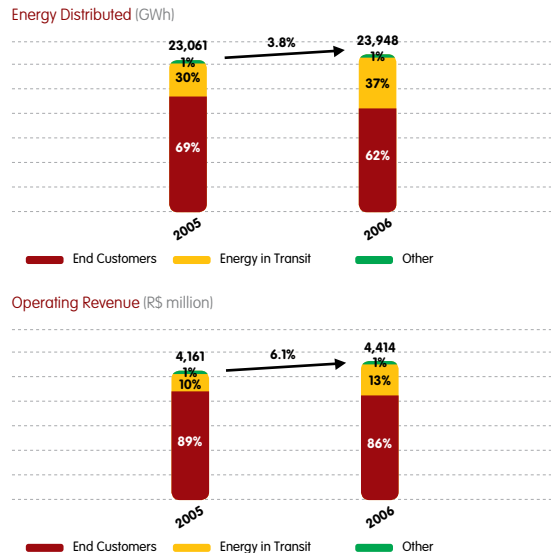
End customer supply and own consumption and supply absorbed 15,211 GWh, and energy in transit distributed to free customers took 8,738 GWh, altering the energy balance configuration in relation to the previous years, as result of the change of status of captive customers to the status of free customers.

## Operational Performance

The total volume of energy distributed by Energias do Brasil in 2006 increased 3.8% in relation to 2005.

The 6.4%, the reduction in energy sold to end customers was essentially due to the migration of industrial class customers into the free market. It worth mentioning that the decreased consumption related to the process of customers migrating to the status of free customers reduces revenues from supply, but on the other hand, it also decreases energy purchases. The customer is then billed for the utilization of network, contributing to the margin of activity by means of the Distribution System Usage Tariff (TUSD).





As an effect of industrial segment end customer migration to the status of free customers, the contribution of end consumer classes in total of energy distributed decreased from 68.8% in 2005 to 62.0% in 2006. On the other hand, free customers now account for 36.5% of the total energy distributed in Energias do Brasil's system, compared to 29.8% shown in the same period of the previous year.

### Bandeirante

The expansion demonstrated by the number of customers between 2005 and 2006 in the residential (+6.5%) and commercial (+3.8%) sectors, in addition to higher-than-average temperatures explain the good performance of these sectors in the period.

The industrial sector recorded a consumption of 3,010 GWh, a decrease of 15.1% when compared to 2005, due to migration of industrial consumers to the free market. Excluding the consumption of these customers in 2005 and 2006, the industrial market would have exhibited a growth of 5.5%, supported by a positive performance of rubber and plastic items and chemical products.

The commercial class recorded a consumption of 1,437 GWh in 2006, a growth of 9.1% when compared to 2005. Taking into account the migration of customers of this segment into the free market occurring in the fourth quarter of 2005, the commercial market would have exhibited a growth of 10.9%.

### Escelsa

The residential sector recorded a growth of 3.9% in consumption in relation to 2005, explained by the expansion of 1.9% in the number of customers, the upward trend of the economy in the region and the higher-than-normal temperatures recorded in the first quarter of 2006.

The industrial class recorded a consumption rate of 1,041 GWh, a 50.3% reduction when compared to the same period of 2005, as an effect of customer migration into the free market. Excluding the consumption of these customers in 2005 and 2006, the increase recorded by this class would be 7.8%, pointing to the performance of oil extraction and natural gas activities, food, beverages and furniture.

In 2006, the commercial sector recorded a growth of 7.5% in relation to 2005, influenced by the growth of economic activity, especially in the retail and wholesale market and transportation services sectors.



**Systems Operations Center (COS).**

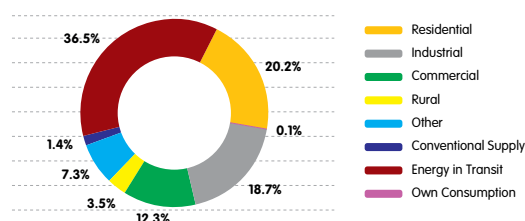
## Enersul

The consumption of residential and commercial sectors, when compared to 2006/2005, recorded growths of 0.4% and 2.6%, respectively, reflecting lower annual average temperatures and the agribusiness crisis.

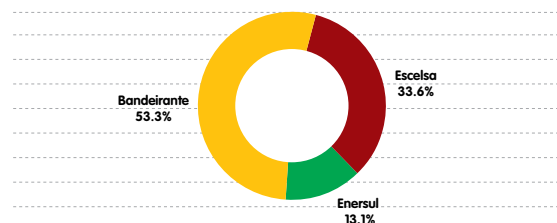
The industrial sector, with a consumption of 437 GWh, recorded decrease of 7.5% when compared to 2005. This fall reflected the performance of meat-packing companies in the state, which underwent an international embargo regime since October 2005 due to BSE (mad cow disease), as well as customer migration into the free market after June 2005.

In 2006, the rural sector recorded increased consumption of 2.5% when compared to 2005. The final six-month period of 2006 significantly contributed to these results, due to low precipitation indexes which favored the higher use of irrigation.

Volume of Energy Distributed by Sector (GWh)



Volume of Energy Distributed by Company (GWh)



## Quality

In 2006, the quality indicators of Energias do Brasil Groups' companies indicated improvements at Bandeirante and Escelsa, reflecting investments in networks, the successful development of modernization projects and the automation of the electric system, the use of resources on a careful basis and the adoption of good management practices. At Enersul, however, the fall recorded in 2006, when compared to 2005, was caused from external events. One of the factors was a high occurrence of storms, especially in September 2006.

At Bandeirante, quality advanced in the Equivalent Duration of Interruption per Customer (DEC) from 9.17 hours per consumer/year to 8.72 - and Equivalent Frequency of Interruption per Customer (FEC) from 6.62 to 5.48 times. At Escelsa, the DEC decreased from 11.8 hours in 2005 to 8.3 hours in 2006, an improvement of 29.7%. The FEC decreased from 8.66 to 6.34.



## Evolution of Operations

	Customers (Number)	Volume (MWh)	2005		2006	
			Revenue R\$ thousand	Customers (Number)	Volume (MWh)	Revenues R\$ thousand
<b>Consolidated</b>						
Residential	2,523,718	4,553,289	1,406,720	2,638,467	4,836,662	1,531,776
Industrial	23,087	6,111,792	1,072,249	23,240	4,488,404	893,312
Commercial	227,539	2,758,353	746,488	231,753	2,956,541	835,238
Rural	172,807	757,140	143,670	193,105	834,252	169,860
Other	24,779	1,682,283	346,188	26,560	1,737,553	380,070
<b>Energy sold to end customers</b>	<b>2,971,930</b>	<b>15,862,858</b>	<b>3,715,315</b>	<b>3,113,125</b>	<b>14,853,412</b>	<b>3,810,256</b>
Conventional supply	3	302,317	30,790	2	336,378	36,690
Energy in transit	101	6,874,271	415,067	112	8,737,522	567,046
Own consumption	424	21,800	-	365	20,868	-
<b>Total energy distributed</b>	<b>2,972,458</b>	<b>23,061,245</b>	<b>4,161,172</b>	<b>3,113,604</b>	<b>23,948,180</b>	<b>4,413,992</b>

Other: public authorities, plus lightning and utilities.

Data in R\$ refer to revenues not including ICMS (State VAT), RTE (Extraordinary Tariff Adjustment), own consumption, ECE (Emergency Energy Charge)/EAEEE (Charge for Acquisition of Emergency Energy) and with low income.

At Enersul, the DEC increased 22.16% from 11.10 to 13.56 hours in 2006, of which 0.28 hours may be attributed to external events. The FEC increased 14.08% in relation to the previous year, from 9.16 to 10.45 interruptions per consumer/year, 0.45 deriving from events external to the Company's electric system. With respect to the Service Average Time (TMA) - the average time interval in minutes between a complaint of interruption and its

retrieval at the Escelsa improvement alone was recorded for the year. The indicator decreased from 139 minutes in 2005 to 119 minutes in 2006. At Bandeirante, TMA was steady (from 170 to 172 minutes), since the occurrence of atypical storms in the region hindered the recording of improvements in the indicator. At Enersul, it increased from 98 to 112 minutes.



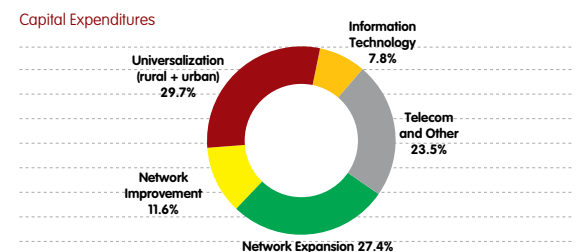
	2006				2005			
	DEC (hours)	FEC (times)	TMA (minutes)	Ref. Aneel (DEC/FEC)	DEC (hours)	FEC (times)	TMA (minutes)	Ref. Aneel (DEC/FEC)
<b>Distributing Company</b>								
<b>Bandeirante</b>	8.8	5.5	172	12.6/9.7	9.2	6.6	170	12.6/9.7
<b>Escelsa</b>	8.3	6.3	119	13.2/10.7	11.8	8.7	139	13.2/11.0
<b>Enersul</b>	13.6	10.4	112	17.0/14.8	11.0	9.2	98	17.9/15.0

DEC: Equivalent Duration of Interruption per Customer; FEC: Equivalent Frequency of Interruption per Customer; TMA: Service Average Time.

### Capital Expenditures Investments

The investments made in distribution during 2006 exceeded by 19.7% the amount recorded in the previous year, amounting to R\$536.5 million. R\$ 146.9 million was destined to the expansion of networks, equivalent to 27.4% of total funds invested in 2006 and 2.7% lower than that recorded in 2005. R\$ 62.4 million was invested in network improvements, 12.2% more than in 2005. In the Universalization of Access to Electric Power Utilities, the volume increased 27.1% and reached R\$159.6 million, corresponding to 29.7% of total investment for the year. Another R\$167.7 million was invested in telecommunications, information technology resources and other activities.

A common investment to three distributing companies was the upgrading of the corporate network of Telecommunications, in order to allow higher integration of IT and telecommunications systems among the Group's companies.



### Capital Expenditures (R\$ thousand)

	Bandeirante	Escelsa	Enersul	Total 2006
Network expansion	55,524	42,861	48,481	146,866
Network improvement	18,894	28,768	14,733	62,395
Universalization (rural + urban)	21,411	58,842	79,302	159,555
Information Technology	1,902	23,116	16,842	41,860
Telecommunications and Other	51,851	37,746	36,250	125,847
<b>Total</b>	<b>149,582</b>	<b>191,333</b>	<b>195,608</b>	<b>536,523</b>

## Energy Efficiency

Distributing companies develop energy efficiency diagnoses and projects for industrial and commercial customers and for public lighting systems, in addition to programs targeted at communities about the rational and safe use of electric power. For the second consecutive year, Bandeirante received the Award of the Federation of Industries of the State of São Paulo (Fiesp) for the most efficient energy project in industrial processes. Escelsa received the Procel 2006 Award from the Ministry of Mines and Energy for the best company in the medium-sized segment for the Shopping Vitória energy efficiency project, which enabled a reduction in consumption of 986.13 MWh/year and decreased demand by 267 kW. (more information in the chapter titled Society).

Another highlight was the Efficiency Project in Water Supply and the Sewage System of the city of Guarulhos (SP), which enabled an important reduction in consumption and demand in peak hours of the electric system. As an indirect result, it allowed significant savings and better distribution of water to the population.

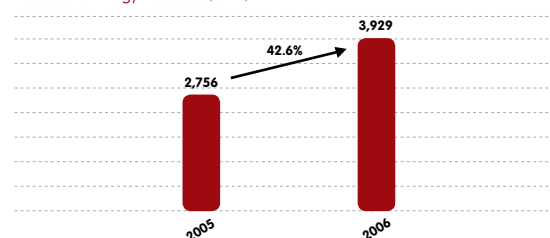
**GRI - EN6** - Initiatives to supply products and services with low energy consumption or the use of energy generated by renewable resources and the reduction in demand resulting from these initiatives.

## GENERATION

The potential increase of demand for electric power in the Brazilian market makes the generation area a strategic point for Energias do Brasil's growth. Businesses in this segment involve three companies: Enerpeixe, which operates the Peixe Angical Hydroelectric Power Plant which is 60% controlled by the Group; EDP Lajeado Energia S.A., which administers 27.65% interest in voting capital and 23.05% in total capital in the Luís Eduardo Magalhães (Lajeado) Hydroelectric Power Plant, and Energest, which owns sixteen power plants in the states of Mato Grosso do Sul and Espírito Santo.

In June, it started the commercial operation of the first turbine of the Peixe Angical power plant, on the Tocantins river, built in record time by means of a partnership with Furnas Centrais Elétricas. Works were concluded in September, 36 months after the venture resumed in 2003. With an installed power of 452 MW, it practically doubled the generation capacity of Energias do Brasil, which ended 2006 with a capacity of 1,018 MW.

Evolution of Energy Produced (GWh)



Other two works were outstanding in 2006, both of them in the state of Espírito Santo: the reinforcement of power of the hydroelectric power plant of Mascarenhas (50MW), in the Doce River, with the installation of a fourth machine, with commercial startup taking place in October 2006, and the São João Small Hydroelectric Power Plant (PCH) (25 MW), in Castelo river, the operation license of which was obtained in February 2007.

The construction of the Santa Fé PCH is scheduled to start in 2007 in the city of Alegre, in state of Espírito Santo, with a capacity of 29 MW (assured energy of 16 MW). The investment is estimated at R\$105 million and works should be concluded by the final six-month period of 2008.

Generation investments amounted to R\$292.9 million in 2006 (R\$700.8 million in previous year), corresponding to 35.3% of funds invested by Energias do Brasil that year and an indicator of the strategic relevance of this business.

Total production volume in 2006 was 3,929 GWh, a 42.6% increase when compared to the 2,756 GWh of previous year. Generation segment net revenues reached R\$458.2 million, 164.6% higher than in 2005, with an EBITDA of R\$272.7 million and a margin of 59.5%, against R\$100.9 million and 58.3% respectively in 2005. This performance reflects the startup of the Peixe Angical Hydroelectric Power Plant.





Installed capacity and projected evolution (MW)	2004	2005	2006 <sup>(1)</sup>	2007
EDP Lajeado <sup>(2)</sup>	249.5	249.5	249.5	249.5
Energest	161.1	161.1	210.6	210.6
Cesa	58.5	58.5	58.5	83.5
Costa Rica	16.5	16.5	16.5	16.5
Enersul (Porto Murtinho)	4.5	4.5	-	-
Pantanal Energética	40.8	40.8	31.2	31.2
Enerpeixe	-	-	452.0	452.0
<b>Total</b>	<b>530.9</b>	<b>530.9</b>	<b>1,018.3</b>	<b>1,043.3</b>

Assured Energy (MW average)	2006
EDP Lajeado <sup>(2)</sup>	145.6
Energest	145.9
Cesa	33.8
Costa Rica	12.0
Pantanal Energética <sup>(3)</sup>	22.3
Enerpeixe	271.0

<sup>(1)</sup>Taking into account the deactivation of the Coxim, Corumbá and Porto Murtinho thermal plants. <sup>(2)</sup>Corresponding to the interest in the voting capital of Energias do Brasil (27.65%). <sup>(3)</sup>It does not include the physical guarantee of the Coxim and Corumbá thermal plants (3.85 MW average).

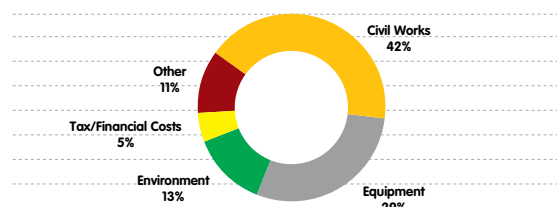
## Energy auctions

In 2006, Energest took part in two energy auctions promoted by the Electric Power Commercialization Chamber (CCEE). At an auction held in June (A-3), it sold, for a 30-year period supply contract starting in 2009, an average of 16 MW of the Santa Fé Small Hydroelectric Power Plant (PCH), located in the state of Espírito Santo, at the price of R\$124.99 per MW/h. In October, the company took part in the bidding of two hydroelectric power concessions, and did not win due to low return rate corresponding to the final price.

## Peixe Angical

Located between the cities of Peixe and São Salvador do Tocantins, in the state of Tocantins, in the northern region of Brazil, Usina Peixe Angical was the first venture performed in partnership with a company controlled by the federal government. In 2006, energy production amounted to 1,881.36 GWh.

Peixe Angical - Opening of investments



Investments made by Enerpeixe, a company organized held by Energias do Brasil (60% interest) and Furnas Centrais Elétricas (40%), amounted to R\$1.6 billion (currency of December 2003) and received financing of), out of which R\$670 million were financed with loans from the National Bank of Economic and Social Development (BNDES), as well as ) and private banks. With three generation units and an installed power of 452 MW, the plant has assured energy with the average of 271 MW, already contracted by Group's distributing companies.

The construction of Peixe Angical introduced a new model of energy investment in Brazil, thanks to an innovative initiative in the sector: the creation of a Negotiation Forum where representatives of Enerpeixe, Public Prosecutor Office, Environmental Agencies, affected families and other interested organizations may negotiate agreements on compensation to neighboring communities and to the benefit of venture sustainability. Approximately 13% of funds were destined to thirty social and environmental programs (more information in the section titled Society).

Generation	Installed Capacity (MW)
<b>Energest</b>	<b>210.60</b>
Suíça	30.06
Mascarenhas	180.50
<b>CESA</b>	<b>58.54</b>
Alegre	2.06
Fruteiras	8.74
Jucu	4.84
Rio Bonito	16.80
Viçosa	4.50
Paraíso	21.60
<b>Pantanal</b>	<b>31.16</b>
Mimoso	29.50
São João I	0.66
São João II	0.60
Coxim	0.40
<b>Costa Rica</b>	<b>16.50</b>
Costa Rica	16.50
<b>Total</b>	<b>316.80</b>

### Lajeado

The Luís Eduardo Magalhães Hydroelectric Power Plant (Lajeado), located in Tocantins River (TO), produced 4,472 GWh in 2006, of which 1,236 GWh corresponds to Energias do Brasil due to 27.65% interest in the voting capital that its subsidiary EDP Lajeado holds in the venture. The total installed capacity is 902.5 MW, with five turbines operating. Other Lajeado partners are Rede Group, CEB and CMS Energy. The plant began operation in 2001, reaching full capacity in 2002.

### Energest

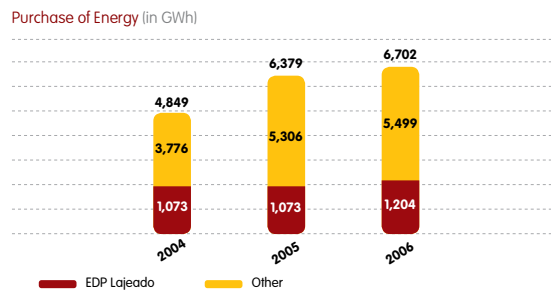
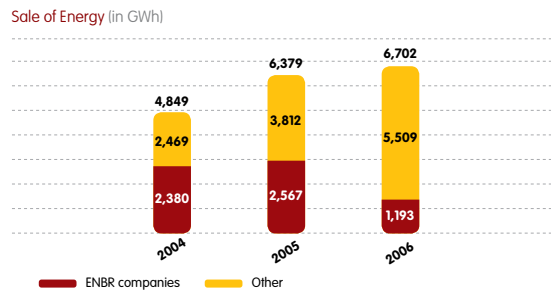
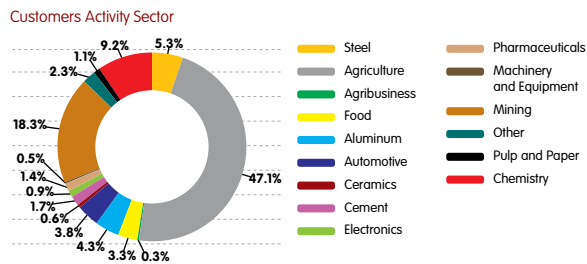
In 2006, Energest produced 1,548.0 GWh, 0.4% more than the level recorded in 2005. The performance reflects the unfavorable hydrologic conditions recorded in the first quarter of 2006. We point out the increase of power of the Mascarenhas Hydroelectric Power Plant, with the fourth machine beginning operation. The new energy generated by Mascarenhas was already traded in the new energy auction (A-5) held in December 2005, at the price of R\$115.98 per MW/hour. The supply contract has a 30-year duration, starting in January 2008. The conclusion of the São João Small Hydroelectric Power Plant works of 25 MW was also relevant, which obtained an Operation License in February 2007. These investments amounted to R\$46.2 million in 2006.

Energest owns 16 power plants, with a total installed capacity of 316.80 MW, 49.5 MW above the previous year. It is in charge of the management of the Mascarenhas and Suíça Hydroelectric Power Plants, the companies Cesa, Costa Rica and Pantanal Energética, in addition to the Governador Valadares-Mascarenhas Transmission Line. These assets were integrated in 2005 as part of the corporate restructuring process of Energias do Brasil and the deverticalization determined by the rules of New Electric Sector Model.

The operations of Corumbá and Coxim thermal plants of Pantanal Energética were deactivated/ceased by the end of 2005.



Lajeado UHE.



## TRADING

Energy trading activities are developed by means of Enertrade, one of the most active participants in the electric power free market. In 2006, it traded 6,702 GWh, a volume 4.8% higher than 2005 (6,379 GWh). Since 2004, business growth has reached 38.4%.

The higher growth of customers occurred within Energias do Brasil's distributing company performance area, which reveals the relevance of a trading company when serving large volumes of customers who migrate to the free market.

Net trading revenues amounted to R\$494.7 million, a 14.9% increase, as a result of the higher number of customers and the increase of energy prices. The EBITDA amounted to R\$3.4 million, a 93.7% decrease. The fall reflects an extraordinary negative impact in the amount of R\$40.2 million referring to provisions, set up on a conservative basis in the fourth quarter of 2006, in order to deal with the risk of doubtful accounts against Ampla S.A. (more details in the item Operating Expenses, in the Economic-Financial Performance section).

## Services

One of Enertrade's specialties is the offering of services to customers, including advisory services in the relationship with the Electric Power Commercialization Chamber (CCEE), market simulations, energy portfolio management and on-line remote measurement, among others.

The company also offers an energy risk management tool, based on models developed by Enertrade to optimize customer profitability. Mathematical models and concepts such as Value at Risk (VaR) and scenarios forecasts were used, with a conservative standpoint concerning the behavior of supply and demand in order to safeguard the portfolio.

# Regulatory Environment



2006 was marked by spot adjustments in the regulatory environment, resulting from the introduction of the New Electricity Sector Market in 2004. Thus, it was a period of greater rule stability, part of a more adequate scenario for the development of sector businesses. The following ancillary entities created at the regulatory framework were operating: the CCEE, liable for performing auctions for contracting existing energy, new energy and adjustment; the Monitoring Committee of the Electric Power Sector (CMSE), in charge of monitoring electric and energetic supply, for ensuring continuity and safety, and the Energy Research Company (EPE), responsible for studies and research in subsidizing energy sector planning. Among the new regulatory instruments, we point out the methodology and criteria to be applied in the second Tariffs Revision Cycle, beginning in 2007, approved and edited by the Brazilian Electricity Regulatory Agency (Aneel) following a Public Hearing process.

## Highlights

### PERIODIC TARIFF REVIEW

The periodic tariff review of Bandeirante relative to 2003 was concluded in 2006, although still there is a possibility of appeal on an administrative scope relative to the amount of the Regulatory Remuneration Base (BRR). In 2005, Aneel reduced from R\$1.092 billion to R\$998 million the value of Bandeirante's BRR related to September, 2003. Due to this later adjustment, the percentage of increases recognized in tariffs was also rectified, from 18.08%, temporarily applied as of 2003, to 9.67% (this percentage had already undergone a reduction in 2004 to 10.51%). The financial difference, arising from the application of the provisional index, reached an amount of R\$102.3 million, contributing to the average adjustments of the tariff table, in October,

2005, to be established at negative 8.86%, applied over the reference tariffs used by Aneel.

Bandeirante has filed a request for reconsideration to the regulatory agency and on October 19, 2006, Aneel's executive board granted a preliminary increase of the BRR to R\$1.026 billion, with the possibility of reconsideration to a higher amount. Sixty days following this last resolution, Aneel was to conduct an inspection for obtaining the necessary elements for a definitive decision. However, up to the end of 2006, Aneel had not yet voiced its opinion on the subject. In view of the new BRR adjustment at Bandeirante, the tariff repositioning index related to the first Tariff Review Cycle was changed to 10.14%, with a corresponding financial "bubble" incorporated into the 2006 tariff adjustment index.

Regarding Escelsa, the 2004 periodic review was ratified by Aneel in August 2005 with the establishment of final amounts for the BRR, depreciation rate and operational costs of the Benchmark Company, with the tariff repositioning increasing from the provisional value of 6.33% to the definitive value of 8.58%. This change meant a revenue addition of R\$17.2 million, financially offset to the concessionaire in the tariff period from August 7, 2005 and August 6, 2006. As for net revenue, the impact was positive at R\$15.6 million.

As for Enersul, in 2005 Aneel had already definitively established the Regulatory Remuneration Base of 2003, increasing the 2003 tariff review percentage level to 50.81% (originally, it had been temporarily established at 42.26%), which represented a positive effect of R\$74.8 million in net revenue recorded in the first quarter of 2005.



Concessionaire	Period	Next review	Amount of ratified BRR (in million)
Bandeirante	Every four years as from 2003	2007	1,026
Enersul	Every five years as from 2003	2008	782
Escelsa	Every three years as from 1998	2007	928

## TARIFF ADJUSTMENT

**Bandeirante** - On October 19, Aneel approved an average adjustment of 13.44% to be applied in the period between October, 2006 and September, 2007. The Tariff Adjustment Index (IRT) envisages Aneel's decision regarding the request for reconsideration filed by Bandeirante relative to the first periodic tariff review of the concessionaire of 2003 and, therefore, its effects on the 2005 IRT. Taking into account, in addition, the joint effects of the adjustment of the BRR review index and the financial adjustments on Bandeirantes' tariffs, in association with the recovery corresponding to past periods, the effective average tariff adjustment, applied over recurrent values, verified in electric power bills was of 15.41%.

**Escelsa** - The average adjustment in Escelsa's tariffs was established at 16.67% by Aneel, comprising all consumption sectors for the period between August, 2006 and July, 2007. Taking into account financial adjustments already included at Escelsa's tariffs, associated with the recovery corresponding to past periods, the effective average tariff adjustment, applied over recurrent values, verified in electric power bills was at 11.40%. The tariff adjustment granted on August 3, 2006 envisaged the positive net recognition of R\$34.4 million, corresponding mainly to the review by Aneel of the criteria used in the previous year when treating impacts of deverticalization of the concessionaire's assets.



Vitória's night view.

**Enersul** - Enersul's average tariffs were adjusted on April 6 by 16.75% for the period between April, 2006 and March, 2007. The effective average tariff adjustment, applied over recurrent values, verified in the electric power bills

was of 10.33%, for considering the financial adjustments already included in Enersul's tariffs associated with the recovery of past periods tariff differences.

### Average Tariff Adjustment of 2006

Voltage levels	Adjustment		
	Bandeirante	Ecelsa	Enersul
Low voltage (below 2.3 kV)	13.18%	8.29%	9.30%
High voltage (above 2.3 kV)*	17.81%	15.28%*	13.25%
Average value	15.41%	11.40%	10.33%

\*Average value for the corresponding classes served in high tension (Source: Aneel - Technical Note 257/2006).

### RECOVERY OF RATIONING LOSSES

The collection of this regulatory asset has not been performed, due to a lack of regulatory provision of terms and markets in the case of consumers that chose the free contracting environment. Aneel, after re-examining the matter, maintained exemption from the Extraordinary Tariff Adjustment (RTE) the free consumers who, in 2002, integrated the captive market of the energy distribution concessionaires. The RTE aims at covering the financial impacts of the rationing over cash of energy distribution and generation companies. Aneel understood that Law 10,438, enacted at the time of the rationing, did not stipulate the RTE charge on the network usage tariff, the single tariff element charged to free consumers, and that the consumer's option for the free contracting environment is a market risk. Thus, in compliance with the new accounting criteria of the collected installments from captive customers in the year ending 12/31/2006, Bandeirante and Ecelsa reinforced provisions at the amount of R\$56.1 million to reflect smaller collection capacity of said charge in view of the term established by Aneel.

### MEDIUM VOLTAGE FREE MARKET/ SPECIAL CONSUMERS

At the end of 2006, Aneel regulated the trading of energy derived from incentive-related sources, estimated to be effective in 2007. It foresees that consumers with installed charge equal or above 500kW - called Special Consumers - may acquire energy from generating agents who use primary incentive-related sources. These sources are PCHs, wind, solar energy or biomass, with installed power of up to 30 MW, or from Hydroelectric Generating Centers (CGH) with installed power equal or lower than 1MW, with intervention from trading companies. The incentive foresees a discount not falling below 50% at the Usage Tariff of the Transmission and Distribution System, both for generator charge and to consumer charge.

As of 12/21/2006, Aneel Resolution 247 aims at offering the growth of incentive-related generation with installed power of up to 30 MW by enabling the intervention of the trading agent.

# Analysis of Economic-Financial Performance

## • Consolidated revenue

Net Operating Revenue - thousands of R\$	12 Months		Change
	2006	2005	
<b>Supply</b>			
Residential	1,531,776	1,406,720	8.9%
Industrial	893,312	1,072,249	-16.7%
Commercial	835,238	746,488	11.9%
Rural	169,860	143,670	18.2%
Other	380,070	346,188	9.8%
Unbilled Supply	82,293	123,195	-33.2%
<b>Total supply</b>	<b>3,892,549</b>	<b>3,838,510</b>	<b>1.4%</b>
<b>Provision</b>			
Conventional	36,690	30,790	19.2%
Spot market energy and Auction supply	78,565	30,242	159.8%
<b>Total provision</b>	<b>115,255</b>	<b>61,032</b>	<b>88.8%</b>
<b>Supply and provision</b>	<b>4,007,804</b>	<b>3,899,542</b>	<b>2.8%</b>
Availability of Distribution System (TUSD)	561,983	416,343	35.0%
Trading (Provision and Supply)	364,157	226,333	60.9%
Other operating revenues	128,555	212,828	-39.6%
<b>Subtotal</b>	<b>5,062,499</b>	<b>4,755,046</b>	<b>6.5%</b>
(-) Deductions to the operating revenue	(501,101)	(431,820)	16.0%
<b>Net operating revenue</b>	<b>4,561,398</b>	<b>4,323,226</b>	<b>5.5%</b>

In 2006, Energias do Brasil's net operating revenue showed a 5.5% growth, amounting to R\$4,561.4 million. This performance is mainly the result of the effects arising from tariff adjustments applied to the three distributing companies of the Group in the analyzed periods, particularly the negative impact of the average reduction of 8.86% in tariffs due to its periodic tariff adjustment in October 2005. The change in the energy market profile also had a great influence, with a greater participation of free customers, partially offset by a 3.8% growth in the energy market.

In the first quarter of 2005, a positive impact was recorded, resulting from the conclusion of the Enersul's first tariff revision (R\$74.8 million accounted for under the item "Unbilled Supply", of which R\$65.0 million are prior to 2005). In the third quarter 2005, under the same item, R\$15.6 million were accounted for, earned from the conclusion of the Escelsa's tariff review.

The revenue from the distribution system usage fee (TUSD) reached R\$562.0 million, a 35.0% increase compared to the amount recorded in 2005, resulting from the change in the status of end customers to that of free customers.



### • Operating expenses

Operating expenses - R\$ thousand	12 months		Change
	2006	2005	
<b>Manageable expenses</b>			
Personnel	339,078	267,968	26.5%
Material	36,598	36,209	1.1%
Third-Party Services	296,787	239,282	24.0%
Provisions	106,890	69,445	53.9%
Other	95,755	107,184	-10.7%
	<b>875,108</b>	<b>720,088</b>	<b>21.5%</b>
Depreciation and amortization	287,450	239,824	19.9%
<b>Total manageable expenses</b>	<b>1,162,558</b>	<b>959,912</b>	<b>21.1%</b>
<b>Non-manageable expenses</b>			
Purchased Energy and Transportation	1,926,970	2,132,125	-9.6%
System Service Charges	60,743	83,550	-27.3%
Fuel Consumption Quota - CCC	265,484	216,191	22.8%
Financial Compensation	14,183	7,631	85.9%
Aneel Inspection Fee	10,327	9,240	11.8%
Energy Development Account - CDE	249,098	227,661	9.4%
Other	85,884	14,134	507.6%
<b>Total non-manageable expenses</b>	<b>2,612,689</b>	<b>2,690,532</b>	<b>-2.9%</b>
<b>Total expenses</b>	<b>3,775,247</b>	<b>3,650,444</b>	<b>3.4%</b>

Energy Purchased - thousands of R\$	12 months		Change
	2006	2005	
Initial Contracts	-	379,923	n.a.
Itaipu	539,388	552,693	-2.4%
Auction	566,178	299,185	89.2%
Other Suppliers	471,628	375,497	25.6%
Connection and basic network charges	506,128	483,352	4.7%
CVA appropriation and amortization (net)	(156,352)	41,475	n.a.
<b>Total</b>	<b>1,926,970</b>	<b>2,132,125</b>	<b>-9.6%</b>

Operational expenses amounted to R\$3,775.2 million that year, for amounting to a 3.4% increase over 2005, below the 5.5% increase recorded at net operating revenue.

Manageable expenses, excluding depreciation and amortization, posted a 21.5% increase, resulting mainly from the R\$71.1 million increase related to personnel, R\$57.5 million connected to Outsourced Services and R\$37.4 million of provisions.

The variation in personnel results mainly from (i) the total impact of R\$51.6 million recorded in the second quarter of 2006 deriving from the Voluntary Resignation Program (PDV) and (ii) the salary adjustment between 6% and 8% granted to employees of the distributing companies in collective labor agreements occurring during the final six-month period of 2005. The startup of Peixe Angical Power Plant amounted to R\$2.5 million in additional expenses, recognized in the final six-month period of 2006 (during the power plant construction phase, these expenses



were capitalized), as well the lower level of capitalization of personnel expenses to the distributing companies' fixed assets, the effect of which was R\$6.3 million.

The item outsourced services include effects from contractual adjustments, expenses related to operating improvements (maintenance and expansion of networks and substations, cut downs, re-connection, meter inspections and call center services), operating efficiency programs in progress (inspections in loss reduction programs and IT specialized consulting/services for the Vanguard Project). The R\$57.5 million increase in 2006 comprises R\$28.6 million in additional expenses related to the implementation of corporate projects aiming at increasing operating efficiency (Vanguard Project, IT and Loss Reduction Program), as well as other additional regulatory expenses (R\$15.6 million). The main changes in the period occurred:

- At Bandeirante, a R\$13.7 million increase, resulting from the R\$1.4 million impact with consulting companies, R\$5.3 million related to improvement/expansion of the service network and call center and R\$4.9 million under the scope of the commercial losses prevention program.
- At Escelsa, a R\$12.3 million increase, of which R\$4.0 million refers to IT services, R\$1.7 million relates to the engagement of service providers to increment the services of network cut down and re-connection and maintenance services, R\$3.6 million refers to inspections in the commercial losses prevention program and R\$0.7 million relates to call center improvement.
- At Enersul, a growth of R\$23.4 million, of which R\$9.6 million refers to inspections of the commercial losses prevention program, R\$2.0 million to IT services, R\$3.1 million to consulting services and R\$3.6 million refer to additional expenses related to reading, printing and the delivery of bills, particularly in rural areas.
- Enerpeixe accounted for a R\$3.9 million increase in 2006, mostly due to its startup as from June, 2006.

Under Item provisions, the 53.9% increase recorded in 2006 resulted primarily from the recognition by Enertrade of the amount of R\$40.2 million related to provisions dealing with doubtful account risks against Ampla S.A., due to a discussion on the tariff value to be used in the supply agreement signed between both companies.

In this discussion, Enertrade obtained an injunction in a writ of mandamus suspending the effects of the Brazilian Electricity Regulatory Agency's (Aneel) official letter, which did not recognize the contracted tariff amount, also because Enertrade understands that the agreement had already been unconditionally approved by the Regulatory Agency, pursuant to Article 1, items 3 and 4 of Aneel's Resolution 22/1999. In non-compliance with this injunction, Ampla S.A. has been paying only part of the contracted tariff amount that, according to Aneel, would be subject to transfer to its end consumers.

The Company believes that this discussion made in the form of agreement by contract should be concluded through 2007.

However, referring to the analysis of manageable expenses, it is worth mentioning that the total of the "other" 2005 account envisages negative non-recurrent effects, such as R\$25.9 million related to the write-off of contingent assets at Bandeirante and R\$7.4 million connected to the initial public offering and corporate restructuring.

Adjusting the manageable expenses by the effects of PDV (R\$51.6 million) and of the provision set up at Enertrade (R\$40.2 million), the growth in this item would be 8.8%, as compared to the 21.5% effectively recorded.

Among the non-manageable expenses, we could mention sector collections for the Energy Development Account (CDE) and Fuel Consumption Account (CCC), which, jointly, grew 15.9% over the same period last year. In the other non-manageable expenses account,

a R\$47.9 million variation was related mainly to the procedure of recognition of the R&D sector obligation, regulated by Aneel in April, 2006.

### • Service income - EBIT

The combination of the analyzed effects led to a service income of R\$786.2 million in 2006, 16.9% above the amount recorded in the previous year. The EBIT margin reached 17.2%, 1.6 percentage points above the margin recorded in 2005. The 19.9% increase in expenses related to the depreciation and amortization recognized in the period partially reflects the startup of Peixe Angical.

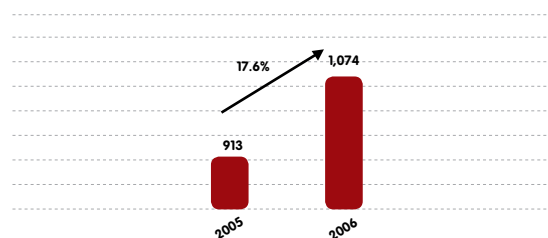
### • EBITDA and EBITDA margins

EBITDA reached R\$1,073.6 million in the year, 17.6% above 2005. The EBITDA margin (EBITDA/net revenue) reached 23.5%, a 2.4 percentage point increase in relation to the previous year.

2006 EBITDA envisages the recognition of extraordinary expenses in the total amount of R\$91.8 million, of which R\$51.6 million refer to PDV and R\$40.2 million to the provision set up at Enertrade (R\$27.5 million refer to years prior to 2006). In addition, 2006 EBITDA includes the following regulatory and tax effects:

- In the fourth quarter: the positive effect of R\$16.0 million from BRR; R\$6.3 million expenses at Enersul related to the CVA (prepaid expenses) reversal; and a negative R\$4.5 million adjustment related to sector contributions to the FNDCT (National Scientific and Technological Development Fund) of previous years;
- In the third quarter: positive non-recurrent net impact of R\$34.4 million arising from August 2006 IRT of Escelsa and extraordinary negative effects of R\$7.9 million related to the provision set up at Bandeirante for tax contingency;
- In the second quarter: recognition of R&D sector contributions corresponding to previous years (R\$10.0 million).

EBITDA Evolution (R\$ million)



Thus, by adjusting the EBITDA by extraordinary expenses, an amount of R\$1,152.7 million would have been verified in 2006, with a 25.3% EBITDA margin.

This performance is a result of the greater contribution from the generating area to Energias do Brasil's results, with a two-fold installed capacity in 2006, as well the growth of the electric power market and greater operating efficiency.

### • Financial

The 2006 consolidated financial income was negative at R\$377.8 million compared to another negative amount of R\$279.2 million recorded in the previous year. The increase is a result of provisions for payment of interest on own capital (JSCP) in the amount of R\$181.1 million, as well as a negative net exchange result of R\$50.7 million. Also, as for financial expenses in 2006, the amount of R\$40.1 million was recorded related to the provision for loss of RTE collections - also recorded in 2005 (R\$60.2 million) - and, in 2005, the accounting of R\$18.0 million related to commissions deriving from tender offerings. These effects were partially offset by the R\$308 million in financial income recorded in 2006, which envisages R\$77.3 million related to the establishment of credits and reversal of provisions, connected to matters related to the extension of the PIS and COFINS calculation basis, in which subsidiary distribution concessionaries were granted a favorable decision in a lawsuit made final and unappealable in 2006.

### • Net income

Consolidated net income reached R\$394.1 million in 2006. The earnings before minority interest were R\$431.4 million, compared to the R\$445.9 million accrued in 2005. It is worth mentioning that in 2005, R\$60.4 million was recorded as the positive net exchange



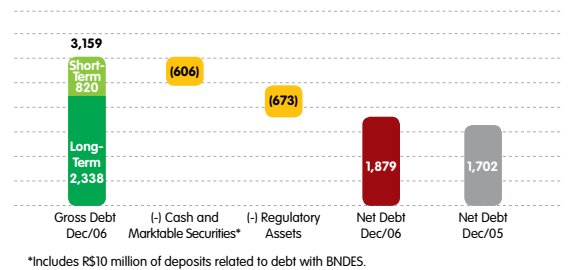
income and R\$89.9 million were reversed related to the provision for loss of investment recorded at EDP Lajeado, in view of the revision of assumptions used to appraise said investment. Analyzing the evolution of net income in adjusted basis by the previously mentioned effects, as well as those deriving from the PDV and the provision set up at Enertrade, 2006 net income would have been 33.7% above that which was recorded in 2005.

**• Indebtedness**

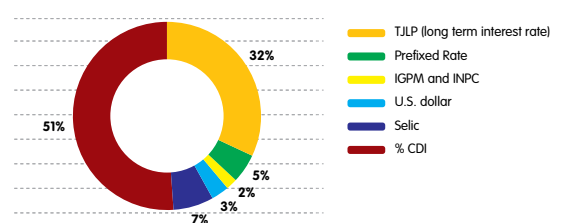
On December 31, 2006, consolidated gross debt, including charges, amounted to R\$3,158.6 million, compared to the R\$3,025.7 million balance recorded in December, 2005. The net debt adjusted by cash and investment amounts and by the net balance of regulatory assets reached R\$1,879.4 million at the end of 2006, a 10.4% increase compared to the period ending in December 2005. This performance results mainly from investments made throughout the year, partially covered by the operating cash generation in the period. Out of the total gross debt at the end of 2006, 22.6% was denominated in foreign currency, 85.6% of which was hedged against exchange variation by means of hedge instruments, resulting in a 3.3% net exposure. It is worth mentioning a reduction in the installment related to short-term gross indebtedness from 31.8% on 12/31/05, to 25.9% on 12/31/06, an effect of the debt rescheduling operations performed throughout 2006.

The net debt/EBITDA ratio ended 2006 at a ration of 1.8x, demonstrating the Company's comfortable leverage position. The reduction throughout 2006 resulted mainly from the EBITDA improvement.

Trend in Net Debt (R\$ million)



Gross Debt Index Breakdown - Dec/06

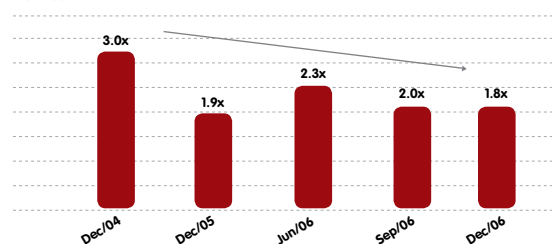


**• Debentures**

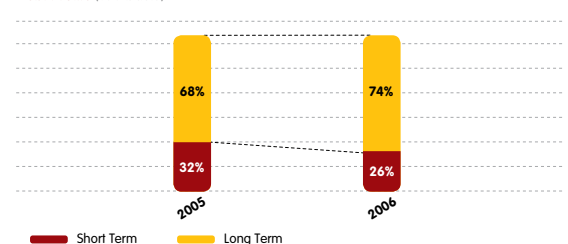
Aligned to their debt management strategy, which prioritizes the rescheduling of the maturities profile at more competitive costs, and combined with the strengthening of liquidity and the diversification of financing sources, the Group's distributing companies (Bandeirante, Escelsa and Enersul) concluded the public issue of simple debentures (not convertible into shares) registered, book-entry, in a single tranche of unsecured type, amounting to R\$851.5 million.

The successful issue of debentures reinforces the long-term partnership established with capital markets and reassures the confidence of the financial community in Energias do Brasil. In addition, it is also a result of the implementation of the adoption of a new structure that enabled the integrated financial management of the Group's companies.

Net Debt/EBITDA



Debt Profile (100 basis)



The debentures, which will be effective for five years, a half-yearly payment of compensation interests and a grace period of three years for the principal amortization have compensation as follows:

	Amount (R\$)	Compensation	Offering started on:
Bandeirante	250,000,000.00	104.4% of CDI	4/7/2006
Escelsa	264,000,000.00	104.4% of CDI	7/5/2006
Enersul	337,500,000.00	104.3% of CDI	6/2/2006

It is worth mentioning that the debentures issues contributed to a 0.5% reduction in the average cost of the company's consolidated debt, which ended 2006 at 14.50% (17.50% in 2005).

### • Statement of Added Value (DVA)

In 2006, the added value distributed by Energias do Brasil amounted to R\$3,646 million, a 6.4% increase in relation to 2005. This results from a R\$6,222 million gross revenue, deducting R\$2,576 million in costs related

to inputs and services acquired from third-parties, depreciation and amortization, material and equity pick-up, and accrued of financial revenues. The 73.6% portion was distributed to governments, in the form of taxes, charges and contributions.



	2006	Consolidated 2005
<b>Generation of added value</b>	<b>6,125,516</b>	<b>5,993,313</b>
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	-10,537	62,565
(-) Inputs acquired from third-parties	-2,480,346	-2,591,561
Cost of purchased energy	-1,453,716	-1,610,725
Electric network usage charges and system service charges	-557,829	-604,949
Materials	-36,598	-36,209
Third-party services	-296,787	-239,282
Other operating costs	-135,416	-100,396
<b>Gross added value</b>	<b>3,645,170</b>	<b>3,401,752</b>
Depreciation and amortization	-287,450	-239,824
<b>Net added value generate</b>	<b>3,357,720</b>	<b>3,161,928</b>
Financial revenues	321,409	269,863
Minority interest	-34,545	-3,089
Equity pick-up	1,007	-3,713
<b>Total added value to distribute</b>	<b>3,645,591</b>	<b>3,424,989</b>
<b>Value added distribution</b>		
Work pay	248,442	217,666
Payroll charges (except INSS)	44,703	14,046
Taxes, charges and contributions	2,463,779	2,308,605
Financial expenses	470,462	404,550
Rentals	21,366	37,288
Beneficiary parties	2,719	3,428
Dividends	169,914	151,241

**GRI - EC1** - Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other investments in the community, accrued profits and payments to capital providers and governments.

# Capital Markets

Energias do Brasil's shares (ENBR3) went public at the São Paulo Stock Exchange on July 13, 2005, trading in the New Market segment and joining the Special Corporate Governance Index (IGC) and Stock Index with Differentiated Tag Along (Itag). The shares are also part of the IBrX-100 Index, the Bovespa Brazil Index and, in April, they joined the IEE (Bovespa Electric Power Index) and IVBX-2 (Bovespa Value Index), which is comprised of companies with liquidity under development. Since December, 2006, Energias do Brasil's shares have been integrated into the Corporate Sustainability Index (ISE) of Bovespa.

Since its listing up to December 31, 2006, ENBR3 registered 100% attendance on the trade floor and 83.3% appreciation, which compares to Bovespa's 74.2% increase - the index resulting from the performance of the 58 most liquid shares in the market - and 80.2% of IEE.

In 2006, Energias do Brasil's shares showed an appreciation of 24.0%. The volume traded that year reached 57.0 million shares, with a daily average of 227.5 thousand shares. In the same period, the financial volume amounted to R\$1,663.4 million, accounting for a daily average of R\$6.6 million. At the end of the year, the shares were priced at R\$33.00, representing a company market value equivalent to R\$5.4 billion.

ENBR3 Performance x Indexes 100 Basis: 7/12/2005



Source: Bloomberg.

## Shareholders' compensation

On December 21, 2006, the Company's Board of Directors approved the payment of interest on own capital (JSCP) in the amount of R\$169.9 million, relative to the year 2006. The payment date will be subsequently resolved. On April 17, 2006, R\$151.2 million (R\$0.92 per share) of revenues was paid referring to results verified in 2005, of which R\$96.1 million were interest on own capital and R\$55.2 million were dividends.

Energias do Brasil's policy is to distribute dividends in a minimum amount equivalent to 40% of adjusted net income. However, in any year, the distribution may be lower than this percentage, when required by legal or regulatory provisions or, also, when advisable due to the company's financial condition and/or outlook, macroeconomic conditions, tariff reviews and adjustments, regulatory changes, growth strategy, contractual restrictions and other factors deemed relevant by the Board of Directors and by shareholders.



Bovespa's appearance on the IPO day.

# Risk Management

Energias do Brasil's risk management policy is structured as to envisage the specific needs of the three areas of operations - distribution, generation and trading. It is guaranteed by the Risk Committee, which, consolidated in 2006, began to comprise, in addition to representatives from the business offices, the Environment and Sustainability Offices. The Committee's duties are to manage and supervise all risk factors that may impact the company's activities and results, in addition to proposing new methods and improvements to the management system.

## Main Risks

**Energy** - Energias do Brasil has an Energy Risk Subcommittee that assesses, within a five-year period, the scenario of supply and demand of energy in different regions where the company operates, in macro and microeconomic variables and the particulars of each market. The purpose is to anticipate potential impacts on the distribution, generation and trading areas, so as to prepare them for ensuring energy supply, increasing revenue and minimizing eventual losses.

**Market** - The evolution of energy consumption depends on economic behavior and consumer income. Market risk is mitigated by the performance of the distributing companies in three distinct regions of the country, with particular economic activities and characteristics - aviation, metallurgy industries and a structure service sector in São Paulo; agribusiness in the state of Mato Grosso do Sul and steel, mining industries and foreign trade in the state of Espírito Santo.

**Regulation** - Distribution and generation activities are submitted to obligations provided for in concession agreements and to the regulatory structure of the

Brazilian energy sector. These are also permanently overseen by Aneel, an independent governmental agency of the Ministry of Mining and Energy responsible for regulating and inspecting the energy generation and distribution activities in the country. Energias do Brasil maintains an area of Regulatory Issues, which centralizes the relationship with Aneel and permanently oversees aspects that may interfere in the course of business, strictly complying with the requirements set forth in concession agreements. Trading activity, directed to the free market, does not depend on regulation, except for related party operations, such as the case of energy purchase from the Group's generation companies, which are previously approved by Aneel.

**Hydrology** - The energy generated by companies of the Group derives from hydroelectric power plants, having their full operation subject to water conditions. In addition, the sales revenue is not connected to the energy effectively generated, but to assured energy, in a volume determined by the regulating agency and provided for in the concession agreement. This risk, however, is mitigated by the Energy Reallocation Mechanism (MRE) applied to all power plants listed in the national electric system.

**Environment** - The sustainability concept is integrated to the Group's strategy, which involves a commitment to environmental preservation. The projects and activities in the generation and distribution areas are performed within parameters that assure the mitigation of environmental impacts. An example was the construction of the Peixe Angical Hydroelectric Power Plant, in Rio Tocantins, which complied with all requirements set forth by environmental agencies.



**Financial** - Risks associated with the Group's financial management (credit risk of acting on both sides of financial transactions, market risk of financial assets and liabilities, liquidity risk) are controlled by means of specific policies and procedures defined by the company's management bodies.

In 2006, aiming at promoting a continuous improvement of management and control of its financial risks, the Group started to adopt software integrated to the SAP platform that enables a safer consolidated management of the Group's cash and cash equivalents, indebtedness and hedging.

**Foreign Exchange** - Energias do Brasil's policy is to minimize exposure to foreign currency-denominated financial liabilities. Thanks to the contracting of hedging instruments, only 3.3% of the foreign currency-denominated debt was exposed to exchange variation at the end of 2006.

**Operational** - The operational risk from the discontinuity of supply, due to equipment loss, is properly managed by Energias do Brasil. This risk is under the management of the Technical Office, which uses insurance (for the main equipment) and inventory of replacement equipment. The company prioritizes optimized inventory management, seeking to standardize different types of equipment, identify groups of materials with premature malfunction and the decision to evolve through technological levels.

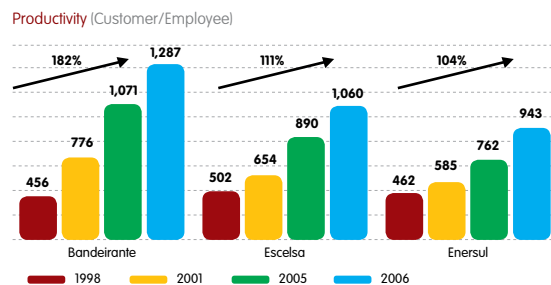




# Intangible Assets

## Efficiency

In the distribution segment, the companies have been presenting a favorable evolution in the main indexes of operational performance and service quality. In 2006, three of the Group's companies - Bandeirante, Escelsa and Enersul - were chosen among the six best companies in management quality in the Country, according to the Brazilian Association of Electric Power Distributing Companies (Abradee). In 2006, productivity reached the milestone of 947 customers per employee, versus 859 in 2005; 831 in 2004, and 802 in 2003. With regards to service quality, represented by DEC and FEC indexes, the distributing companies show a performance better than the sector average, with indicators well below the parameters established by Aneel.



## Location

With three business areas - generation, distribution and trading, the Group also combines the advantages of keeping three distributing companies that operate in strategic regions, with a strong focus on the customer in important and diversified segments of the economy. The state of São Paulo, where Bandeirante operates, accounted for 33.4% of Brazilian GDP in 2004, according to estimates of the Fundação Seade. The state of Espírito Santo, where Escelsa operates,

has been showing higher average economic growth rates in the Southeast Region, according to data from IBGE, boosted by the oil, steel and pulp and paper industries. In addition, the area under the concession of Enersul, in the state of Mato Grosso do Sul, has its economy based mostly on agribusiness, benefiting from the accelerated modernization process undergone by the sector over the last decade.

## Brands

Energias do Brasil maintains the policy of protecting its brands, involving the Group's or its companies' names, such as EDP, Energias do Brasil, Bandeirante, Enersul, Escelsa, Enertrade and Energest, among others. In total, the Company has requested registration or has been granted the registration of approximately 30 brands in Brazil.

The Group's logo, internationally created in 2005, reflects the personality and the values of a company whose strategy is based on sustainability. It is represented by a smile over a red background, which symbolizes proximity with customers and the commitment to building a more inclusive society, which promotes the welfare of the population.

## People

The Group has started mapping its employees' skills, aiming at ensuring the retention of strategic know-how accumulated by workers. They combine experience and information in the energy sector, an essential condition for boosting business growth. Its people management policy aims at attracting and retaining professionals identified with to the Group's values, capable of adding competitive advantages with their performance.



### Controlling shareholder

Energias do Brasil is a subsidiary of EDP - Energias de Portugal, the tenth largest European group in the energy sector and the largest private, non-financial conglomerate in Portugal. EDP has broad experience in energy generation, distribution and trading areas and a long-term history of commitment to Brazil, where it has operated since 1996. The Brazilian operation accounted for 17% of its total revenues and 18% of EBITDA in 2006.

### Experience

In order to develop future projects of energy generation, the Group relies on the experience acquired in the management of large-scale generation projects - such as the Lajeado (902.5 MW) Hydroelectric Power Plant and the Peixe Angical (452 MW) Hydroelectric Power Plant, combined with the know-how and capacity of the controlling shareholder.

### Research and Development

Over the past four years, Energias do Brasil has invested R\$52.6 million in research and development projects, focusing on the development of alternative energy sources and electric systems modernization and efficiency gains. This work is carried out in partnership with universities and research centers, and it is essential for the development and adoption of new technologies that enable the efficient use of energy. An example is the development of an innovative model for gathering information on the frequency and properties of lightning, a meteorological phenomenon that causes serious problems for the maintenance of distribution systems. The study evaluates data about atmospheric conditions so as to develop, optimize, operate and maintain its electric system.



# Investments and Outlook

In 2006, Energias do Brasil's investments amounted to R\$830.0 million, 27.9% below the amount recorded in the same period of previous year, focusing on generation (35.3%) and distribution (64.6%) activities.

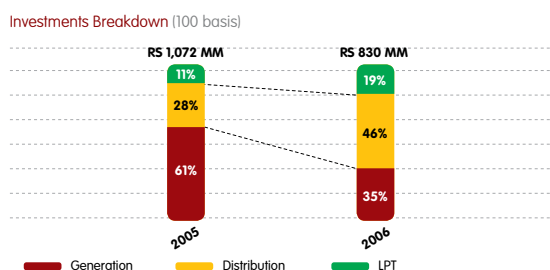
It is worth mentioning the substantial volume allocated to works at the Peixe Angical Hydroelectric Power Plant, in Tocantins River, which started full operation in September 2006.

Investments* (R\$ million)	12M06	12M05	%
<b>Distribution</b>	<b>536.5</b>	<b>448.4</b>	<b>19.7</b>
Bandeirante	149.6	117.2	27.6
Escelsa	191.3	139.4	37.2
Enersul	195.6	191.7	2.0
<b>Generation</b>	<b>292.9</b>	<b>700.8</b>	<b>-58.2</b>
Peixe Angical	243.6	638.6	-61.9
Energest	46.2	57.3	-19.2
Lajeado	3.1	4.9	-37.9
<b>Other</b>	<b>0.6</b>	<b>1.5</b>	<b>-60.4</b>
<b>Total</b>	<b>830.0</b>	<b>1,150.7</b>	<b>-27.9</b>
<b>Total without capitalized interests</b>	<b>751.9</b>	<b>1,071.5</b>	<b>-29.8</b>

\*Includes interest capitalization.

With respect to generation, investments were allocated to Energest, which manages assets in the states of Espírito Santo and Mato Grosso do Sul, pointing out the conclusion of expansion works for the Mascarenhas Hydroelectric Power Plant, which started operating a fourth turbine in October, 2006, in addition to the Small São João Hydroelectric Power Plant.

As for the distribution segment, investments amounted to R\$536.5 million (a 19.7% increase as compared to 2005) allocated, mainly, to the expansion and improvement of the networks of Bandeirante, Escelsa and Enersul. The funds for the programs of universalization of the access to electric energy, which include the "Luz para Todos" Program (Light for All Program), amounting to R\$159.6 million in 2006.



## Outlook

The priority of investments in 2007 will continue focusing on generation expansion and the improvement of the distribution network and services provided by distributing companies.

This year, the construction of the Santa Fé Small Hydroelectric Power Plant (PCH), in the state of Espírito Santo with a 27 MW capacity will begin.

These works have received funds in the amount of R\$105 million and are expected to be concluded in the second six-month period of 2006.

The Group maintains ongoing attention over growth opportunities in generation, by analyzing different technologies for electric power generation. All investments, however, take into account the return of capital used to ensure the adding of value to shareholders.

EPE's projections point to a 5.3% increase in the Brazilian energy consumption in 2007, which is predicted to be enough to meet a GDP between 4% and 5%. The projection includes a 4.6% growth in industrial consumption, 6% for residences and 6.6% for the commercial and services sectors.

## Economic Goals

- Double the generation capacity from adequate opportunities.
- Distribute to shareholders the minimum equivalent to 40% of the adjusted net income in the form of dividends and/or interest on own capital.
- Reduce commercial losses to 2.8% in the medium term.



Peixe Angical UHE.



# Social Performance



Colocar  
em prática  
a vocação  
para vencer.

Projeto Letras de Luz.





Energias do Brasil

deirante



enersul



escelsa



enerpeixe



Fundação Victor Civita

# Labor Practices

## Employment

Energias do Brasil understands that its internal public is its greatest asset. According to its sustainability strategy, in 2006 the Company accomplished a series of initiatives that had as a priority the participation, self-development, teamwork and satisfaction of its employees.

In order to attract and to maintain the best professionals of the market, the Group has continued to develop instruments for assessment, qualification and education, and to consolidate its human resources guidelines. The policies of Recruitment and Selection, Integration, Job Positions and Wages, and Training and Development were concluded.



As part of the process of alignment and development of its people management, the Company pursued to identify the best practices adopted by the companies of the Group and in the Brazilian and international markets. As a result, four great projects were launched in the year: New Plans for Job Positions and Wages, Performance Management, Training and Development, and Health and Pension Plans.

### • Profile

A Voluntary Resignation Program (PDV) was launched in 2006, which integrates the people management reformulation strategy. The process, which was carried out in a participative and transparent way, had the participation of 651 employees.

Dismissals occur in a scheduled way, having started in 2006 and will be concluded until the end of 2007. With this initiative, the Group had 3,010 employees at the end of the year, a functional staff amount 13% lower than the one maintained at the end of 2005, with 3,461 professionals.

	2004	2005	2006
Nº of employees	3,484	3,461	3,010

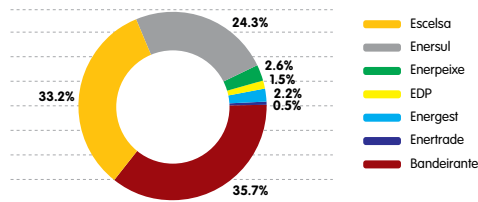


### Functional staff by region<sup>(1)</sup>

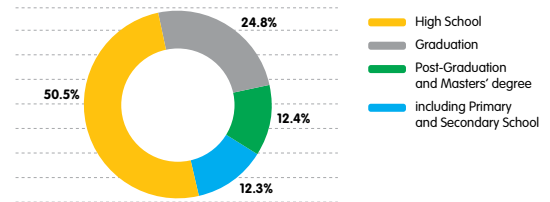
	Escelsa (ES)	Energul (MS)	Bandeirante (SP)	Energias do Brasil (SP)	Enertrade (SP)	Enerpeixe (SP)	Energest (ES and MS)
Officers with employment relationship ruled by Brazilian Consolidation Labor Laws	-	-	1	4	1	-	-
Top Management	12	8	17	7	3	4	2
Managers	30	21	39	3	-	5	3
Professionals	265	227	226	18	8	35	17
Technicians	692	476	793	12	2	36	43
<b>Total</b>	<b>999</b>	<b>732</b>	<b>1,076</b>	<b>44</b>	<b>14</b>	<b>80</b>	<b>65</b>

(1) Not including interns and the personnel contracted through the Apprenticeship Program.

Employees' Distribution



Education



### Recruitment and selection

Energias do Brasil's goal is to become, in 2007, one of the 150 best companies to work for, and to reach the 10 best of the ranking by end of 2009.

The Recruitment and Selection Policy embodies this challenge and sets forth the guidelines to identify, attract and retain potentially qualified candidates, who can contribute to the development of the Company, aimed at developing a future aligned with the corporate strategy.

The policy also sets forth the principles of non-discrimination, equal opportunities and transparency

in the selection process, in order to select professionals with profiles compatible with skills, abilities and attitudes required by the Group.

One of the prerogatives provided for in the policy is the priority for in-house recruitment, which values and motivates employees.

The Integration Policy aims at ensuring the integration of new employees, communicating to them about the Policies, Mission, Vision, Values, Organizational Structure and culture of the Group, and also the alignment with the Group's ethical and sustainability principles.







### • Salary and benefits

In 2006, the restructuring process of the Group's job positions and wages plan involved 180 employees in several areas of the companies. The process was carried out in two stages; it initially concluded the guidelines for the top job positions (from the management level) and, in a second period, the other positions.

Some of the main objectives were to analyze the structures of the existing job positions in the Group's companies, creating a new, more harmonized, downsized and functional structure, in addition to reducing the costs associated with outplacement and the strengthening of the corporate culture.

The total funds applied in salaries that year was R\$113,026,794.78.

#### Ratio between the highest and the lowest salaries paid in the companies

	2006 (times)
Bandeirante	44.28
Escelsa	45.46
Enersul	43.69

### • Performance Management

In 2006, a new monitoring and performance analysis system of all the Group's companies was also prepared, with a view to aligning the objectives of each employee with strategic goals.

By means of the 180° assessment, a methodology comprised of self-assessment, assessment of the hierarchical superior, assessment of the functional superior and of pair job positions, the process takes into account the results achieved (by the Group, by the companies, areas and individuals), as well as the skills demonstrated, with variable pay connected to performance.

The Group also performed a mapping of skills, which was extended to all management levels and assessed 180 managers (6% of the staff).

In 2006, an assessment of the entire management was carried out, composed of 85 managers, aiming at identifying and retaining talents, creating a unified practice of guided training, coaching, career and succession and improvement of the organizational environment (management style).

### • Training and education

The area of Training and Development underwent a reformulation in 2006. The adoption of the Policy of Training and Development has established guidelines aiming at stimulating the professional training and continuous development of the employees, so as to obtain a staff with proper technical, behavioral, organizational and management skills, which are fundamental for obtaining expected levels of performance and excellence.

#### • Training and Development Program of Energias do Brasil Group

Composed of three subprograms - Functional Training (PTF), Incentive to Formal Education (PIE) and Managerial Development (PDG) -, the Training and Development Program of Energias do Brasil Group was liable for investments worth R\$ 3.3 million in 2006, which provided an average of 127 hours of training per employee, 18.35% above the average recorded in the previous year. 1,111 instances of training were held, which summed up to 318 thousand hours.

Through the Program of Incentive to Formal Education, the Group handles 50% of graduation courses and 80% of postgraduate courses. In 2006, 213 employees benefited for this initiative.

The Functional Training Program, which promotes training of the technical and behavioral skills at the non-managerial level, supports 100% of the technical and specialization courses envisaged by the Annual Training Plan and previously approved for the job position exercise.

Concerning executives, the Managerial Development Program was created in 2006, which, in partnership with benchmark educational institutions, such as the University of São Paulo (USP), IBMEC, Fundação Getúlio Vargas (FGV) ISE/IESE, Dom Cabral Foundation and Insead, aims at developing strategic knowledge and skills for the Group. During the course of the year, 13 employees in leadership position participated in the program.

Energias do Brasil does not have a specific program for the management of career ending. The Company has an occupational staff with an average age of 40 years, and Energias do Brasil focuses its policies on career development, aligned with the company's growth projections.

**GRI - LA11** - Programs for skill management and continuous education which support the continuity of employability and for the management of career ending.



### • Pension Plan

Integrated with the Vanguard Project, a new pension plan was created in 2006: Enerprev - Supplementary Pension Plan of Energias do Brasil Group, which enables Energias do Brasil to act with its companies on an integrated basis.

In order to adopt the most appropriate model, The Group has carried an assessment study on the pension practices of 25 companies carefully selected in the market and recognized for their excellence.

The new plan aims at a projected monthly income from 50% to 60% of the salary, including the INSS income, plus supplement from private pension plan for a 30-year career. With 13 annual contributions, it also provides for self-sponsorship - that is to say - when the employee discontinues professional duties at the Group, they can remain in the plan, provided that they bear the whole payment (their own share in addition to the company's share).

With the start of the activities foreseen for the first quarter of 2007, Enerprev will incorporate Escelsa and Enersul foundations, in addition to transferring the private pension plan of Bandeirante Energias, currently managed by Cesp Foundation.

### Private Pension Plans

(R\$ million)	2005	2006
Present value of the total or partially covered actuarial liabilities	(526)	(579)
Fair value of assets	484	563
Value of non-recognized actuarial losses	18	16
(Deficit)/Surplus	(24)	1

**GRI - EC3** - Coverage of liabilities of defined benefit pension plan offered by the organization.

#### • Benefits

The contracting of a new health provider, which will offer other health, hospital and dental care plans starting in March 2007, is a component of Enervida, also launched in 2006 and which combines various health programs targeting employees and their family members.

The initiative includes the establishment of a type of medicine assistance extended to all professionals. With a list containing 80% of the most used medicines, the employee will be able to purchase them with discounts in pharmaceutical chains electronically connected to a data base.

Energias do Brasil also ensures other benefits to its professionals, such as meal vouchers, food vouchers, daycare assistance and life insurance. Together, these account for investments of R\$6,335,619.54 in 2006.

#### • Relationship between the employees and the management

Ethics, transparency and dialogue are the backbone of Energias do Brasil's relationship with its employees. Under a participative management model, the Group encourages

its employees to identify challenges and opportunities of professional and personal growth, aiming for business efficiency and sustainability.

The Code of Ethics, distributed to all employees and available on the Intranet network and on the Group's Website [www.energiasdobrasil.com.br](http://www.energiasdobrasil.com.br), sets forth the standards of behavior adopted by the Company and which must be observed by all teams. It includes acceptable workplace conduct with co-workers and suppliers, the promotion of human rights, non-discrimination and equal opportunities.

In 2006, the RH Profile was launched, a channel in the Intranet network which allows employees to consult on their performances and identify outplacement opportunities in the Group's companies.

#### • Union Relations

In 2006, negotiations with unions had their reference dates consolidated for November. The adjustments were of 4% in all companies of the Group for non-managerial job positions. The percentage of employees who had negotiations with the unions is at 91.83%. In 2006, the Group did not record any case of risk in negotiations with unions.



Class Union	1,711	56.84%
Engineers' Union	86	2.86%
Technicians' Union	153	5.08%
Other unions	189	6.30%
Non-unionized	871	28.92%
<b>Total</b>	<b>3,010</b>	<b>100.00%</b>

**GRI - LA4** - Percentage of employees covered by collective negotiation agreements.

### Safety and health at work

Occupational health and safety of employees are considered priorities for Energias do Brasil. This commitment aims at ensuring the provision of healthy and safe environments and, consequently, the physical integrity of employees and visitors in all the operations.

With emphasis on professional qualification and the adoption of preventive measures, the Occupational Safety Program includes awareness campaigns, training sessions on risk factors, safety procedures and internal audits to check compliance with the Safety Management System.

As part of the Safety Management System, the occupational medicine program maintained by the Group includes, among other initiatives, the administration of periodic exams, the promotion of diseases prevention and antinflu vaccination campaigns, as well as nutritional monitoring.

The objective is to act in a way that encourages accident prevention, emphasizing employee qualifications and the adoption of preventive measures. In 2006, 38 occupational accidents were recorded compared to 23 accidents in the previous year. The seriousness rate increased as a result of the death of an Enersul employee who experienced an electric shock directly from the ground (the employee's body and clothing were wet) during an operation in a rural network (34,5 kV). The accident circumstances were evaluated and further awareness measures of rural teams were taken.

### • Occupational Accidents

	2004	2005	2006
Frequency rate	5.89	3.38	6.05
Severity rate	86.02	80.47	1,104

Energia do Brasil maintains a transparent and collaborative relationship with unions. Health- and safety-related measures are discussed at meetings with local and sectorial entities. In such occasions points of improvement are identified and the necessary measures are decided on, fulfilling common interests. Among the issues encompassed by the formal agreements, we mention civil and criminal liabilities in relation to occupational accidents and diseases and the quality of life at work.



### Diversity and equal opportunities

Respect for diversity and equal opportunities is part of Energias do Brasil's commitment to sustainability. The Group relies on a program for the inclusion of People with Special Needs (PNEs) in the labor market, providing those professionals with training and qualification. In 2006, 92 PNE employees were distributed in different areas of the Group's companies.

The Young Apprentice Program combines social inclusion with qualification. The program seeks to professionally train youth between the ages of 16 and 18 from disadvantaged social classes. In 2006, 206 young people participated in the program.

Energias do Brasil is also committed to transparency and fairness in opportunities and recognition of its employees, in a homogeneous way, avoiding discrepancies due to gender or any other form of discrimination.

### Base salary by gender (R\$)

	Women	Men	Rate
Superintendent	19,179.25	16,677.57	115.0%
Manager	10,537.00	9,972.96	105.7%
Supervisor	3,574.46	3,988.75	89.6%
Administrative/technician	1,545.00	1,695.72	91.1%
Undergraduate/prop.	3,494.77	3,548.96	98.5%
Operational	1,592.61	1,682.17	94.7%
Technician/professional	2,441.31	2,390.09	102.1%
People with Special Needs	659.98	659.98	100.0%

**GRI - LA14** - Salary base rate between men and women, by professional category.



# Human Rights

Energias do Brasil is committed to the spread of human rights-related values among its employees, suppliers and customers.

The company sets forth in its Code of Ethics clear standards opposing any form of discrimination, child or slave labor. In 2006, no case of discrimination or risk of employing child labor or other slave-like labor in the Group's companies was reported, which shows the collective commitment to complying with the standards set forth in the document.

As a signatory to the UN Global Compact, the Group also supports and develops actions to promote, in all aspects of its business, the Millennium Development Goals, another initiative of the United Nations.

With some operations in areas near indigenous communities, Energias do Brasil adopts a respectful behavior promoting the culture and identity of this ethnic group. No cases of denunciation or criticism from this group have been recorded. Enersul, for instance, is a partner of the Campaign Against Hunger and Indigenous Infant Mortality in the villages of Dourados (MS).

**GRI - HR4** - Total number of discrimination cases and measures taken.

**GRI - HR6** - Operations identified as having a significant risk of child labor occurrence and measures taken to contribute to the abolition of child labor.

**GRI - HR7** - Operations identified as having a significant risk of forced and slave-like labor and the measures taken to contribute to the elimination of the forced and slave-like labor.

**GRI - HR9** - Total number of cases of violations to the rights of indigenous people and measures taken.

## Responsibility in the production chain

Promoting the sustainable development on an integrated and permanent basis is one of Energias do Brasil's goals in the management of its production chain.

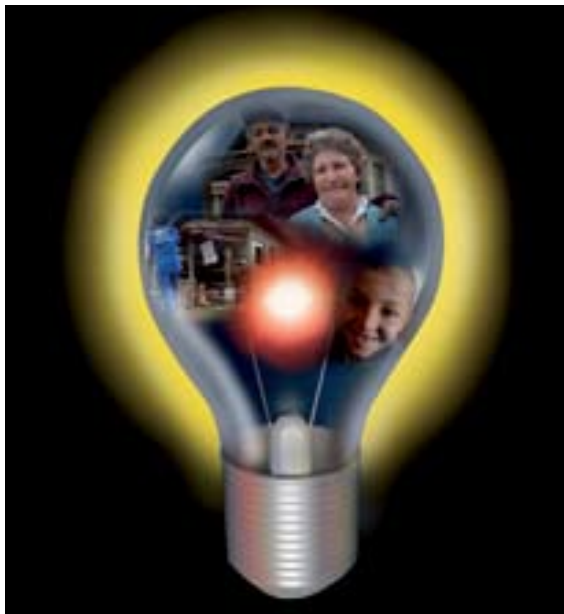
Suppliers are assessed according to quality, deadline, efficiency and price criteria. In addition, social and environmental criteria, which include the prohibition of child, forced or slave-like labor, are defined in product and/or service purchase agreements, as well as compliance with the labor and environmental legislation in force.

With the objective of standardizing all the procedures of the Group's companies, various initiatives has been developed since 2005. The units' best practices were assessed and the main improvement points were identified.

One of these initiatives is the Efficiency Program, which consolidated material and equipment specifications, promoting a greater level of integration between the company's technical areas and equipment standardization by suppliers, reducing discards, time and costs. The integration of the SAP system among the companies was another measure which consolidated the work processes.

### **Assessment and conformity**

In order to ensure that its suppliers are aligned with established processes and values, Energias do Brasil carries out periodic assessments and applies performance indicators. An example is the Integrated Program of Supplier Development and Training (Prodfor), adopted in Escelsa, which certifies goods and services suppliers according to the qualification provided for in the Supply Quality Management System (SGQF), equivalent to the ISO 9001:2000 standard.



Suppliers also receive advisory services from companies, particularly concerning safety procedures, respect for the environment and process quality control. By means of the Partnership Program, Energias do Brasil promotes the commitment of its suppliers in regards to its values and guidelines, especially in safety, health and environment aspects, in addition to conveying its Code of Ethics to those companies.

Should any serious non-conformity be identified, the supplier receives a warning letter and is required to provide an explanation. The next step is to identify if it is possible for Energias do Brasil to collaborate in solving the problem. In the event of recurrence, the company undergoes penalization, which includes the suspension of the contracted service or product.

In order to ensure a relationship guided by a transparent dialogue and jointly in pursuit of the best solutions, the Group's companies rely on various communication channels with suppliers. All the companies have an online channel by means of which material and service companies may obtain information about assessment criteria, forward their registration proposals, and consult their data, changes and updates.



# Society

## Communities

Energias do Brasil is a company committed to sustainable development. This implies observing all the aspects of its business to ensure their profitability, and, at the same time, to promote positive impacts on the society with respect to the environment.

This position has become even more evident from 2005, when the Group started to formulate a corporate policy of social and cultural investment, which integrated the funds invested in these areas in a sole fund for its companies.

In 2006, with the consolidation of these policies, Energias do Brasil began establishing criteria to support projects and assessment systems, always emphasizing the sustainability of its initiatives, its mobilization power and community transformation, involving its distinguished strategic public types in this path toward citizenship.

Attention is also paid to actions which can effectively change the reality surrounding a community. These Initiatives have education, arts and the promotion of social inclusion situation as their priority.

## Social Investments - Energias do Brasil (R\$)

Area	2005	2006
Environment	1,209,794.00	4,044,061.01
Culture*	3,287,337.50	3,024,369.97
Education	969,233.42	1,061,730.60
Institutional/Education	205,809.42	456,021.24
Social	720,240.07	394,680.30
Sports	26,000.00	40,743.68
<b>Total</b>	<b>6,418,414.41</b>	<b>9,021,606.80</b>

\*Funds from Rouanet Law and Audiovisual Law.

A recent example of community interaction was the implementation in 2006 of the socioeconomic area programs of the Peixe Angical hydroelectric power plant. With these programs, it sought to establish relationships with the community by means of environmental education initiatives and agricultural technical assistance, settlement development plans, the creation of a negotiations forum, quality of life monitoring, public health, and strategies for minimizing local economy slowdown after the conclusion of the work.

## • Educating for the future

Education is one of the greatest challenges for the development of the Country. That is why it is also one of the main social performance forefronts of Energias do Brasil.

Since 2002, Bandeirante Energia has been developing the Bandeirante Education Community Program, which aims at helping to strengthen elementary education in local public schools in its concession area.



2006 saw more than sixteen thousand Elementary School students benefit from this project. These students come from 61 public schools in the 28 cities where the distributing company maintains operations. One of Company's characteristics is the intense involvement on the part of its employees. Annually, the Board of Executive Officers approves a budget and collaborates with the schools benefiting from the preparation of the action plan. In addition, other employees are also encouraged, by means of the Company Volunteer Work Program, to develop activities in the institutions.

Because of this initiative, Bandeirante received, in March 2006, the title of Corporate Citizen in the 16th Social Responsibility Forum, promoted by the Marketing Institute, held in Brasília.

At Enerpeixe, the Solidary Literacy Program for Youth and Adults, or Alfamol, aims at decreasing functional illiteracy indexes and encouraging subsequent entry into the federal government's School Program for Youth and Adults (EJA). Alfamol is developed in the cities within direct influence of the Peixe Angical Hydroelectric Power Plant, in both rural and urban areas, and relies on the involvement of universities and city governments as its partners. To supplement in-class learning, the company has also adopted supplementary lunch programs and the "Ver" Program, which provides ophthalmologic consultation and eye glasses donations.

#### • **Letras de Luz (Light Letters)**

Another initiative to promote knowledge is the "Letras de Luz" Program. Inspired in the Bandeirante Education Community and launched in 2006, the program's goal is to encourage reading among children, youth and adults not only in Bandeirante's area, but in all the regions where the Group is present. Thus, Energias do Brasil entered into partnership with the Fundação Victor Civita, responsible for adjusting and implementing this program.

With activities developed according to the social and cultural reality of each region and directed to the training of multiplying agents of actions to motivate reading, the project will be adopted in 51 cities in the Group's concession areas. Its methodology is composed of three declared subjects: workshops promoting reading, qualification of groups in theater presentations based on literary texts, and book donation to libraries and cultural centers.

#### • **Volunteer work**

Among their initiatives, the distributing companies encourage employee participation by means of the Company Volunteer Work Program. In addition to Bandeirante, other Group companies carry out social and cultural activities with the employees' participation. An example is Enersul, which, in 2006, accounted 76% of its functional staff as being involved in volunteer activities. The development of these initiatives can be selected by the employees as one of the five individual goals of their annual Performance Assessment.

#### • **Childhood and Youth**

A strong commitment to healthy childhood development and youth is another performance priority of the companies that make up Energias do Brasil. The three distributing companies - Bandeirante, Escelsa and Enersul - are acknowledged by Fundação Abrinq under the Corporate Friend of Children seal for their initiatives toward the improvement of life conditions for this social group.

The companies also set aside 1% of their Income Tax payable to Funds for Childhood and Youth managed by the City Councils for the Rights of Young People (CMDCA) in their performance areas. The funds, which amounted to R\$150 thousand in 2006, benefited entities that promote development activities for this portion of the population. In addition to financial support, there is a monthly monitoring of the activities developed.



The results of these actions are assessed by means of periodical visits carried out by social workers, which measure aspects such as the allocation of funds and social benefits for the assisted institution, especially those regarding the physical and educational development of disadvantaged children, such as the children of garbage collectors, scrap dealers, prisoners and sex workers.

#### • Cultural promotion

Energias do Brasil structured its cultural actions incentive policy in 2006. These actions were divided into three areas: theater, fine arts and education.

Concerning education, the goal is to implement "Letras de Luz", a R\$1.6 million program in all the regions where Energias do Brasil operates. Regarding the fine arts area, the challenge for 2007 is to create a nationwide benchmark award. Concerning theater, the goal is to consolidate the successful experience of the quality plays performed throughout the cities where the Group's companies are headquartered.

Locally, the companies also set aside incentive funds (Rouanet Act of Cultural Incentive) to projects in different areas of artistic and cultural expression. Enersul, for instance, has donated R\$355 thousand for the production of two movie projects and for the sponsorship of the 5th edition of the Dance Show - Santuário Ecológico do Pantanal.

#### • Projects related to corporate purposes

Associating social actions to corporate purposes is another performance focus of Energias do Brasil. One of these initiatives is the Program Against Electric Power Waste (Procel) and its subprogram, the Procel in Schools. The initiative's goal is to turn High School and Elementary School teachers of the public schools network into multiplier agents in conveying to students issues related to electric power waste. In 2006, 621 teachers of ten schools were trained, in ten cities in the state of Mato Grosso do Sul. By means of this initiative, Enersul was acknowledged by Eletrobrás as the best company for conducting the program throughout the Country.



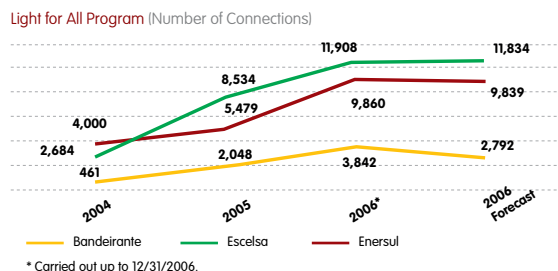
Jô Soares' adaptation to Richard III, sponsored by the Group.

The distributing companies also endeavor to give clarifications and guidance to the communities about the proper use of electric power, with information on avoiding risks and how to be attentive in its use. Thus, there are initiatives such as the "Oficina e Revoada de Pipas" (Kite Workshop and Flying Display), directed at the youth of communities assisted by Bandeirante, and the Community Safety Program (PSC), covering the customers of Enersul and Escelsa concession areas.

**"Luz para Todos" (Light for All) Program** - Another notable action is the "Luz para Todos" (Light for All) Program, concerning the universalization of access to electric power utilities. This is an obligation of the distributing companies, provided for in the concession agreements. The agreed goals were fulfilled in 2006, with the connection of 3,842 customers at Bandeirante, 9,860 at Enersul, and 11,908 at Escelsa. Between 2004 and 2006, Bandeirante carried out 6,351 connections, surpassing the 6,217 target agreed upon with the Ministry of Mines and Energy (MME) and Aneel; Enersul carried out 19,347 connections; and Escelsa carried out 23,052. To support the execution of this program, the companies received R\$160 million in 2006 (R\$125 million in 2005) of funds derived from the energy sectorial funds - the Energy Development Account (CDE) and the Reversal Global Reserve (RGR).

Another initiative concerning this focus is the "Programa de Eletrificação Rural - Luz no Campo" (Rural Electrification Program - Light in the Countryside), which served, in the last three years, about 3.7 thousand rural customers, and as a result, contributed to improving their life conditions.

The Group also develops actions under the scope of the Regularization Program for Underground Connections, covering low income families and working on spreading ethics related to discouraging the stealing of energy.



**GRI - EC4** - Significant financial support received from the government.

**GRI - SO1** - Nature, scope and effectiveness of any program and practices to assess and manage the impacts of operations on communities, including entry, operation and exit.

**Anti-corruption**

Energias do Brasil, committed to transparency and ethics in the development of its relationship with all the public with which the company interacts, sets forth in its Code of Ethics clear behavior guidelines against corruption or any other illicit form of negotiations.

The Code aims at guiding and formalizing behavior in various levels of business relationships and operation, minimizing the subjectivity of personal interpretations on moral and ethical principles. The Code sets forth rules and responsibilities, and it is an obligation of everyone to be committed to its norms, and to promote its application in the actions involving the Group's interests.

Each employee receives a copy of the Code of Ethics and signs a Commitment Statement. In addition, the document is available on the Group's notice boards, on the Intranet network and online.

The area of Corporate Internal Auditing assumes operating responsibility for the application of the Code of Ethics, providing the subsidies necessary for the Committee of Ethics' decisions, which has the duty of ensuring its ongoing updating and adequacy. The Committee is also in charge of the analysis of ethical conflicts, holding monthly meetings to decide on any incidents.

In an effort to amplify the ethical issue on a permanent basis, there is a link in the Intranet network and a Communication and Denunciation Channel, where questions and conflict reports on the issue can be forwarded, with the guarantee of the employee's anonymity. With this set of actions, the Group ensures that 100% of its employees are fully aware and committed to compliance with anti-corruption procedures.

In 2006, no cases of denunciation regarding corruption or bribery practices in Energias do Brasil's activities was recorded.

**GRI - SO3** - Percentage of employees trained in the anti-corruption policies and procedures of the organization.

**GRI - SO4** - Measures taken in response to the corruption cases.

### Public Politics

The activities of Energias do Brasil are governed by the Brazilian Electricity Regulatory Agency (Aneel), an agency linked to the Ministry of Mines and Energy, which has the mission of providing favorable conditions so that the electric power market can develop with a balance among agents, ensuring the benefit of society.

The Group complies with the legislation defined by Aneel and by other regulatory agencies, such as environmental agencies, offering supervision, regulatory and inspection authorities any collaboration required on a transparent and extensive basis at all the levels of the Organization. Furthermore, the Group performs the National Universalization Plan, enabling the access to electric power in all the regions where the Group operates, pointing out the Light for All Program.

Energias do Brasil has among its criteria, the decision not to participate in political campaigns or support any political parties. Therefore there have been no records of financial contributions to political parties, politicians or related institutions. In view of its commitment to the promotion of citizenship and sustainable development, it is signatory of the Global Compact and supports the Millennium Development Objectives, an initiative of the UN. The company also takes part in business associations and forums, such as the Ethos Institute for Business and Social Responsibility, the Brazilian Council for Sustainable Development (CEBDS) and Fundação Abrinq.

Distributing companies have direct performance and representation in electricity industry associations (Abradee, Apine, ABCE, Instituto Acende Brasil, etc.), integrating work teams for the preparation of proposals and participating in public hearings promoted by Aneel. The distributing companies also participate in the Youth Apprenticeship Program, in state councils of water resources and river basins (Rio Doce, Rio Santa Maria, Rio Jucu e Pantanal) and in regional development and citizenship programs.

**GRI - SO5** - Standpoint concerning public politics and participation in the preparation of public politics and lobbies.

**GRI - SO6** - Total value of financial contributions to political parties, politicians or related institutions.

### Unfair competition

Energias do Brasil complies with the highest standards of ethics and transparency in the relationship with its public. With its competitors, the company prioritizes a participative conduct in issues of public interest.

The Group's Code of Ethics guides employees against unfair competition practices. No lawsuit related to unfair competition, antitrust and monopoly practices was recorded in 2006.

**GRI - SO7** - Total number of lawsuits due to unfair competition, trust practices and monopoly and its results.



# Product Liability



Energias do Brasil reinforces its commitment to being a company environmentally and socially liable in the relationship with its customers. Its energy distribution business, composed of the companies Bandeirante, Enersul and Escelsa, covers more than 3.1 million customers, which summed up to approximately 10 million people in 171 cities. In 2006, the number of customers with social tariffs increased to 570,035 from 492,267 in the previous year.

## Customer Health and Safety

The distributing companies of Energias do Brasil Group carry out ongoing programs, projects and disclosure and guidance to customers about the proper use of the electric power, informing them on its usage risks. The basic conditions to the preservation of consumer health and safety are set forth in the concession agreements entered into between the companies and Aneel.

Therefore, Energias do Brasil ensures that, during all life cycle stages, all its products and services (100% of electric power generation and distribution) are aligned with these concerns, with no case of non-conformity recorded in 2006.

Accidents involving people from the communities covered by the distributing companies of Energias do Brasil Group are monitored. In addition, given the higher occurrence of electric shocks, awareness campaigns about the careful use of electric power are developed. Among them, we point out the "Oficina e Revoada de Pipas" (Kite Workshop and Flying Display), which involves teenagers and children of communities covered by Bandeirante, and the Community Safety Program, which comprises customers from Escelsa and Enersul's concession areas.

A permanent commitment to customer demands is expressed by means of efficient communication channels and encouragement to dialogue. An example of this positioning occurs in the construction of new ventures - transmission lines or substations -, an occasion upon which the Organization carries out surveys with the neighboring communities for identifying their expectations and needs. The collected opinions and demands can result in changes or adaptations in the projects. After the conclusion of the venture, another survey is made to assess satisfaction levels with the work.

**GRI - PR1** - Life cycle stages of the products and services in which impacts on health and safety are assessed, and the percentage of products and services subject to these procedures.

## PRODUCTS AND SERVICES

Investments made over recent years by Energias do Brasil pursue to increase the amount of electric power offered by Energias do Brasil, paying close attention to all stages of its business, both in generation and in distribution, so that 100% of its products and services respect sustainability principles, including the Group's health and safety criteria. No case of non-conformity concerning compliance with the rules about the supply of information related to the Group's products and services was recorded in 2006.

An example of this positioning was the construction of the Peixe Angical Hydroelectric Power Plant in Tocantins. The venture concluded in a record time of 38 months, and was inaugurated in November 2006, having observed a schedule of activities which, from



the beginning, had a goal of ensuring dialogue with the community, NGOs and public authorities, in addition to establishing mechanisms for reducing the social and environmental impacts involved in the construction. In its climax, the work reached 5 thousand direct jobs and 6.5 thousand indirect jobs.

Five resettlements were undertaken with total infrastructure to the population transferred from the venture area, and actions developed to encourage agricultural activity development in these locations. The Quality of Life Monitoring Program for the Resettled Communities was also implemented, and a Resettlement Development Plan was created jointly with various public agencies and representatives of the resettled community. One of the achievements of these initiatives was the acknowledgment of settlements by the National Institute of Colonization and Agrarian Reform (INCRA), which enabled the community access to the federal government's special financing programs.

During the entire process, Energias do Brasil held meetings at the Negotiations Forum, identifying demands and seeking joint solutions between the company and the community. The Group also carried out historic, cultural and archaeological restoration works in the region.

An integral part of the agenda of the companies making up the holding is the performance of accident prevention campaigns in the electric network. Other such initiatives include environmental programs and the dissemination of information on the risks of flying kites near the networks and of underground connection practices.

**GRI - PR2** - Total number of cases of non-conformity with rules and voluntary codes regarding the impacts caused by products and services on health and safety during the life cycle, distinguished by type of result.

**GRI - PR3** - Type of information about the products and services required by labeling procedures, and the percentage of products and services subject to these requirements.

**GRI - PR4** - Total number of non-conformity cases with regulations and voluntary codes concerning information and labeling of products and services, distinguished by type of result.

### • **Communication and marketing**

Consumer satisfaction surveys analyze all aspects of service as well as the quality of the services provided by the distributing companies of Energias do Brasil Group.

The Group sets forth in its Code of Ethics and in its Communication Policy standards of ethics, transparency and respect regarding the laws for marketing, publicity and sponsorship documents, respecting the consumer rights and encouraging behaviors aligned with the sustainability criteria adopted for its businesses. No non-conformities in these communication and marketing practices were recorded in 2006.

### • Communication channel

Energias do Brasil's companies rely on specific channels to serve their customers, respecting their socio-economic, regional and cultural backgrounds. All companies have a 24-hour call center, available seven days a week, in addition to service agencies,

an ombudsman and an area for receiving suggestions and complaints on its Websites.

In 2006, the number of visits to the Group's Websites was about 3.5 million.



### Access Channels - Number of Services Rendered - 2006

	Bandeirante	Escelsa	Enersul
<b>Total of services rendered</b>	<b>6,827,660</b>	<b>3,102,487</b>	<b>1,672,698</b>
Call Center	2,016,537	1,900,056	1,393,960
Audible Reply Unit (URA)	924,332	416,239	-
Stores/agencies	1,500,000	1,769,661	1,446,380
Internet (# of hits)	2,386,791	786,192	278,738

These channels allow the companies to identify the main demands of their consumers and to prepare actions to meet these demands under the strictest standards of quality and transparency.

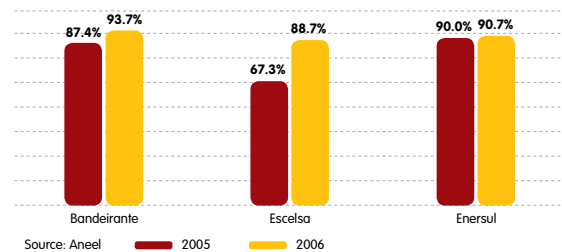
In this regard, the Consumer Council - composed of representatives of the electric power consumption, residential, commercial, industrial and rural sectors, and representing consumer protection and defense agencies (Procon) - aims at meeting the interests of consumers and cooperating in the identification of these needs on the part of Aneel. Therefore, it works as an important forum for dialogue between the companies and the communities.

Another means of communication is the electric power bill, which contains a space for exhibiting institutional and specific messages of services and other messages, such as electric power safety campaigns and the rational use of power, as well as its quality indicators.

The distributing companies' call centers exceeded the quality indexes in Aneel's service in 2006. These indexes determine efficiency standards for this service. Taking an annual average, the call centers maintained 91.0% of the Basic Service Level Index (INB), while this percentage reached 93.7% at Bandeirante. The Abandonment Index (IAb) remained average at 3.1%,

compared to the maximum of 15% determined by the regulatory agency. The Occupation Index (IOC), remained at 3.8% (15% maximum).

Basic Service Level Index - >= 80,0% (Group II)



**GRI - PR6** - Programs of adhesion to laws, rules and voluntary codes concerning marketing communications, including promotion and sponsorship.

**GRI - PR7** - Total number of non-conformity cases with regulations and voluntary codes concerning marketing communications, including publicity, promotion and sponsorship, distinguished by type of result.

### • Customer service

All demands, comments and suggestions presented in the communication channels are registered and forwarded to areas in charge of the improvement of products and services.

In order to identify the profiles of selected customers and consumption sectors, a questionnaire on the channels connected to the customer expectations on the relationships and services was applied. The outcome clearly showed the customer opinion models, and allowed for the development of a segmentation methodology that respects the needs of each group.

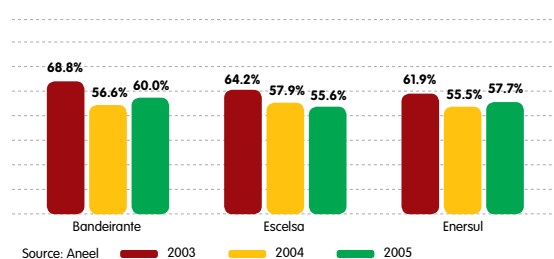
In 2006, operations were performed according to regulations, without the configuration of significant penalties.

### • Customer satisfaction

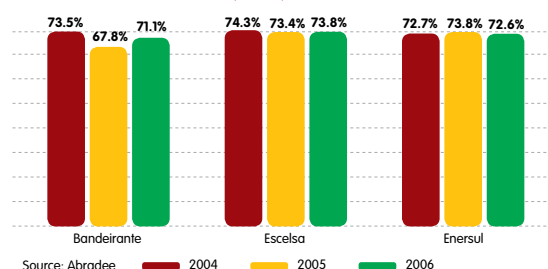
Customer satisfaction in relation to the services provided by the distributing companies is assessed by two national surveys, one of which is carried out by Aneel (Brazilian Electricity Regulatory Agency) and another by Abradee (Brazilian Association of Electric Power Distributing Companies). The data published in 2006 refer to the opinions collected by these two entities at the end of 2005 and the beginning of 2006. The results enable a reassessment of the processes, so as to harmonize the distributing company and customer interests.

The results published by Aneel show an improvement customer perception in Bandeirante and Enersul and a small reduction in case of Escelsa. Abradee's survey points out a greater satisfaction with perception of the quality of Escelsa and Bandeirante and a fall in Enersul.

Aneel's Indexes of Customers' Satisfaction - in %



Indexes of Satisfaction with Quality Perception - in %



Enersul also carries out its own survey performed by Futura Institute. In 2006, a small reduction in the general satisfaction index compared to 2005 (from 80.7% to 79.5%) was observed. However this was considered together with a greater customer approval rating (from 72.8% to 74.4%) and a greater rating in the perception of service quality (72.4% to 75.9%).

**GRI - PR5** - Practices concerning customer satisfaction, including survey results measuring this satisfaction.

### • Consumer privacy

By means of Information Technology resources, Energias do Brasil Group ensures the privacy of customer information. For every customer base (100%), technological tools are adopted for processes, procedures and data protection. No cases of customer privacy violation were recorded in 2006.

**GRI - PR8** - Total number of justified complaints related to the violation to customer privacy and loss of data.



# Social Goals

- Application of 0.16% of the Net Operating Revenue to external social investments.
- To reach 75% in the Quality Perception Satisfaction Index (ISQP) in the distributing companies' services.
- To conduct a training course on sustainability for 100% of the employees with managerial job positions of the Group.
- Development of the "Letras de Luz" Project in 51 cities of the Group's operation area, training 1,725 multiplying agents.
- To create an award for the fine arts area with Energias do Brasil's seal.
- Conclusion of the first list of social projects sponsored by Energias do Brasil, chosen by a selection committee.





# Environmental Performance



**Crescer com  
respeito.**

Viveiro de mudas para replantio  
no entorno de Peixe Angical.





# Environmental Management

Respect for the environment is an integral part of Energias do Brasil's efforts to promote sustainability. By means of a series of monitoring mechanisms, all the companies of the Group seek not only to control the risks inherent to their activities, but also to operate proactively in the preservation of the areas where the companies operate.

Compliance with all laws and regulations in force is only the starting point of a wide and integrated action, guided by Sustainable Development Principles, which also involves the promotion of environmentally responsible behavior on the part of employees, customers, partners and the community at large.

## Sustainable Development Principles

### Efficiency in resource use

- Promote the development of cleaner and more efficient energy technologies.
- Develop means of generation based on renewable energy.
- Promote the improvement of energy efficiency and rational and safe energy use.
- Promote innovation in products, services and sustainable technologies, as well as the transfer of know-how to society.

### Environment protection

- Minimize the environmental impact of all activities in development.
- Participate in initiatives which contribute to environment preservation and biodiversity promotion.
- Extend the use of environmental criteria for the entire value chain.

In 2006, the Group's environment-related expenses amounted to R\$4.04 million. The breakdown by type is presented as follows:

Environmental-related expenses in the Group's companies in 2006 (R\$)	4,044,061
• Sewage Water Management	2,980
• Waste Management	422,840
• Protection and recovery of soil, surface and underground water	280,960
• Biodiversity and landscape protection	211,796
• Other environmental protection and management activities (Environmental Programs)	3,125,485

**GRI - EN30** - Total expenses on environmental protection, by type.

## Energias do Brasil and the climate changes

As an active part of a fundamentally important sector for global sustainability - energy generation and distribution - Energias do Brasil reinforced in 2006 its

commitment to the pursuit of effective solutions which contribute to social development without damaging the environment.

The exposure of the Group's main assets, composed of electric power generation and distribution resources,



to unfavorable climate changes represents possible risks for the Group. The severity of climate change, in terms of extreme events, can result in significant losses, such as the suspension of electric power supply, impacting generation and distribution businesses. In more severe situations, electric power rationing decisions may occur, with compulsory reductions in consumption and very high losses to the company and Brazilian society.

For the Group, the climate change scenario also creates:

- business opportunities, by using those named as Clean Development Mechanisms (MDL), created under the scope of the Kyoto Protocol;
- investment opportunities in renewable energy, diversifying the generation portfolio;
- opportunities related to eco-efficiency;
- opportunities of organizational changes associated with the introduction of sustainability concepts, in which economic, social and environmental aspects are harmonized.

The pursuit of these opportunities can create an important competitive advantage, contributing to the positive perception of investors, suppliers, customers and other interested parties.

Group strategies regarding emission trading include identifying projects susceptible to the generation of carbon credits in operations and assets existing in generation and distribution companies. After this identification, it will be necessary to prepare the respective Project Design Documents (PDD), submit these documents for examination and approval by the Interministerial Committee on Global Climate Change (CIMGC), register the named Certified Emission Reductions in the UN's Executive Board (RCs) and carry out commercialization.

### **MDL Projects**

Energias do Brasil concluded in 2006 the preparation of three MDL projects and submitted them to the examination and approval of the Interministerial Committee on Global Climate Change (CIMGC), corresponding to the following assets:

- São João Small Hydroelectric Power Plant (25 MW), located in the state of Espírito Santo;
- Fourth Machine of Mascarenhas Hydroelectric Plant (50 MW), located in the state of Espírito Santo;
- Paraíso Small Hydroelectric Power Plant (21.6 MW), located in the state of Mato Grosso do Sul.

Also in 2006, an innovating project under the scope of MDL was initiated under the name Murtinho Port - Jardim Transmission Line Project, in the state of Mato Grosso do Sul (the world's first project under the scope of electricity distribution), which is currently undergoing a validation process.

At the end of 2006, the preparation of the PDD of Santa Fé (29 MW) Small Hydroelectric Power Plant was initiated in the state of Espírito Santo, which must be submitted to the CIMGC by July 2007.

The registration of all these projects in the Executive Board is estimated for the first semi-annual period of 2007, except for the Santa Fé Small Hydroelectric Power Plant, which is under a preliminary construction stage. Overall, these five projects will generate 876 thousand tonnes of CO<sub>2</sub> (carbon dioxide) during the first period of the fulfillment of Kyoto Protocol (2008-2012) and approximately 1.470 million tonnes of CO<sub>2</sub> during its usage lifespan.



**GRI - EN18** - Initiatives to reduce greenhouse gas emissions and reductions obtained.

Following world trends and aware of its responsibility as part of the global warming phenomenon, energy consumption in office buildings, productive processes, transportation and waste produced by operations, Energias do Brasil initiated, at the end of 2006, a series of voluntary actions to identify in its assets and operations opportunities to obtain Verified Emissions Reduction (VERs). These certificates can be used on a voluntary basis to mitigate greenhouse gas emission.

Moreover, the Group's representatives formed the Brazilian delegation attending the 12th Session of the Conference of Parties to the UN Framework Convention on Climate Change, held in November 2006 in Nairobi, Kenya.

## Environmental Policy

Also during 2006, Energias do Brasil approved its Environmental Policy in respect to the universal values of nature and the preservation of life provided for in its Sustainable Development Principles, clearly asserting its commitment to environmental and biodiversity protection.

This approval enabled the integrated action of all its companies as regards the environment, in order to ensure the proper use of natural resources by present and future generations.

The Health, Safety, Environment and Social Communication Integrated Management System (SIGA Project) is an example of this responsible performance. Adopted by Bandeirante Energia in 2004, the system observes the requirements of the international rules of the ISO 14000 (environment) and OHSAS 18000 (health and safety).



## Environmental Policy

1. Take into account the social and environmental component of the company's activities in investment decisions and throughout the value chain, namely in critical suppliers, in logistics and in customers.
2. Promote sustainable development in its activities, using social and environmental criteria which minimize local impacts in isolated and regional areas, respecting environmental legislation and other requirements, such as the global commitments assumed by the company.
3. Promote the use of technologies contributing to environment preservation, pollution prevention, energy efficiency and the rational use of natural resources.
4. Promote and support the initiatives of nature conservation and biodiversity appreciation, taking cultural and regional characteristics into account.
5. Promote formal process of communication, consultation and involvement of interested parties under the context of interactions with the environment.
6. Promote the continuous improvement of social and environmental performance and its employees' qualifications with respect to sustainability.

The project includes various activities, such as waste management, the preparation of contingency and leaking control plans, technical procedures for tree

pruning and urban planting, environmental licensing and environmental and social diagnoses of all facilities.

The construction of the Peixe Angical Hydroelectric Power Plant by Enerpeixe is another example of the environmental operation model of the Group's companies. In January 2006, the venture received an Operation License from the Brazilian Institute of the Environment and Renewable Natural Resources (Ibama), which enabled the initiation the reservoir filling.

Animal rescue and release initiatives in pre-selected areas derive from an agreement with the Fauna Program, amounting to the monitoring of 218 species. The Flora Program has been liable for the survey of plant species, the deforestation of flooded areas, the seedling nurseries and the replanting projects at urban peripheries and protection areas, amounting to more than 500 hectares in area. The Water Quality Program, for its part, ensured water quality monitoring, prior to, during and after reservoir filling activities. The "Programa Ictiofauna", a program concerning the management of region-specific fish, has also shown the efficiency of the measures taken by the company.

Additionally, in the engineering technical specifications, especially in the civil work chapter, procedures to remove vegetable coverage, land cleaning, soil movement, digging, quarry installation, control of erosion processes and potential aggradation in water bodies were included.

This entire process was carried out with the commitment of the companies' employees and in accordance with a proactive participation model with regulatory agencies and the neighboring communities of the venture.

### **Monitoring and follow-up**

All activities developed by the companies comprising Energias do Brasil are regularly monitored and their results are followed by corrective measures where necessary.

In 2006, Bandeirante prepared the Simplified Environmental Study for the licensing of Nordeste-Dutra transmission line, with approximately 5 kilometers of extensions, envisaging a survey on all relevant environmental information and also data on the historical and archaeological heritage in the area where the venture is to be localized.

One of the main impacts identified in substations is the possibility of eventual soil or surface water pollution. In order to eliminate this effect more effectively from the environmental point of view, catchment systems were adopted and provided with collecting basins in order to store the transformer insulating oils in situations of leaking, in addition to water-oil separation tanks. In 2006, Bandeirante concluded the environmental and social diagnosis of 100% of its facilities, which amounted to 69 units, divided in substations, warehouses and stockrooms. Also in 2006, a detailed investigation in 11 priority facilities was carried out, with the construction of wells for underground water monitoring and the collection of soil samples in suspected contamination areas.

As part of Phase I of the Environmental and Social Diagnosis, the company has also developed the Substation Noise Level Monitoring and Control Program. In 2006, measurements in 12 facilities were carried out and for 2007, measurements are estimated in another 32 facilities.

Discarded material has also received special attention and has been treated with care. At Enersul, for instance, final destination procedures are adopted for certain hazardous products used in facilities, complying with environmental legislation. The transportation and final destination of substation and telecommunication lead-acid batteries are performed by the authorized company. The final destination occurs by means of a licensed recycling company.





In the monitoring and follow-up process after Peixe Angical Hydroelectric Power Plant's reservoir filling, Enerpeixe proceeded with physical means of monitoring, which included climate, water level and sedimentologic factors. The company also paid special attention to hydrogeological monitoring, carrying out measurements near urban areas and monitoring variations of the water table derived from reservoir filling.

### Investments

In 2006, Energias do Brasil invested R\$43.9 million in the environment, including projects directly concerning energy generation, distribution and trading. This amount is lower than the R\$138.1 million recorded in 2005 due to the conclusion of Peixe Angical Hydroelectric Power Plant's works.

The highest volume of investment was directed toward the conclusion of activities of the construction of the Peixe Angical Hydroelectric Power Plant in the Tocantins River (R\$29.7 million in 2006 against R\$28.8 in 2005), of which we point out environmental programs

concerning land purchasing (R\$4.4 million), physical, biotic and socioeconomic means (R\$18.0 million), urban and rural relocation (R\$6.0 million) and social and road infrastructure recovery (R\$1.3 million).

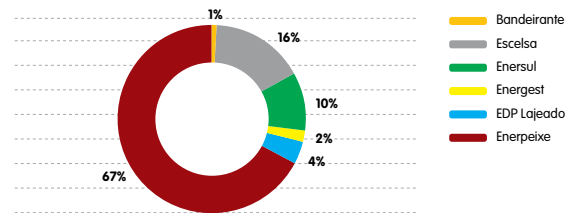
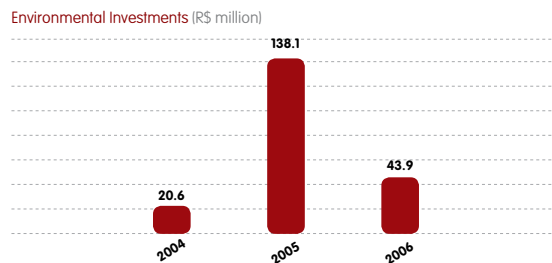
Environmental Investments (R\$ million)	2006
Bandeirante	0.54
Escelsa	6.91
Enersul	4.23
Energest	0.72
EDP Lajeado	1.79
Enerpeixe	29.74
<b>Total</b>	<b>43.93</b>

**GRI - EN30** - Total investment in environmental protection, by type.

### Training and awareness

It is not possible to change relationships between human beings and the environment without awareness.

Following to this assumption, Energias do Brasil has been in development with several partners: governments, other companies and civil companies, initiatives aimed at informing and making people aware of environmental issues.



Environmental Investments in 2006 (R\$)	43,936,849
• Climate and air protection	191,940
• Waste management	43,943
• Protection and recovery of soil, surface and underground water	2,174,572
• Noise and radiation reduction	1,362,682
• Biodiversity and landscaping protection	7,075,181
• Other environment management and protection activities (Environmental Programs)	33,088,532

Escelsa's participation in the 2nd World Water Forum, which gathered nearly 50,000 people on March 29-31 in Colatina (ES), aimed at emphasizing the need for the preservation of the Doce River. The company also participated in the "Feira da Terra" (Agriculture Fair) in Vila Velha (ES), with an audience of around 8,000 people. In the "Feira do Verde" (Green Fair), held in October in Vitória (ES), with the attendance of 250,000 people, Escelsa set up its booth with panels containing environmental motif illustrations. Another attraction was the story teller, who has attracted the attention of children, and has simply and effectively provided education about Escelsa's integration actions with the environment.

Bandeirante Energia held in 2006 its 1st Environment and Social Responsibility Week, which aimed at encouraging discussion on social and environmental issues that guide its relationship with society and the environment.

Another direct way of encouraging community participation in environmental issues involving Energias do Brasil is the communication. Environmental awareness is promoted by the dissemination of all ecosystem preservation procedures, protecting and minimizing the use of the renewable and non-renewable resources by means of training and lectures, both to the in-house public and in external events.

An example of this practice was the in-house presentation of environmental projects by two groups composed of Young Apprentices, which gathered 86 participants of the program and respective supervisors. To celebrate World Water Day, 3,000 squeeze bottles were distributed to the employees, with a printed message on the need of awareness for responsible water use. Alerts about the subject were also displayed in the companies' internal network.

Concerning the external environment, awareness is also the goal of environmental education projects. One of these initiatives is the "Guia de Arborização Urbana"

(Urban Afforestation Guide), prepared by Enersul, which contains instructions on tree pruning and other planting interventions, an accessible and instructively written work. Launched in 2005, the publication started to be distributed, in 2006 to public and private schools in the state of Mato Grosso do Sul.

Enersul also promotes the donation of seedlings and the execution of tree pruning in the cities. By means of an agreement with the Association of Cities of Mato Grosso do Sul (Assomasul) and local governments, the company seeks to systematize and provide sustainability to the process. Enersul is liable for donating and planting 70% of the seedlings and the local government is in charge of 30% of the total established according to the size of the city.

In addition, public hearings held during the construction processes of the hydroelectric ventures, transmission lines and substations have demonstrated Energias do Brasil's position as an active partner in the pursuit of better solutions. The Group offers specific relationship and contact channels, such as e-mail and telephones in its companies to enhance dialogue with society at large.

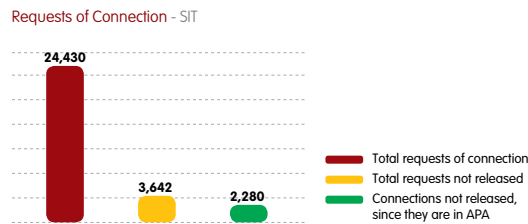
### **Licensing and Certificates**

In all its operations, the Group strictly complies with the environmental legislation in force and establishes integrated processes to obtain licenses.

At Bandeirante, all lines and substations built after 2004 were duly licensed. In previous ventures, the licensing is under the process of regularization in the respective environmental agencies. For these units, a Conduct Adjustment Instrument (TAC) will set forth the preventive or corrective measures necessary for the licensing.

In May, 2006, a pioneering monitoring model was also introduced by Bandeirante. In 2006, all environmental protection units of the company were included in the Technical Information System (SIT).

Developed in partnership with the Environmental Secretariat of the state of São Paulo, SIT is a digital cartographic base that allows the immediate identification of protected areas when a request of connections or the preparation of a network extension arises. System performance since its adoption can be verified in the chart below:



In 2003 Enersul began an environmental licensing program aimed at making all facilities comply with the relevant legislation and developing its activities with greater respect with regards to the environment. In the year 2006, 38 Operation Licenses were issued, amounting to 121 (82% of the company's facilities).

In Espírito Santo, Escelsa participates in the technical agreement with the Forest and Farming Defense Institute (Idaf), by means of which the company obtained environmental licensing to carry out maintenance and conservation services of the transmission lines and distribution networks throughout the state.

The licensing process of the Peixe Angical Hydroelectric Power Plant occurred within the established deadlines and according to all the obligations and conditions subject to environmental impacts.

At the end of the year of 2006, the Group began introducing a process of an Integrated Management System in all generation and distribution assets, aiming at obtaining ISO 14000 and OHSAS 18000 certificates within a two-year period.

Also at the end of 2006, Energias do Brasil was accepted as a new member of the Brazilian Corporate Council for Sustainable Development (CEBDS).

## Responsible use of natural resources

The responsible use of natural resources is a priority in the development of the companies' activities, which rely on the monitoring and assessment systems in their processes and maintain a commitment of permanently seeking eco-efficiency and environmental awareness.

### • Energia

With various Initiatives, from equipment modernization to an intense effort in employee awareness aimed at reducing employee consumption, the companies of Energias do Brasil recorded a total consumption of 21.4 GWh in 2006.

This total includes the consumption of administrative buildings and those related to generation and distribution activities.

### Own Energy Consumption (GWh)

2004	2005	2006
19	22	21

**GRI - EN4** - Indirect energy consumption distinguished by primary energy sources.

The primary energy sources used in direct energy consumption correspond to the Brazilian Energy Matrix, since the companies of the Group are supplied by the National Electric System, except for the consumption of the generation power plant's activities which are originally hydraulic.

### Brazilian Energy Matrix - Primary sources

Hydraulic origin	76.3%
Thermal origin	14.8%
Other sources	8.9%
<b>Total</b>	<b>100%</b>

Source: Energy Balance 2006, EPE and Ministry of Mining and Energy.



- **Water**

Water constitutes the main resource in the utilization of potential energy existing in the reservoirs off the hydroelectric power plants, not counting water consumption in this activity. Thus, the Group pays special attention to the management of this resource, which is one of the natural resources with the highest risks of scarcity. The Group develops programs for water quality monitoring in reservoirs, springs and the water table, carrying out awareness campaigns and investing in technologies optimizing resource use.

At Bandeirante, for instance, the technical Information System (SIT) allows the visualization of springs existing in the company's concession area. Thus, whenever there is any network extension request, it is possible to verify if the future line will affect any environmental protection areas. With this innovative tool, requests are immediately analyzed and action plans are defined according to the environmental reality of the area for which the request was made.

Escelsa participates in the Rio Guandu Consortium, a partnership consisting of companies, city governments of Brejetuba, Laranja da Terra, Afonso Cláudio and Baixo Guandu, state governments and civil companies, aimed at recovering, renewing and preserving the Guandu River Basin. The company supports the consortium by contributing to the strategic planning of hydraulic resource management, encompassing various user segments and institutions which operate in the basin, in the states of Espírito Santo and Minas Gerais. The company also takes part in the State Council of Hydrous Resources, the Santa Leopoldina Environment City Council, and the Technical Chambers and Work Teams which seek environment preservation.

Water consumption in the companies of Energias do Brasil Group was at 35,969 cubic meters in 2006, to assist the needs of administrative buildings, warehouses, workshops and gardens, among others, mainly in sanitary facilities, facility cleaning, watering and environment refrigeration.



Energias do Brasil sponsored Al Gore's visit to São Paulo in October.

## Biodiversity

Due to its own operation profile, Energias do Brasil carries out activities affecting natural and rural environments, either by power plant and reservoir construction, or by the units and activities developed in preservation areas. In 2006, the companies of the Group had 18 substations and 4,141 kilometers of transmission lines (a total of 132,104.3) in protected areas. Out of the total of 88.1 kilometers of underground lines, 9.8 kilometers were under protected areas.

To ensure the consistency of environmental care, the Group relies on several handling, recovery and environmental education programs. Seedling planting is one of these forefronts. Including only the construction of the North/Northeast Transmission Line in Tietê Ecological Park, Bandeirante planted 25,000 native seedlings, donated equipment to the Wild Animals Rehabilitation Center and constructed protection fences for animals inhabiting the park.

In addition, the Group has implemented operational procedures to guarantee the least possible interference with local flora and fauna, such as, for instance, the criteria definitions of tree pruning, the application of higher metal structures to preserve the vegetation and/or the replacement of conventional nets with protected and insulating nets, ensuring, thus, the safety of wildlife.

Escelsa, for its part, proceeded with the restoration of several nests and installed bird houses in the electric power distribution substation areas, as part of its Avifauna program.

## Emissions, effluents and waste

Eco-efficiency is another concern of Energias do Brasil. In this regard, the Group develops management plans which establish the correct way of dealing with waste generated before discarding. Therefore, in addition to contributing to environmental protection, Energias

do Brasil reduces operational costs in the stocking, treatment, transportation and final disposal of waste.

The generation park of the Group's companies is entirely hydroelectric, not constituting the primary sources of greenhouse gas (GEE) emissions, and, thus, there are no significant direct NOx and Sox atmospheric emissions.

**GRI - EN20** - NOx, SOx and other significant atmospheric emissions, by type and weight.

Indirect emissions derive from electricity consumption in administrative buildings, power plants and distribution activities, in addition to the car fleet.

The equivalent CO<sub>2</sub> emission quantities (tonnes/year) of the main greenhouse gases produced by the operations are presented below, using the conversion factors defined by the Intergovernmental Panel on Climate Change (IPCC).

Year 2006	Emissions († equivalent CO <sub>2</sub> )
Electric power consumption in administrative buildings in the generation and distribution supporting activities	5,607
Car Fleet	4,215
<b>Total</b>	<b>9,822</b>

**GRI - EN17** - Other relevant indirect emissions of greenhouse gases, by weight.

Greenhouse gas (GEE) emissions caused by the company's operations in 2006 represented reduced quantities and did not result from its main activities.

Emissions are also verified in order to comply with the relevant legislation and, when necessary, to prepare corrective action plans. At Bandeirante Energia, for instance, works include atmospheric discharge assessments in order to obtain accurate data on

lightning incidences, the meteorological monitoring system to optimize energy distribution operations of the electricity system, the use of bimetallic cables in primary and secondary outskirt networks, as well as environmental solutions for controlling transformer oil leakages, among others.

SF<sub>6</sub> (sulfur hexafluoride) gases - used in high voltage circuit switches and circuit breakers, due to their insulation, stability and good thermal conductivity capacity - can contribute to the greenhouse effect and, for this reason, the gases are controlled and monitored by Energia do Brasil's companies. In order to prevent these emissions into the atmosphere, the companies rely on equipment to collect, treat and reuse the product.

The pursuit of better uses of alternative materials is the focus of another of Bandeirante's projects, which aims at the better performance and more useful life of these materials. One of the initiatives is the replacement of timber in crosshead manufacturing, with a possibility of reducing consumption, in addition to using recycled material. A project to replace the insulating mineral oil transformer with the vegetable oil transformer is also in a process of experimentation and feasibility analysis.

Care is also permanent in regards to soil. Bandeirante, for instance, is in a process for the development of drills which will enable the identification of contaminated areas, especially in the case of eventual insulating mineral oil leakages.

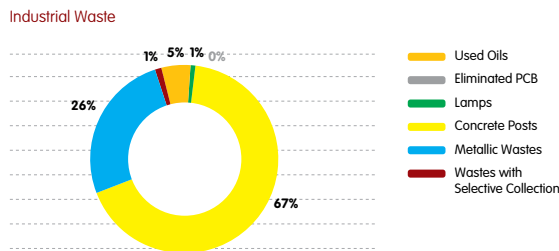
In order to ensure solid waste management efficiency, the companies of Energias do Brasil take into account all the phases of the process: handling, separation, packing, storage, transportation and the final destination, according to the strictest quality criteria. We pointing out the 2,100 square meter center launched by Bandeirante in 2006.

In May, 2006, an incident occurred with Escelsa's voltage regulator, with the capacity of 400 liters of insulating mineral oil, located in a public road of the city of Viana (ES), having caused a leakage in the soil within a 15 square meter area around the equipment. Immediate measures were taken to minimize the resulting impacts, which included the removal of the contaminated soil (about 3.6 tonnes) and the transportation of this waste to the industrial waste management center by an authorized company.

**GRI - EN23** - Total number and volume of significant leakages.



Main Waste Categories	2006	Final Destination in Brazil
<b>Hazardous Industrial Waste (tonnes)</b>	<b>210</b>	
Used oils	189	Rehabilitation
Eliminated PCB	0.1	Incineration at special facility
Lamps	21	Recycling at special facility
<b>Non-Hazardous Industrial Wastes (tonnes)</b>	<b>3,677</b>	
Concrete posts	2,647	Valuation in the metallurgy industry and reuse in civil construction of the respective fractions
Metallic wastes	1,030	Reuse or Recycling
<b>Industrial waste with Selective Collection (tonnes)</b>	<b>24</b>	



**GRI - EN22** - Total waste weight, by type and disposal method.

### Compliances

The companies of the Group ended 2006 with 74 environmental proceedings in progress, of which 36 proceedings started in the same year.

In 2006, 34 operation licenses were obtained, in addition to 38 environmental administrative and judicial claims. Among these claims, 33 referred to vegetation cutting, and 32 had a final decision favorable to the company. The Company also received official notification due to intervention at a protected site, for which it is awaiting the decision of the authorized environmental agency.

At Enersul, two administrative proceedings and one lawsuit have occurred, all them referring to vegetation suppression, still awaiting final decisions. Another environmental claim refers to a lawsuit filed against Enerpeixe, also in its preliminary phase, in which it was alleged failure to comply with the basic environmental project of a hydroelectric power plant.

The monetary value assigned by the environmental agencies with fines and other penalties due to failure to comply with the environmental regulations amounted to R\$ 38,860.00.

**GRI - EN28** - Monetary value of significant fines and total number of non-monetary sanctions resulting from non-compliance with environmental laws and regulations.

### Transportation

The group's car fleet is also a point of attention in the pursuit of a sustainable environmental management. Out of the total of 1,043 vehicles, 258 use gasoline as fuel, 243 vehicles use hybrid gasoline, 525 use diesel, 15 are LPG-powered and two vehicles are alcohol-powered.

In 2006, this fleet traveled 20.1 million kilometers and consumed 2.407 million liters of gasoline, 413.6 thousand liters of hybrid gasoline, 38.8 thousand liters of alcohol, 1.7 million liters of diesel and 59 thousand cubic meters of natural gas.

**GRI - EN29** - Significant environment impacts of the transportation of products and other goods and materials used in the organization's operations, as well as in the transportation of employees.

# Environmental Goals



- Training on sustainability of 100% of managerial job positions of the Groups' companies in 2007.
- Fixedness in Bovespa's Corporate Sustainability Index (ISE) in the 2007 edition.
- Implementation of the Integrated Management System (SGI) at Bandeirante, according to ISO 14000 and OHSAS 18000 SGI standards.



Rescued animal in Peixe Angical's environmental project.



# Additional Information



**Por meio do  
desenvolvimento  
sustentado,  
vamos abastecer  
nossos desafios  
de energia.**

Usina Peixe Angical (452 MW), em Tocantins.





# Awards and Recognitions

Company	Award	Category	Grantor
Energias do Brasil	Entry in the Corporate Sustainability Index (ISE)	-	Bovespa
Energias do Brasil	2006 Best Company in Corporate Governance	Listed Company	Brazilian Institute of Corporate Governance - IBGC
Energias do Brasil	Seal of Regular Attendance	1 Year	Apimec-RJ
Energias do Brasil	Seal of Regular Attendance	1 Year	Apimec-DF
Energias do Brasil	Seal of Regular Attendance	2 Years	Apimec-SP
Energias do Brasil	Best Listed Company in 2005	Listed Company Award	ABAMEC



# Corporate Information

## Board of Directors

António Luís Guerra Nunes Mexia

### Chairman

António Fernando Melo Martins da Costa

### Vice-Chairman

Ana Maria Machado Fernandes

Antonio José Sellare

Francisco Roberto André Gros

Levy Pinto de Castro

Modesto Souza Barros Carvalhosa

Nuno Maria Pestana de Almeida Alves

Pedro Sampaio Malan

## Board of Executive Officers

António Fernando Melo Martins da Costa

### Chief Executive Officer

António Eduardo da Silva Oliva

### Vice Chief Executive Officer of Distribution and Technical Services

Antonio José Sellare

### Vice Chief Financial Officer and Investor Relations Officer

Carlos Alberto Silva de Almeida e Loureiro

### Vice Chief Executive Officer of Trading

Custódio Alexandre Rouxinol Miguens

### Vice Chief Executive Officer of Generation and Environment

João José Gomes de Aguiar

### Vice Chief Executive Officer of Distribution and Commercial Services

## Investor Relations

Vasco Barcellos

### Officer

Phone: (55 11) 2185-5907

## Trading Code at Bovespa: ENBR3

## Shareholder assistance

Banco Itaú

Departamento de Atendimento Unificado (Unified Assistance Department)

Tel: (55 11) 5029-7780

Av. Eng. Armando de Arruda Pereira, 707 - 10º andar

Torre Eudoro Villela

São Paulo, SP, Zip Code 04344-902

## Independent registered public accountants

KPMG

## Publishing Newspapers

Official Gazette of the state of São Paulo

Valor Econômico newspaper



# GRI Summary of Content

	Page	Essential Indicators	Page
<b>• Strategy and analysis</b>			
1.1 - Statement of the holder of the job position with highest decision power in the organization on the relevance of sustainability to the organization and its strategies.	14	EC1	51
1.2 - Description of main impacts, risks and opportunities.	ND	EC3	66
		EC4	74
<b>Organizational profile</b>	8	EN4	90
2.1 - Name of the organization.	9	EN17	92
2.2 - Main brands, products and/or services.	9	EN20	92
2.3 - Operational structure.	9	EN22	94
2.4 - Headquarters location.	9	EN23	93
2.5 - Number of countries where the organization operates.	8	EN28	94
2.6 - Type and legal nature of the property.	8-21	LA4	67
2.7 - Markets served.	8	LA14	68
2.8 - Size of the organization.	8	HR4	69
2.9 - Main changes during the period covered by the report referring to size, structure or shareholding.	NA	HR6	69
2.10 - Awards received in the period covered by the report.	11-98	HR7	69
		SO1	74
<b>• Report parameters</b>	10	SO3	75
3.1 - Period covered by the report.	10	SO4	75
3.2 - Date of the most recent previous report.	10	SO5	75
3.3 - Report issue cycle.	10	PR1	76
3.4 - Contact Data in case of questions related to report or its content.	99-166	PR3	77
3.5 - Process to define report content.	ND	PR6	78
3.6 - Report restriction.	10		
3.7 - Statement on any report restriction.	10	Additional indicators	
3.8 - Basis for report preparation concerning joint ventures, subsidiaries, leased facilities, outsourced operations and others.	9-10	EN6	39
3.9 - Data measurement techniques and calculation basis.	ND	EN18	86
3.10 - Explanation of the consequences of any information reformulations provided in previous reports and reasons for these reformulations.	ND	EN29	94
3.11 - Significant changes compared to previous years with regards to the scope, restriction or measurement methods applied to the report.	NA	EN30	84-88
3.12 - Table identifying the information location in the report.	100-101	LA11	65
3.13 - Policy and current practice related to report check search.	10	HR9	69
		SO6	75
<b>Governance, commitments and undertaking</b>		SO7	75
4.1 - Organization's governance structure.	18-19	PR2	77
4.2 - Appointment should the chairman of the top governance body also be a chief executive officer.	NA	PR4	77
4.3 - Number of independent members or non-executives of the top governance body.	18	PR5	79

	Page	Essential indicators	Page
<b>• Strategy and analysis</b>			
<b>4.4</b> - Mechanisms allowing shareholders and employees to make recommendations or give advise to the top governance body.	19-20-66	PR7	78
<b>4.5</b> - Ratio between compensation for the members of the top management and other executives and the organization's performance.	ND	PR8	79
<b>4.6</b> - Process in effect in the top governance body so that conflicts of interests can be avoided.	18		
<b>4.7</b> - Process to determine qualifications and the top governance body.	ND		
<b>4.8</b> - Statements of missions and values, codes of conduct and internal principles relevant to economic, environmental and social performance.	18-20-74		
<b>4.9</b> - Top governance body procedures to supervise the organization's identification and management of economic, environmental and social performance.	19		
<b>4.10</b> - Processes for top governance body performance self-assessment.	ND		
<b>4.11</b> - Explanation of whether and how the organization applies the precaution principle.	54-55		
<b>4.12</b> - Letters, principles or other initiatives externally developed of an economic, environmental and social nature that the organization subscribes or endorses.	26		
<b>4.13</b> - Participation in associations and/or national/international defense agencies.	75		
<b>4.14</b> - List of stakeholder groups engaged by the organization.	27		
<b>4.15</b> - Basis for identifying and selecting stakeholders.	27		
<b>4.16</b> - Approaches for stakeholder engagement.	27		
<b>4.17</b> - Main subjects and issues raised by means of stakeholder engagement and measures the organization has adopted to treat them.	27-62-71		

NA - Not applicable.  
 ND - Not available.

Energias do Brasil states that its 2006 Annual Report complies with the criteria of Global Reporting Initiative (GRI), in its consolidation model and information presentation provided for in G3. The Group also declares that it has reached the B level of the rating, exceeding the minimum presentation of 20 sustainability indicators, thus, more than one of such indicator in each one of the six envisaged categories. This report presents a total of 34 Indicators, in which 21 are essential and 13 are additional. Such indicators are:

- Economic (EC) - 3 essential indicators.
- Environment (EN) - 6 essential indicators and 4 additional ones.
- Labor Practices and Decent Labor (LA) - 2 essential indicators and 1 additional indicator.
- Human Rights (HR) - 3 essential indicators and 1 additional indicator.
- Society (SO) - 4 essential indicators e 2 additional ones.
- Product Liability (PR) - 3 essential indicators and 5 additional ones.





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# Audited Financial Statements

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## Balance Sheets

### December 31, 2006 and 2005

ASSETS	Note	Parent Company		Consolidated	
		2006	2005	2006	2005
<b>Current</b>					
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>
<b>Non Current</b>					
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>
<b>Total</b>		<u><b>4,031,715</b></u>	<u><b>3,776,661</b></u>	<u><b>9,577,615</b></u>	<u><b>8,955,420</b></u>

See the accompanying notes to the financial statements.

(amounts in thousands of reais)

LIABILITIES	Note	Parent Company		Consolidated	
		2006	2005	2006	2005
<b>Current</b>					
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>
<b>Non current</b>					
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>
<b>Minority interest</b>					
				662,317	609,089
<b>Shareholders' equity</b>					
	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>
<b>Total</b>		<b><u>4,031,715</u></b>	<b><u>3,776,661</u></b>	<b><u>9,577,615</u></b>	<b><u>8,955,420</u></b>

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
<b>Operating Revenue</b>					
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
				<u>6,221,997</u>	<u>5,862,754</u>
<b>Deduction from operating revenue</b>					
Global reversal reserve quota				(40,288)	(42,101)
Emergency capacity charge				(2,378)	(104,299)
Taxes and contributions on revenue				<u>(1,617,933)</u>	<u>(1,393,128)</u>
				<u>(1,660,599)</u>	<u>(1,539,528)</u>
<b>Net operating revenue</b>	27	-	-	<b><u>4,561,398</u></b>	<b><u>4,323,226</u></b>
<b>Electricity service cost</b>					
<b>Electricity cost</b>					
Electricity purchased for resale	28			(1,453,716)	(1,610,725)
Electricity network use charges	28			<u>(557,829)</u>	<u>(604,949)</u>
				<u>(2,011,545)</u>	<u>(2,215,674)</u>
<b>Operating cost</b>					
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				<u>(64,825)</u>	<u>(52,378)</u>
	28	-	-	<u>(1,184,456)</u>	<u>(998,831)</u>
				<u>(3,196,001)</u>	<u>(3,214,505)</u>
<b>Service cost rendered to third parties</b>	28			<u>(4,205)</u>	<u>(6,040)</u>
<b>Gross operating profit</b>		-	-	<b><u>1,361,192</u></b>	<b><u>1,102,681</u></b>
<b>Operating expenses</b>					
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		<u>(7,597)</u>	<u>(11,129)</u>	<u>(107,512)</u>	<u>(49,308)</u>
	28	<u>(45,401)</u>	<u>(53,140)</u>	<u>(575,041)</u>	<u>(429,899)</u>
<b>Service income</b>		<b><u>(45,401)</u></b>	<b><u>(53,140)</u></b>	<b><u>786,151</u></b>	<b><u>672,782</u></b>

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

	Note	Parent Company		Consolidated	
		2006	2005	2006	2005
<b>Income from equity interest</b>		<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>
<b>Financial result</b>	29	<u>(15,358)</u>	<u>57,548</u>	<u>(377,820)</u>	<u>(279,162)</u>
<b>Operating profit</b>		<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>
<b>Non-operating result</b>		<u>(7,962)</u>	<u>13,038</u>	<u>(10,537)</u>	<u>62,565</u>
<b>Income before income tax and social contribution</b>		<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
<b>Net income before reversal of interest on own capital</b>		<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
<b>Net income for the year before minority interest and founders' shares</b>		<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)
<b>Net income for the year</b>		<u>394,120</u>	<u>439,406</u>	<u>394,120</u>	<u>439,406</u>
<b>Net income per thousand shares - R\$</b>		<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
<b>Source of funds:</b>				
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>
<b>Total sources</b>	<b><u>(53,785)</u></b>	<b><u>2,504,216</u></b>	<b><u>2,727,487</u></b>	<b><u>3,718,925</u></b>

(Amounts in thousands of reais)

	Parent Company		Consolidated	
	2006	2005	2006	2005
<b>Application of funds</b>				
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
<b>Total application of funds</b>	<b>387,792</b>	<b>2,068,702</b>	<b>2,326,832</b>	<b>3,829,225</b>
<b>Increase (reduction) in net working capital</b>	<b>(441,577)</b>	<b>435,514</b>	<b>400,655</b>	<b>(110,300)</b>
<b>Change in working capital</b>				
<b>Current assets</b>				
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
<b>Current liabilities</b>				
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
<b>Increase (reduction) in net working capital</b>	<b>(441,577)</b>	<b>435,514</b>	<b>400,655</b>	<b>(110,300)</b>

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
<b>Balance as of January 1, 2005</b>		<b>1,323,841</b>	-	<b>44,925</b>	-	<b>1,368,766</b>
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)	-
<b>Balance as of December 31, 2005</b>		<b>3,182,716</b>	<b>35,348</b>	<b>291,686</b>	-	<b>3,509,750</b>
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)	-
<b>Balance as of December 31, 2006</b>	<b>25</b>	<b>3,182,716</b>	<b>35,348</b>	<b>487,528</b>	-	<b>3,705,592</b>

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
<b>Generation of value added</b>	<b>(7,962)</b>	<b>13,038</b>	<b>6,125,516</b>	<b>5,993,313</b>
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
<b>(-) Inputs acquired from third parties</b>	<b>(18,206)</b>	<b>(25,064)</b>	<b>(2,480,346)</b>	<b>(2,591,561)</b>
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)
<b>Gross value added</b>	<b>(26,168)</b>	<b>(12,026)</b>	<b>3,645,170</b>	<b>3,401,752</b>
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)
<b>Total value added to distribute</b>	<b>432,732</b>	<b>489,248</b>	<b>3,645,591</b>	<b>3,424,989</b>
<b>Distribution of value added</b>				
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
<b>Income for the year after dividends</b>	<b>224,206</b>	<b>288,165</b>	<b>224,206</b>	<b>288,165</b>
	<b>432,732</b>	<b>489,248</b>	<b>3,645,591</b>	<b>3,424,989</b>

See the accompanying notes to the financial statements.





## Statements of Cash Flows years ended December 31

	Parent Company		Consolidated	
	2006	2005	2006	2005
<b>Operating activities</b>				
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>
<b>Assets (increase) reduction</b>				
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
<b>Liabilities (increase) reduction</b>				
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>
<b>Cash generated from (invested in) operating activities</b>	<b><u>(7,198)</u></b>	<b><u>266,891</u></b>	<b><u>1,076,039</u></b>	<b><u>944,222</u></b>
<b>Investing activities</b>				
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>
<b>Cash invested in investing activities</b>	<b><u>(40,208)</u></b>	<b><u>(925,134)</u></b>	<b><u>(742,084)</u></b>	<b><u>(1,269,223)</u></b>
<b>Financing activities</b>				
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>
<b>Cash generated by (invested in) financing activities</b>	<b><u>(25,317)</u></b>	<b><u>855,064</u></b>	<b><u>(315,357)</u></b>	<b><u>522,185</u></b>
<b>Increase in cash and cash equivalents</b>	<b><u>(72,723)</u></b>	<b><u>196,821</u></b>	<b><u>18,598</u></b>	<b><u>197,184</u></b>
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>
	<b><u>(72,723)</u></b>	<b><u>196,821</u></b>	<b><u>18,598</u></b>	<b><u>197,184</u></b>

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.

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

**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	<b>554,921</b>	<b>462,218</b>	<b>223,615</b>	<b>436,380</b>
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	<b>(96,506)</b>	<b>(146,887)</b>	<b>(9,140)</b>	<b>(15,703)</b>
Total regulatory assets (-) liabilities	<b>458,415</b>	<b>315,331</b>	<b>214,475</b>	<b>420,677</b>

### 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
			-	<b>106,644</b>

(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
<b>Current</b>							
<b>Consumers</b>							
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
<b>Regulatory assets</b>							
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>
<b>Concessionaires</b>							
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>
<b>Total current</b>	<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>
<b>Non current</b>							
<b>Consumers</b>							
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
<b>Regulatory assets</b>							
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>
<b>Concessionaires</b>							
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>
<b>Total non current</b>	<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 Number	Amount ratified	Accumulated compensation	Amount amortized	Balance to amortize	
					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 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	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
<b>Total</b>	<b>404,747</b>	<b>259,472</b>	<b>243,262</b>	<b>385,652</b>

#### 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	
<b>Bandeirante</b>								
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	
<b>Escelsa</b>								
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	
<b>Enersul</b>								
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	
<b>Total</b>	<b>252,525</b>	<b>188,788</b>	<b>48,623</b>	<b>49,099</b>	<b>107,954</b>	<b>123,557</b>	<b>34,729</b>	<b>45,868</b>

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
<b>Recoverable - Assets</b>						
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		
<b>Total</b>	<b>59,620</b>	<b>31,588</b>	<b>312,083</b>	<b>151,828</b>	<b>52,742</b>	<b>43,862</b>
<b>Payable - Liabilities</b>						
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		
<b>Total</b>	<b>24,724</b>	<b>16,771</b>	<b>395,237</b>	<b>248,924</b>	<b>7,462</b>	<b>11,673</b>



## 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
<b>Total</b>	<b>208,150</b>	<b>97,705</b>	<b>732,005</b>	<b>836,255</b>

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
	<b>102,144</b>	<b>98,745</b>
Current	86,400	64,369
Non current	15,744	34,376
<b>Total</b>	<b>102,144</b>	<b>98,745</b>

**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
<b>Other credits</b>										
Bandeirante		290				4,110				
<b>Related parties</b>										
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		
	<b>217,423</b>	<b>65,763</b>	<b>1</b>	<b>7</b>	<b>31,356</b>	<b>14,313</b>	<b>24,325</b>	<b>31,761</b>	<b>13,533</b>	<b>13,937</b>
<b>Total</b>	<b>217,423</b>	<b>66,053</b>	<b>1</b>	<b>7</b>	<b>31,356</b>	<b>18,423</b>	<b>24,325</b>	<b>31,761</b>	<b>13,533</b>	<b>13,937</b>

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
<b>Total</b>	<b>2,080</b>	<b>127</b>	<b>2,546</b>	<b>2,546</b>	<b>16,379</b>	<b>10,785</b>	<b>239,562</b>	<b>181,274</b>

### 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		
Enercouth					1,656	1,612
<b>Total</b>	<b>35,040</b>	<b>29,340</b>	<b>3,232</b>	<b>1,427</b>	<b>1,656</b>	<b>1,612</b>

(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	
<b>Other credits - Assets</b>	<b>12/31/2006</b>	<b>12/31/2005</b>	<b>12/31/2006</b>	<b>12/31/2005</b>	<b>12/31/2006</b>	<b>12/31/2005</b>	<b>12/31/2006</b>	<b>12/31/2005</b>
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
<b>Total</b>	<b>774</b>	<b>496</b>			<b>88,852</b>	<b>69,439</b>	<b>9,614</b>	<b>12,126</b>

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
<b>Total</b>	<b>7,194</b>	<b>10,270</b>	<b>3</b>		<b>79,827</b>	<b>79,205</b>	<b>21,197</b>	<b>16,592</b>

## 16 - Investments

### 16.1 - Movement of investments in 2006

	Parent Company							
	Bandeirante	Escelsa	Energul	TVIX	Escelsapar	EDP Lajeado	Enerpeixe	Energest
<b>Balances as of December 31, 2005</b>	<b>686,067</b>	<b>608,505</b>	<b>593,340</b>	<b>(376)</b>	<b>376</b>	<b>150,358</b>	<b>492,324</b>	<b>82,120</b>
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
<b>Balances as of December 31, 2006</b>	<b>765,029</b>	<b>773,236</b>	<b>716,780</b>			<b>152,164</b>	<b>556,068</b>	<b>129,778</b>

To be continued

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

Continued

	Parent Company						Total	
	Enertrade	Investments	Other Goodwill Escelsa	Negative Goodwill Escelsa	Provision for dividends maintenance Magistra	Goodwill Bandeirante		Goodwill Enerpeixe
<b>Balance as of December 31, 2005</b>	<b>29,764</b>		<b>36</b>	<b>(2,388)</b>	<b>219,546</b>	<b>33,162</b>	<b>3,580</b>	<b>2,896,414</b>
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
<b>Balance as of December 31, 2006</b>	<b>30,220</b>		<b>149</b>	<b>(2,388)</b>	<b>207,356</b>	<b>31,704</b>	<b>3,464</b>	<b>3,363,560</b>

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

## 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		
<b>Total</b>	<b>3,363,560</b>	<b>2,896,414</b>		

\* 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
<b>Total</b>	<b>97,943</b>	<b>73,570</b>		

\* 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
<b>Fixed assets in service - tangible</b>					
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
		<b>2,816</b>	<b>(1,127)</b>	<b>1,689</b>	<b>1,589</b>
<b>Fixed assets in service - intangible</b>					
Management					
Software	20.00	1,751	(1,164)	587	936
		<b>1,751</b>	<b>(1,164)</b>	<b>587</b>	<b>936</b>
<b>Total fixed assets in service</b>		<b>4,567</b>	<b>(2,291)</b>	<b>2,276</b>	<b>2,525</b>
<b>Construction in progress</b>					
Management					
Tangible		5		5	2
Intangible		97		97	45
<b>Total construction in progress</b>		<b>102</b>		<b>102</b>	<b>47</b>
<b>Net total</b>		<b>4,669</b>	<b>(2,291)</b>	<b>2,378</b>	<b>2,572</b>
Tangible fixed assets		2,821	(1,127)	1,694	1,591
Intangible fixed assets		1,848	(1,164)	684	981
		<b>4,669</b>	<b>(2,291)</b>	<b>2,378</b>	<b>2,572</b>

(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
<b>Fixed assets in service - tangible</b>				
<b>Distribution</b>				
Land		47,990		47,990
Buildings, civil works and improvements	3.87	128,323	(64,683)	63,640
Machinery and equipment	4.29	4,115,203	(1,884,562)	2,230,641
Vehicles	6.31	14,639	(12,471)	2,168
Furniture and fixtures	8.19	5,069	(3,619)	1,450
		<b>4,311,224</b>	<b>(1,965,335)</b>	<b>2,345,889</b>
<b>Generation</b>				
Land		39,733		39,733
Reservoirs, dams and mains	2.01	1,001,538	(59,715)	941,823
Buildings, civil works and improvements	0.82	403,978	(51,016)	352,962
Machinery and equipment	0.63	955,218	(73,912)	881,306
Vehicles	9.97	1,120	(568)	552
Furniture and fixtures	5.64	150	(138)	12
		<b>2,401,737</b>	<b>(185,349)</b>	<b>2,216,388</b>
<b>Transmission</b>				
Buildings, civil works and improvements	2.43	410	(158)	252
Machinery and equipment	2.69	33,754	(8,515)	25,239
		<b>34,164</b>	<b>(8,673)</b>	<b>25,491</b>
<b>Commercialization</b>				
Land		44		44
Buildings, civil works and improvements	3.89	4,097	(2,097)	2,000
Machinery and equipment	6.72	6,107	(3,787)	2,320
Vehicles	12.26	1,057	(562)	495
Furniture and fixtures	5.89	1,956	(1,548)	408
		<b>13,261</b>	<b>(7,994)</b>	<b>5,267</b>
<b>Management</b>				
Land		1,173		1,173
Buildings, civil works and improvements	3.96	33,837	(18,371)	15,466
Machinery and equipment	7.14	160,698	(95,747)	64,951
Vehicles	13.38	31,709	(17,721)	13,988
Furniture and fixtures	6.18	13,363	(8,377)	4,986
		<b>240,780</b>	<b>(140,216)</b>	<b>100,564</b>
<b>Activities not linked to concession</b>				
Land		366		366
Buildings, civil works and improvements	3.85	1,926	(1,401)	525
Machinery and equipment	2.45	44	(31)	13
		<b>2,336</b>	<b>(1,432)</b>	<b>904</b>
<b>Fixed assets in service - intangible</b>				
<b>Distribution</b>				
Software	19.03	33,134	(15,028)	18,106
Permanent easement		8,862		8,862
Other		952		952
		<b>42,948</b>	<b>(15,028)</b>	<b>27,920</b>

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
<b>Generation</b>					
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>
<b>Transmission</b>					
Permanent easement		152		152	156
		<u>152</u>	<u>-</u>	<u>152</u>	<u>156</u>
<b>Commercialization</b>					
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>
<b>Management</b>					
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>
<b>Total fixed assets in service</b>		<u>7,250,325</u>	<u>(2,439,488)</u>	<u>4,810,837</u>	<u>3,005,776</u>
<b>Construction in progress</b>					
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
<b>Total construction in progress</b>		<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>
<b>Obligation linked to concession</b>		<u>(525,557)</u>	<u>-</u>	<u>(525,557)</u>	<u>(443,874)</u>
<b>Net total</b>		<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
<b>Total</b>		<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
<b>Total fixed assets - tangible and intangible</b>	<b>2,572</b>	<b>542</b>	<b>-</b>	<b>(720)</b>	<b>(16)</b>	<b>2,378</b>

	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
<b>Total fixed assets - tangible and intangible</b>	<b>5,038,795</b>	<b>829,980</b>	<b>-</b>	<b>(264,887)</b>	<b>(10,882)</b>	<b>(52,920)</b>	<b>5,540,086</b>

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
<b>Total</b>	<b>525,557</b>	<b>443,874</b>





## 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
<b>Total</b>	<b>1,484</b>	<b>557</b>	<b>500,795</b>	<b>478,649</b>	<b>9,575</b>	<b>16,417</b>

## 19 - Debentures

Issuer	Date		Issuance characteristics				
	Issuance	Liquidation	Frequency	Series	Amount		Amount
					of securities	Compensation	
Investco	11/1/2001	3/1/2002	1 <sup>st</sup>	Single	25,000	12.80% p.a.	264,791
Bandeirante	3/1/2006	4/7/2006	3 <sup>rd</sup>	Single	25,000	104.4% of CDI	250,000
Enersul	5/2/2006	6/2/2006	1 <sup>st</sup>	Single	33,750	104.3% of CDI	337,500
Escelsa	6/1/2006	7/5/2006	1 <sup>st</sup>	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
<b>Total</b>	<b>881,308</b>

#### 19.4 - Changes in the debentures are demonstrated as follows:

	Consolidated	
	Current	Non Current
<b>On 12/31/2005</b>	<b>9,885</b>	<b>72,231</b>
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)
<b>On 12/31/2006</b>	<b>28,189</b>	<b>881,308</b>



## 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
<b>Total</b>	<b>1,913</b>	<b>54,000</b>	<b>2,245</b>	<b>72</b>	<b>48,602</b>

	Consolidated							
	12/31/2006				12/31/2005			
	Charges		Charges		Charges		Charges	
	Current	Non Current	Current	Non Current	Current	Non Current	Current	Non Current
<b>Foreign currency</b>								
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) 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	34		1,158		76		1,268	1,268
Itaú BBA (g) Enersul					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
	<b>26,416</b>	<b>2,161</b>	<b>395,997</b>	<b>150,740</b>	<b>19,203</b>	<b>7,451</b>	<b>119,681</b>	<b>633,126</b>

(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
<b>Local currency</b>									
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
		<b>4,886</b>	<b>155,364</b>	<b>274,447</b>	<b>1,099,577</b>	<b>16,535</b>	<b>77,333</b>	<b>753,230</b>	<b>1,193,965</b>

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	
		Non	Non	Non	Non	Non	Non		
		Current	Current	Current	Current	Current	Current		
<b>Swap results</b>									
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	
		-	-	<b>90,269</b>	<b>49,231</b>	<b>4,059</b>	<b>72</b>	<b>40,752</b>	<b>78,158</b>
<b>Total</b>		<b>31,302</b>	<b>157,525</b>	<b>760,713</b>	<b>1,299,548</b>	<b>39,797</b>	<b>84,856</b>	<b>913,663</b>	<b>1,905,249</b>

### 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	
	<b>335,000</b>	<b>100,500</b>	<b>83,750</b>	<b>83,750</b>	<b>67,000</b>	<b>335,000</b>	<b>670,000</b>	

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

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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
	-	<b>1,254,941</b>	<b>202,132</b>		<b>1,457,073</b>
<b>Total</b>	<b>55,913</b>	<b>1,534,274</b>	<b>714,814</b>		<b>2,249,088</b>

## 21 - Post-employment benefits

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

(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:

<b>Economic</b>	<b>2006</b>	<b>2005</b>
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 - BPS - 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>
<b>Total</b>	<b><u>1,667</u></b>

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>
<b>Deficit</b>	<b><u>(98,015)</u></b>	<b><u>(101,305)</u></b>

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>
<b>Total</b>	<b><u>13,669</u></b>

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>
<b>Total</b>	<b><u>736</u></b>	<b><u>1,389</u></b>	<b><u>2,125</u></b>

(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>
<b>Surplus</b>	<b><u>58,743</u></b>	<b><u>47,781</u></b>

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>
<b>Total</b>	<b><u>(42,420)</u></b>	<b><u>(41,250)</u></b>
Current	5,399	3,447
Non Current	<u>37,021</u>	<u>37,803</u>
<b>Total</b>	<b><u>42,420</u></b>	<b><u>41,250</u></b>

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>
<b>Total</b>	<b><u>9,020</u></b>

#### 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
<b>Total</b>	<b><u>325</u></b>	<b><u>746</u></b>	<b><u>1,071</u></b>

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).



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

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>
<b>Surplus</b>	<u><b>40,238</b></u>	<u><b>29,482</b></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>
<b>Total</b>	<u><b>61</b></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>
<b>Surplus</b>	<u><b>192</b></u>	<u><b>255</b></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>
<b>Total</b>	<b><u>(1,088)</u></b>	<b><u>(1,008)</u></b>
Current	30	122
Non Current	<u>1,058</u>	<u>886</u>
<b>Total</b>	<b><u>1,088</u></b>	<b><u>1,008</u></b>

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>
<b>Total</b>	<b><u>80</u></b>

## 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>
<b><u>652</u></b>	<b><u>718</u></b>	<b><u>66,355</u></b>	<b><u>43,658</u></b>

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>
<b>Total</b>	<b><u>169,978</u></b>	<b><u>100,147</u></b>





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

### 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
<b>Total</b>	<b>4,796</b>				<b>30,038</b>	<b>4,626</b>	<b>2,673</b>

	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
<b>Total</b>	<b>269,762</b>				<b>312,001</b>	<b>218,263</b>	<b>173,570</b>

#### 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>
<b>Total</b>	<b><u>82,242</u></b>	<b><u>78,893</u></b>

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%	
	<b>165,016,604</b>	<b>100.00%</b>	<b>165,016,604</b>	<b>100.00%</b>	<b>165,016,604</b>	<b>100.00%</b>	

(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	
<b>Total non-outstanding shares</b>	<b>102,902,195</b>		<b>102,915,936</b>		<b>102,940,944</b>	
Total shares	165,016,604		165,016,604		165,016,604	
<b>Total outstanding shares</b>	<b>62,114,409</b>	<b>37.64%</b>	<b>62,100,668</b>	<b>37.63%</b>	<b>62,075,660</b>	<b>37.62%</b>



## 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
<b>Total</b>	<b>135,753</b>	<b>463,520</b>	<b>147,388</b>	<b>134,475</b>	<b>163,090</b>	<b>151,780</b>

**27 - Net operating revenue**

	Consolidated					
	No. of consumers *		MWh *		Thousands of R\$	
	2006	2005	2006	2005	2006	2005
<b>Electricity supply</b>						
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		
<b>Total billed supply</b>	<b>3,113,490</b>	<b>2,972,354</b>	<b>14,874,280</b>	<b>15,884,657</b>	<b>5,000,852</b>	<b>4,891,461</b>
(-) 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)
					<b>(204,522)</b>	<b>(209,188)</b>
(-) 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)
					<b>(986,074)</b>	<b>(966,958)</b>
<b>Total billed supply net of RTE and ICMS</b>					<b>3,810,256</b>	<b>3,715,315</b>



## 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)
					<b>4,374,474</b>	<b>4,244,619</b>
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
					<b>562,623</b>	<b>416,873</b>
Other operating revenues						
Short-term energy					78,565	30,242
Charged services and other					46,837	63,312
					<b>125,402</b>	<b>93,554</b>
					<b>5,062,499</b>	<b>4,755,046</b>
(-) 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)
					<b>(501,101)</b>	<b>(431,820)</b>
<b>Total</b>	<b>3,113,604</b>	<b>2,972,458</b>	<b>23,948,180</b>	<b>23,061,245</b>	<b>4,561,398</b>	<b>4,323,226</b>

\* 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
<b>Manageable</b>				
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
<b>Total</b>	<b>37,804</b>	<b>7,597</b>	<b>45,401</b>	<b>53,140</b>

	Consolidated						
	2006						2005
	Service cost		Operating expenses				Total
With Electricity	Operating	Rendered to third-party	Selling	G&A	Other	Total	Total
<b>Non manageable</b>							
Electricity purchased for resale							
Initial agreements							379,923
Itaipu	539,388					539,388	552,693
Auction	566,178					566,178	299,185
PROINFA	23,832					23,832	
Short-term energy - CCEE	29,832					29,832	6,862
Other suppliers	442,382					442,382	368,635
Net effect of CVA	(147,896)					(147,896)	3,427
	<b>1,453,716</b>	-	-	-	-	<b>1,453,716</b>	<b>1,610,725</b>
<b>Electricity network utilization charges</b>							
Use and connection charge	506,128					506,128	482,661
System service charge	11,044					11,044	14,367
Net effect of CVA	40,657					40,657	107,921
	<b>557,829</b>	-	-	-	-	<b>557,829</b>	<b>604,949</b>
<b>CCC/CDE quota</b>							
CCC		304,019				304,019	229,582
CDE		186,212				186,212	152,026
Net effect of CVA		24,351				24,351	62,244
	-	<b>514,582</b>	-	-	-	<b>514,582</b>	<b>443,852</b>
Inspection fee		10,327				10,327	9,240
Financial compensations		14,183				14,183	7,631
Energy efficiency and							
Research and development					62,052	62,052	14,134
	<b>2,011,545</b>	<b>539,092</b>	-	-	-	<b>2,612,689</b>	<b>2,690,531</b>





## 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	
<b>Manageable</b>								
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>
<b>Total</b>	<b>2,011,545</b>	<b>1,184,456</b>	<b>4,205</b>	<b>140,397</b>	<b>327,132</b>	<b>107,512</b>	<b>3,775,247</b>	<b>3,650,444</b>

### 29 - Financial result

	Parent Company		Consolidated	
	2006	2005	2006	2005
<b>Financial income</b>				
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>
<b>Financial expenses</b>				
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>
<b>Total</b>	<b>(15,358)</b>	<b>57,548</b>	<b>(377,820)</b>	<b>(279,162)</b>

(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
<b>Total capitalized</b>	<b>(62,521)</b>	<b>(91,964)</b>

### 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
<b>Total</b>	<b>-</b>	<b>(296)</b>	<b>-</b>	<b>-</b>	<b>(105,762)</b>	<b>(79,891)</b>	<b>(42,746)</b>	<b>(22,719)</b>

### 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

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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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Vanessa Rodrigues  
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### Coordenação Pré-impressão e Impressão

**Produtora Gráfica:** Cristiane Ramos  
(Biocomm Comunicação)

### Pré-impressão e impressão

Pancrom Indústria Gráfica

### Papel

Papel reciclado Evergreen White  
100% reciclado pós-consumo

**Capa:** 270g/m<sup>2</sup>

**Miolo do Relatório Anual:** 118g/m<sup>2</sup>

**Miolo das Demonstrações Financeiras:** 118g/m<sup>2</sup>

**Luva:** 270g/m<sup>2</sup>

### Tiragem

900 Exemplares

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