



Smile of satisfaction.



Financial Statements

Balance Sheets

as of December 31, 2005 and 2004

Assets	Parent Company		Consolidated	
	2005	2004 reclassified	2005	2004 reclassified
Current assets				
Cash and cash equivalent	259.996	63.175	481.285	208.926
Marketable securities			106.644	171.615
Consumers and concessionaires			1.110.045	1.026.409
Emergency program for reduction of electric power consumption			101	606
Taxes and social contributions recoverable	31.588	9.258	151.828	101.823
Deferred income and social contribution taxes			97.705	61.542
Dividends	463.520	18.191		21
Inventories			10.639	14.651
Related parties	290	141.611		648
Escrows and litigation-linked deposits	127		211	66
Prepaid expenses		14	111.584	148.105
Accounts receivable from Furnas		43.098		43.098
Accounts receivable from Petrobras	24.299	72.000	24.299	72.000
Other credits	206	330	77.863	53.495
	780.026	347.677	2.172.204	1.903.005
Noncurrent assets				
Consumers and concessionaires			181.850	378.252
Notes receivable			25.673	
Emergency program for reduction of electric power consumption				9.629
Taxes and social contributions recoverable			43.862	25.647
Deferred income and social contribution taxes			836.256	741.547
Related parties	65.763	2	31.777	30.370
Advances for future capital increase	29.340	37.754	1.427	2.651
Escrows and judicial deposits	2.546		181.274	191.569
Prepaid expenses			385.652	410.282
Accounts receivable from Petrobras		24.000		24.000
Eletrobrás				103.496
Other credits			12.125	33.433
	97.649	61.756	1.699.896	1.950.876
Permanent assets				
Investments	2.896.414	1.127.322	487.406	411.478
Fixed assets	2.572	2.668	4.594.866	3.487.658
Deferred assets		404	1.048	8.901
	2.898.986	1.130.394	5.083.320	3.908.037
Total assets	3.776.661	1.539.827	8.955.420	7.761.918

See the accompanying notes to the financial statements.

(In thousands of reais)

Liabilities	Parent Company		Consolidated	
	2005	2004 reclassified	2005	2004 reclassified
Current liabilities				
Suppliers	557	3.844	478.376	409.865
Payroll	4	7	3.807	2.709
Charges on debt	2.245	2.394	40.851	66.620
Loans and financing		141.780	922.494	776.542
Regulatory taxes			19.343	35.341
Current income and social contribution taxes	16.771	4.772	248.923	200.528
Deferred income and social contribution taxes			64.369	24.040
Estimated obligations	718	710	43.658	40.343
Dividends	134.475		151.780	25.358
Related parties				4.518
Eletrobrás				103.496
Provision for contingencies			3.704	6.045
Post-employment benefits			21.153	19.890
Tariff return			80.452	34.967
Other accounts payable	10.266	14.694	156.475	105.609
	165.036	168.201	2.235.385	1.855.871
Noncurrent liabilities				
Suppliers			16.417	127.112
Charges on debt	72		89.845	26.209
Loans and financing	48.602		1.972.492	2.747.554
Income and social contribution taxes			11.672	54.868
Deferred income and social contribution taxes			34.376	139.619
Provision for contingencies	4.796		266.058	316.027
Post-employment benefits			126.846	126.393
Associated, subsidiaries and controlling companies	7			
Advances for future capital increase			31.612	31.574
Tariff return				64.678
Provision for negative equity	48.398	2.860	48.037	
Reserve for reversion and amortization			17.248	17.248
Other accounts payable			16.592	41.833
	101.875	2.860	2.631.195	3.693.115
Minority interest			579.090	844.166
Shareholders' equity				
Capital	3.182.716	1.323.840	3.182.716	1.323.840
Capital reserves	327.034		327.034	
Retained earnings (accumulated losses)	-	44.926	-	44.926
	3.509.750	1.368.766	3.509.750	1.368.766
Total liabilities and shareholders' equity	3.776.661	1.539.827	8.955.420	7.761.918

See the accompanying notes to the financial statements.

Statements of Income

Years ended December 31, 2005 and 2004

(In thousands of reais, unless otherwise indicated)

	Parent Company		Consolidated	
	2005	2004	2005	2004 reclassified
Operating Revenue				
Electric Power furnishing			5.078.407	4.694.136
Electric Power supply			209.158	90.676
Other Operating Revenue			575.188	322.799
	-	-	5.862.753	5.107.611
Deduction from Operating Revenue				
Quota of Global Reversion Reserve			(42.101)	(45.187)
Emergency capacity charge			(104.299)	(195.317)
Taxes and Contributions on Revenue			(1.393.128)	(1.175.035)
	-	-	(1.539.528)	(1.415.539)
	-	-	4.323.225	3.692.072
Net Revenue				
Cost of Electric Power Services				
Cost of Electric Power				
Electric Power acquired for Resale			(1.610.725)	(1.526.194)
Free energy				(15.187)
Charges on use of Power Supply System			(604.949)	(440.499)
	-	-	(2.215.674)	(1.981.880)
Operating Cost				
Personnel			(168.421)	(142.234)
Materials and third party services			(147.927)	(109.060)
Depreciation and amortization			(197.828)	(184.958)
Subvention - Fuel Consumption Account and Energetic Development Account				(273.090)
Inspection rate			(9.241)	(6.881)
Taxes			(2.775)	(355)
Other Operating Costs			(57.739)	(60.133)
	-	-	(1.027.783)	(776.711)
	-	-	(3.243.457)	(2.758.591)
Cost of Service Rendered to Third parties				
	-	-	(6.040)	(4.057)
Gross Profit			1.073.728	929.424
Operating income (expenses)				
Selling Expenses			(70.801)	(67.042)
General and Administrative Expenses	(32.070)	(37.123)	(254.008)	(259.911)
Depreciation and amortization	(9.941)	(2.268)	(41.995)	(41.385)
Other Operating expenses, Net	(11.128)		(34.142)	(12.209)
	(53.139)	(39.391)	(400.946)	(380.547)
Service Result	(53.139)	(39.391)	672.782	548.877
Equity in income of subsidiaries	454.621	161.590	(3.713)	(9.857)
Net Financial Result, income (Expense)	57.547	9.679	(282.590)	(270.373)
Operating income	459.029	131.878	386.479	268.647
Non-operating income	34.186	143	144.408	11.421
Non-operating Expenses	(21.148)	(19.114)	(81.843)	(42.970)
Non-operating Result	13.038	(18.971)	62.565	(31.549)
Income before Income and Social Contribution taxes	472.067	112.907	449.044	237.098
Provision for Income and Social Contribution taxes	(296)	(6.032)	(223.684)	(105.392)
Deferred Income and Social Contribution taxes			121.074	95.670
Reversal of Interest on shareholders' equity	(32.365)	-	96.061	51.128
Net income for the year before minority interest	439.406	106.875	442.495	278.504
Minority interest			(3.089)	(171.629)
Net income for the year	439.406	106.875	439.406	106.875
Net income per Thousand Shares - R\$	2.662,80	74,59		

See the accompanying notes to the financial statements.

Statements of Changes in Shareholders' Equity

Years ended December 31, 2005 and 2004

(In thousands of reais)

	Capital	Capital Reserve	Profit Reserve	Retained earnings (Accumulated Losses)	Total
Balances as of January 1st, 2004	1.303.841	-	-	(61.950)	1.241.891
Capital increase	20.000				20.000
Prior-year adjustment of the parent company					
Adjustment made				(33.100)	(33.100)
Prior-year adjustment directly reflected on the income statement of 2003				33.100	33.100
Net income for the year				106.875	106.875
Legal reserve - 5%			2.246	(2.246)	-
Profit retention			42.679	(42.679)	-
Balances as of December 31, 2004	1.323.841	-	44.925	-	1.368.766
Prior-year adjustment of the parent company				(41.390)	(41.390)
Capital decrease due to partial split-up	(1)				(1)
Capital increase - Corporate restructuring - April 2005	659.743				659.743
Capital increase - Payment of unpaid capital - July 2005	29.000				29.000
Capital increase - Public offer of shares - July 2005	1.104.898				1.104.898
Capital increase - Green Shoe - August 2005	65.235				65.235
Minorities withdrawal				(14)	(14)
Goodwill on merger of the parent company - Net		35.348			35.348
Net income for the year				439.406	439.406
Profit allocation					
Legal reserve			19.900	(19.900)	-
Dividends proposed				(151.241)	(151.241)
Profit retention			226.861	(226.861)	-
Balances as of December 31, 2005	3.182.716	35.348	291.686	-	3.509.750

See the accompanying notes to the financial statements.

Statements of Changes in Financial Position

Years ended December 31, 2005 and 2004

	Parent company		Consolidated	
	2005	2004	2005	2004
Source of funds				
Operations				
Net income for the year	439.406	106.875	439.406	106.875
Prior-year adjustment	(41.390)		(41.390)	
Expenses (revenue) not affecting net working capital				
Consumers and Concessionaires			(96.653)	(144.951)
Tariff return - provision			-	64.678
Compensation account of cost variance of Portion A - monetary correction			(36.843)	(57.266)
Pis and Cofins - tax rate increase			-	(8.450)
Suppliers - Free Energy			18.634	30.794
Depreciation and amortization	9.941	2.267	239.824	225.681
Residual cost on disposal of fixed assets and related rights	331	16	12.500	21.492
Investment sale value		96.312		96.312
Taxes and social contribution to be offset - appropriation			(11.900)	(5.983)
Deferred income and social contribution taxes			(104.158)	(88.999)
Monetary variations and interest of noncurrent liabilities	1.830		(51.285)	(52.383)
Provision for contingencies	4.796		54.450	34.893
Reversal of provision for contingencies			(31.681)	
Post-employment benefits - CVM 371			264	2.915
Minority interest			3.089	171.629
Capital losses from investments		9.701		9.701
Equity in income of subsidiaries	(454.621)	(161.600)	3.714	9.844
Provision for losses on realization of assets		1.573	52.513	38.697
Reversal of provision for impairment			(89.964)	
Others	45.537		36.581	67.339
	<u>5.830</u>	<u>55.144</u>	<u>397.101</u>	<u>522.818</u>
Third parties				
Loans and financing	46.844		529.826	1.132.664
Consumer contribution and donations and subsidies			62.221	40.879
Compensation account of cost variance of Portion A, net - appropriation			14.833	
Transfer of noncurrent assets to current assets	24.000	186.424	457.056	574.404
Transfer of current liabilities to noncurrent liabilities			84.976	39.231
Transfer of noncurrent assets to Investment				297
	<u>70.844</u>	<u>186.424</u>	<u>1.148.912</u>	<u>1.787.475</u>
Shareholders and related parties				
Capital increase	1.858.861	20.000	1.858.861	29.537
Minorities				91.802
Advances for future capital increase	8.413		117.636	(1.598)
Dividends from subsidiaries	524.913	85.690	3.510	2.805
Associated, subsidiaries and controlling companies	7		(6.651)	12.337
Premium on merger of the parent company	35.348		187.640	
Negative goodwill on stock acquisition of the controlled company - net		2.133		2.133
	<u>2.427.542</u>	<u>107.823</u>	<u>2.160.996</u>	<u>137.016</u>
Total sources	<u>2.504.216</u>	<u>349.391</u>	<u>3.707.009</u>	<u>2.447.309</u>

(In thousands of reais)

	Parent company		Consolidated	
	2005	2004	2005	2004
Application of funds				
Noncurrent assets				
Escrows and judicial deposits	2.546		52.289	43.000
Prepaid expenses			67.604	184.700
Advances for future capital increase		26.812	3.461	31.493
Deferred income and social contribution taxes on goodwill			117.725	
Related parties	65.762		21.013	
Accounts receivable from Petrobras		24.000		24.000
Transfer of current assets to noncurrent assets			83.760	29.105
Other credits		3.551	16.609	14.610
(Reversal)/Recording of provision for share redemption			(103.496)	62.397
Permanent				
Investment	1.621.381	160.708	928.870	7.371
Premium on stock acquisition and capital stock subscription	227.007	23	445.298	23
Fixed Assets Increase - (increase from 16.33 to 26.70%)			174.385	
Fixed Assets	573	808	1.150.710	1.048.220
Deferred assets	192	43	(7.022)	(83)
Noncurrent liabilities				
Transfer of noncurrent liabilities to current liabilities			832.043	720.434
Dividends proposed	151.241		34.074	26.910
Total applications	<u>2.068.702</u>	<u>215.945</u>	<u>3.817.323</u>	<u>2.192.180</u>
Increase (Decrease) in working capital	<u>435.514</u>	<u>133.446</u>	<u>(110.314)</u>	<u>255.128</u>
Change in working capital				
Current assets				
At end of year	780.026	347.677	2.172.204	1.903.005
At beginning of year	347.677	205.685	1.903.005	1.612.392
	<u>432.349</u>	<u>141.992</u>	<u>269.199</u>	<u>290.613</u>
Current liabilities				
At end of year	165.036	168.201	2.235.385	1.855.871
At beginning of year	168.201	159.656	1.855.871	1.820.386
	<u>(3.165)</u>	<u>8.545</u>	<u>379.514</u>	<u>35.485</u>
Increase (Decrease) in working capital	<u>435.514</u>	<u>133.446</u>	<u>(110.314)</u>	<u>255.128</u>

See the accompanying notes to the financial statements.

Statements of Cash Flows

Years ended December 31, 2005 and 2004

	Parent company		Consolidated	
	2005	2004	2005	2004
Operating activities				
Net income for the year	439.406	106.875	439.406	106.875
Expenses (Revenue) not affecting cash				
Consumers and Concessionaires	-	-	108.595	(10.457)
Deferred income and Social Contribution taxes	-	-	(22.872)	(88.567)
Current income and Social Contribution taxes	-	-	(58.154)	12.514
Taxes and Social Contributions recoverable	-	-	-	(5.983)
Depreciation and amortization	9.941	2.267	239.823	226.414
Residual cost on disposal of fixed assets and rights	331	-	12.518	21.469
Prepaid expenses	-	-	(57.386)	(66.682)
Suppliers	-	-	(28.379)	22.966
Loans, Financing and related Charges	29.055	24.173	172.520	317.847
Post-employment Benefits - CVM no. 371	-	-	1.249	3.323
Provision for contingencies	4.796	-	(44.684)	31.300
Tariff deferral	-	-	(169.533)	(53.248)
Tariff return - ratified value adjustment	-	-	37.614	99.645
Monetary correction receivable (Bandeirante, Furnas)	-	(36.364)	-	(36.364)
Minority interest result	-	-	3.089	171.629
Equity in income of subsidiaries	(454.621)	(161.600)	3.714	9.847
Investment losses (Energocouto, Bandeirante, Energest)	-	10.015	-	10.015
Write-off/Provision for losses from Fixed Asset/Investment/Deferred asset	45.538	1.574	(51.927)	55.636
Provision for losses from UTE Campo Grande	-	-	-	9.345
Others	-	7.818	(3.342)	9.292
	<u>74.446</u>	<u>(45.242)</u>	<u>582.251</u>	<u>846.816</u>
(Increase) decrease of Assets				
Consumers and Concessionaires	-	-	167.641	48.310
Emergency program for reduction of electric power consumption	-	-	9.956	-
Taxes and Social Contribution recoverable	(22.330)	(2.724)	(75.791)	54.483
Inventories	-	-	4.116	(2.597)
Escrows and judicial deposits	(2.673)	-	17.922	(40.255)
Prepaid expenses	14	(14)	147.690	(154.027)
Brady Bonds	141.321	147.581	-	-
Interest sale (Fafen, Edinfor)	71.701	-	71.701	-
Prior-year adjustment	(41.390)	-	(41.390)	-
Other credits	125	(36.250)	(63.070)	(79.866)
	<u>146.768</u>	<u>108.593</u>	<u>238.775</u>	<u>(173.952)</u>

(In thousands of reais)

	Parent company		Consolidated	
	2005	2004	2005	2004
Increase (decrease) of Liabilities				
Suppliers	(3.287)	3.009	(23.297)	(26.050)
Current income and social contribution taxes	11.999	4.434	55.807	3.807
Deferred income and social contribution taxes	-	-	(59.841)	(3.603)
Tariff return	-	-	(26.719)	-
Estimated Obligations	7	278	3.312	(21.091)
Other Obligations	(4.432)	(5.517)	(46.998)	100.733
Minorities	-	-	-	133.738
	<u>4.287</u>	<u>2.204</u>	<u>(97.736)</u>	<u>187.534</u>
Cash from operating activities	225.501	65.555	723.290	860.398
Investment activities				
Securities	-	-	-	10.827
Additions to investment	(769.206)	(94.899)	(1.390)	(14.603)
Write-offs (additions) to investment - De-verticalization	(956.501)	-	9.524	-
Additions to fixed assets (percentage increase 16,33% to 26,70%)	-	-	(174.385)	-
Additions to fixed assets	(573)	(520)	(1.150.710)	(1.046.781)
Additions to deferred assets	(192)	(315)	7.021	(272)
Obligations Linked to Concession	-	-	62.221	40.879
	<u>(1.726.472)</u>	<u>(95.734)</u>	<u>(1.247.719)</u>	<u>(1.009.950)</u>
Financing activities				
Associated, subsidiaries or controlling companies	(65.755)	894	(127.594)	5.813
Advances for futures capital increase	8.413	8.624	16.385	12.075
Capital increase	1.858.876	20.000	1.858.876	20.000
Premium on merger of the controlled company - net	35.348	-	(182.943)	-
Minorities withdrawal	(14)	-	(14)	-
Incorporation of cash balance of Iven S.A. into EDP	-	-	35.348	-
Dividends (paid) received	(16.766)	90.119	(71.222)	-
Loans and financing - entry	972.975	-	1.866.997	2.023.263
Loans, financing and related charges paid	(1.095.285)	(30.096)	(2.664.018)	(1.822.910)
	<u>1.697.792</u>	<u>89.541</u>	<u>731.815</u>	<u>238.241</u>
Cash increase	196.821	59.362	207.386	88.689
Cash at end of year	259.996	63.175	587.928	380.541
Cash at beginning of year	63.175	3.813	380.541	291.851
	<u>196.821</u>	<u>59.362</u>	<u>207.386</u>	<u>88.689</u>

See the accompanying notes to the financial statements.

Statements of Added Value

Years ended December 31, 2005 and 2004

(In thousands of reais)

	Parent company		Consolidated	
	2005	2004	2005	2004
Generation of added value	13.038	(18.970)	5.993.313	5.121.219
Operating revenue			5.862.753	5.107.611
Allowance for doubtful debtors			(53.079)	(50.513)
Deferred tax credits			121.074	95.670
Non-operating	13.038	(18.970)	62.565	(31.549)
(-) Raw materials acquired from third parties	(25.064)	(21.065)	(2.588.810)	(2.287.646)
Costs of purchased energy			(1.610.725)	(1.541.381)
Charges of use of power supply system and charges of system services			(604.949)	(440.499)
Materials			(36.208)	(31.289)
Third parties services	(13.244)	(15.011)	(239.282)	(198.400)
Other operating costs	(11.820)	(6.054)	(97.646)	(76.077)
Gross added value	(12.026)	(40.035)	3.404.503	2.833.573
Depreciation and amortization	(9.941)	(2.267)	(239.823)	(226.343)
Net added value generated	(21.967)	(42.302)	3.164.680	2.607.230
Financial income	123.388	45.960	496.969	311.934
Minority interest			(3.089)	(171.629)
Equity in income of subsidiaries	454.621	161.590	(3.713)	(9.857)
Total added value to be distributed	556.043	165.248	3.654.847	2.737.678
Distribution of added value				
Labor compensation	12.448	10.881	217.666	257.463
Charges on payroll (except for INSS-social security charges)	1.007	906	14.046	906
Taxes, tariffs and contributions	22.618	15.373	2.311.358	1.842.683
Financial expenses	79.156	29.535	635.082	489.399
Rents	1.408	1.678	37.289	40.353
Dividends	151.241	-	151.241	-
	267.878	58.372	3.366.682	2.630.803
Net income for the year after distribution of dividends	288.165	106.875	288.165	106.875
	556.043	165.248	3.654.847	2.737.678

See the accompanying notes to the financial statements.

Notes to the Financial Statements

December 31, 2005 and 2004

(Amounts in thousands of Reais, unless otherwise indicated)

1 - Operations

EDP - Energias do Brasil S.A., corporation organized on July 24, 2000, has as corporate purposes to participate in other companies, either as shareholder or quotaholder, as well as in businesses and enterprises of the energy sector in Brazil and abroad; to manage assets for distribution, generation, transmission and commercialization of all types and modalities of energy; to study, plan, develop and implement projects for distribution, generation, transmission and commercialization of all types and modalities of energy. The Company may also render services in businesses of the energetic sector in Brazil and/or abroad.

2 - Presentation of the financial statements

The financial statements are presented in accordance with accounting practices adopted in Brazil based on the provisions derived from the Brazilian Corporation Law, the specific legislation enacted by ANEEL – National Electric Power Agency and on the rules established by the Securities Exchange Commission – CVM. Such practices are consistent with those adopted in the previous quarterly information and in the financial statements as of December 31, 2004, published on February 25, 2005.

In order to make the criteria compatible and to improve the comparison of the financial statements of the Company, some reclassifications, as indicated below, were implemented in the fiscal year of 2005, with the corresponding reclassification of the amounts presented in the fiscal year of 2004:

- PIS and COFINS incident upon the Emergency Capacity Fee – ECE - and on the Fee for Acquisition of Emergency Electric Power - EAEEE - are classified in the group of Deductions of the Operating Revenue and recovery of PIS and COFINS as deductible taxes at the time of repass to Comercializadora Brasileira de Energia Emergencial - CBEE, are presented as a deduction of the balance of general and administrative expenses. (Bandeirante)

- The charges related to the Energetic Development Account – CDE – and the Fuel Consumption Account - CCC, Inspection Fee, which were classified as "Other operating expenses" were reclassified in the group of "Operating Costs" and "Provision for doubtful accounts" was reclassified as "Selling expenses". (Escelsa and Enersul)

3 - Summary of significant accounting policies

3.1 - Financial Statements

a) Cash and cash equivalents

Represented mainly by Interest earning bank deposits, with immediate availability and recorded at cost, plus income accrued up to the balance sheet date.

b) Marketable securities

Stated at cost, plus the relevant contracted compensation, calculated on a pro rata temporis to the balance sheet date; a provision for devaluation at market value being recognized, if applicable.

c) Notes receivable

Notes receivable are represented by Federal public securities that accrue interest and exchange variation for Private Agreements of Assignment of Credits, corresponding to "Precatórios" (Municipality Securities) received from several Municipalities.

d) Consumers and concessionaires include:

- (i) Amounts billed to final consumers and reselling concessionaires, as well as the revenue referring to the energy consumed and not billed;
- (ii) Amounts receivable relating to the energy commercialized in the Chamber for Commercialization of Electric Power – CCEE (Note 6.1);
- (iii) Balance receivable relating to extraordinary tariff recomposition – loss of revenue and free energy (Note 7.1);
- (iv) Credit resulting from deferral of the ordinary tariff review of October 23, 2003 and the corresponding full provision recorded in 2004 for the whole-owned subsidiary, Bandeirante, both fully reversed in the 4th quarter of 2005 by virtue of the definition, on October 28, 2005, of the index of tariff repositioning of 2003.
- (v) Credit resulting from deferral of the ordinary tariff review of April 8, 2003 was supplemented by virtue of the definition, in 2005, of the index of tariff repositioning of 2003 for the whole-owned subsidiary, Enersul, and;
- (vi) Provision for doubtful accounts - Recorded in accordance to the Accounting Instruction no. 6.3.2 of the Accounting Manual of the Public Electric Power Service.

e) Emergency Program for Reduction of Electric Power Consumption – It includes the remaining balance of the value of Costs to Reimburse and included the Bonus values, as approved by the ANEEL Rule no. 600, of September 27, 2002 and no. 155, of March 28, 2003, received in December, 2005, both resulting from implementation of the Emergency Program for Reduction of Electric Power Consumption.

Notes to the Financial Statements December 31, 2005 and 2004

f) Inventories

Stated at the average acquisition cost, being those applicable to the operation and maintenance classified under current assets and those destined to projects classified under fixed assets.

g) Investments

Investments in subsidiaries are valued using the Equity Method of Accounting. Other investments are valued at acquisition cost and/or monetarily corrected up to December 31, 1995, less a provision for loss, when applicable.

h) Fixed Assets

Stated at the cost of acquisition or construction, monetarily corrected up to December 31, 1995, with deduction of accumulated depreciation calculated by the straight-line method, based on the accounting balance entered in the corresponding Reference File Unit - UC, as determined by the DNAEE Directive no. 815, of November 30, 1994, at the annual rates shown in the table attached to ANEEL Resolutions no. 2 of December 24, 1997 and no. 44, of March 17, 1999.

Based on the provision of the Accounting Instructions of the Accounting Manual of the Public Electric Power Service and of the CVM Instruction no. 193, of July 11, 1996, the financial charges related to financing obtained from third parties effectively applied in the fixed assets in progress are recorded in this subgroup as cost of the related works (Note 30).

The same procedure has been adopted as regarding to the interest on equity reserve (when applicable) to finance the works in progress, in accordance with the specific legislation of the Public Service of Electric Power.

The Obligations Linked to the Concession, shown as rectifying the Fixed Assets, refer mainly to resources received from consumers, destined to execution of the enterprises necessary to satisfy the orders for supply of electric power. Such obligations are directly linked to the Concession of the Public Service of Electric Power and their eventual liquidation will occur according to determinations of the Granting Authorities.

i) Other current and noncurrent assets

Stated at the lower of cost or realization value, including, when applicable, the earnings received up to the balance sheet date.

j) Suppliers

It includes the balance payable to suppliers of electric power and the balance of Free Energy payable to the Producers of electric power.

k) Loans, financing and related financial charges

They are updated based on the monetary and exchange variations, plus the corresponding charges and, when applicable, added-up and/or reduced by gains and losses of swap operations incurred up to the balance sheet date.

l) Other current and noncurrent liabilities

Stated at the known or payable amount, plus, when applicable, the corresponding charges, monetary and exchange variations.

m) Income and social contribution taxes

The income tax stated in the statement of income is calculated based on the taxable income (adjusted profit) at the applicable tax rates, according to the legislation in force – 15%, plus a surcharge of 10% on taxable income in excess of R\$ 240 per annum.

The social contribution recorded in the statement of income is calculated based on the taxable income prior to income tax, by means of applicability of the 9% tax rate.

The deferred income and social contribution tax assets are recorded under deferred income and social contribution tax assets, based on the carryforward tax losses, negative basis of social contribution and temporary differences, considering the tax rates in force of the referred taxes, according to the provisions of the CVM Ruling no. 273, of August 20, 1998 and CVM Instruction no. 371, of June 27, 2002.

n) Pension plans

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

The costs, contributions and liabilities are determined annually, based on the valuation made by independent accountants, the latest of which was made for the basis date of December 31, 2005.

As from December 31, 2001, such amounts have been determined and recorded according to the terms of CVM Ruling no. 371, of December 13, 2000.

o) Statement of income

Revenues and expenses are recognized on the accrual basis of accounting method. The billing of the electric power to all consumers is made on a monthly basis, according to the verification calendar.

The energy supplied and not billed corresponding to the period between the date of the latest verification and the closing of the balance sheet is estimated and recognized as unbilled revenue.

(Amounts in thousands of Reais, unless otherwise indicated)

p) Estimates

The preparation of the financial statements in accordance with accounting practices adopted in Brazil based on the provisions of the Corporation Law requires that management of the Company to be based on estimates in order to enter certain transactions that affect the assets, liabilities, revenue and expenses.

The final results of such transactions and information at the time of their effective realization in subsequent periods may be different than such estimates.

The major estimates related to the financial statements refer to the entry of effects arising from:

- Provision for doubtful accounts;
- Transactions made at the level of the Chamber for Commercialization of Electric Power – CCEE;
- Provision for losses – loss of revenue and free energy;
- Credit arising from deferral of the tariff review and corresponding Provision for full reduction, when applicable;
- Recovery of deferred income and social contribution taxes on carryforward tax losses, negative bases and temporary differences;
- Provision for contingencies; and
- Retirement and pension plans.

q) Taxation of operations at the Chamber for Commercialization of Electric Power - CCEE

Pursuant to Article 32 of the Provisional Measure no. 66, of August 29, 2002, converted into Law no. 10.637, of December 30, 2002 and Normative Instruction no. 199, of September 12, 2002, the concessionaires, in their capacity of agents that are part of the Chamber for Commercialization of Electric Power – CCEE, exercised their option for the special taxation system of PIS and COFINS on revenue obtained in operations carried out at the level of such Institution.

The main effects refer to the basis of calculation based on the net positive results and on the continuation of applicability of the 0.65% tax rate and 3% for PIS and COFINS, respectively.

3.2 – Consolidated accounting information

The consolidated financial statements comprise the balance sheets and income statements for the years ended 2005 and 2004.

The consolidated financial statements include those from EDP – Energias do Brasil S.A., its subsidiaries (as described in Note 16) and under joint control (Investco S.A.), and the accounting criterion adopted for their determination was applied on a uniform basis among the several companies of the group. The company that is jointly controlled (Investco S.A.) was consolidated in proportion to the equity interest in EDP Lajeado Energia S.A. as of December 2005 and 2004, with 26.70% and 16.33%, respectively.

The main practices for consolidation that were adopted were the following:

- elimination of the investments of the controlling company in the subsidiaries;
- elimination of the balance of accounts between the controlling company and subsidiaries included in the consolidation as well as of the accounts maintained among such subsidiaries;
- separate classification of the participation of minority interest in the balance sheet and income statement.

Notes to the Financial Statements

December 31, 2005 and 2004

4 - Regulatory assets and liabilities

Shown below a summarized table with the regulatory assets and liabilities recognized in the Balance Sheet of the energy distributors: Bandeirante, Escelsa and Enersul.

	Consolidated			
	Current		Noncurrent	
	12/31/05	12/31/04	12/31/05	12/31/04
Consumers and concessionaires				
Extraordinary tariff recomposition - loss of revenue (Note 7.1)	156.522	137.458	133.185	216.657
(-) Provision for losses - loss of revenue	(17.498)		(70.407)	(25.339)
Extraordinary tariff recomposition - free energy (Note 7.1)	88.080	43.165	100.161	157.212
(-) Provision for losses - free energy	(35.668)		78.780	(26.850)
Other regulatory assets	2.260	3.784		
Discount in TUSD	2.705	265	209	
Unbilled supply - tariff deferral	147.888	55.896		73.355
(-) Provision for tariff deferral - provisional				(52.691)
Pis and Cofins of Power Producers	9.610			
Emergency Program for Reduction of Electric Power Consumption	101	606		9.451
Other credits				
Loss of revenue - Low Income	2.250	17		
Prepaid expenses				
PIS - tax rate increase (Note 8.2)	6.613	3.107	18.628	23.427
COFINS - Tax rate increase (Note 8.2)	26.013	8.296	68.269	60.474
Portion "A" (Note 7.2.1)			261.884	225.896
CVA - active (Note 8.1)	188.788	216.573	49.099	133.021
(-) CVA - passive (Note 8.1)	(123.557)	(83.124)	(45.868)	(42.413)
Total regulatory assets	454.107	386.043	436.380	752.200
Suppliers				
Free energy (Note 7.1)	(94.035)	(54.817)	(94.483)	(153.962)
(-) Provision for losses - repass of free energy (Note 7.1)	35.668		78.780	26.850
Pis and Cofins of Power Producers	(9.122)			
Tariff return	(75.573)			(64.678)
Other accounts payable				
Revenue gains - Low income	(3.825)			
Total regulatory liabilities	(146.887)	(54.817)	(15.703)	(191.790)
Total regulatory assets (-) liabilities	307.220	331.226	420.677	560.410

(Amounts in thousands of Reais, unless otherwise indicated)

5 - Marketable securities

The composition of the portfolio is the following:

Financial Institution	Type	Maturity Date	Consolidated	
			12/31/05	12/31/04
Banco Pactual S.A.	NBC-E	11/16/06	50.012	95.573
Banco BBA Credanstalt S.A.	NBC-E	10/12/06	56.632	76.042
			106.644	171.615

The marketable securities accrue interest and exchange variation and are recorded in current assets due to their market liquidity or expectation of short term realization.

6 - Consumers and concessionaires

	Consolidated						
	Balances not yet due	Due up to 90 days	Due for more than 90 days	Total current		Total noncurrent	
				12/31/05	12/31/04	12/31/05	12/31/04
Consumers							
Billed supply							
Residential	82.420	80.306	25.118	187.844	186.563	-	-
Industrial	25.106	26.317	16.153	67.576	91.138	28.325	-
Commerce, Services and Other Activities	36.511	28.938	29.340	94.789	88.286	145	-
Rural	7.278	7.574	1.954	16.806	14.213	-	-
Public Power:							
Federal	2.302	1.360	2.013	5.675	5.211	-	-
State	5.619	2.396	1.565	9.580	8.818	-	-
Municipal	6.932	2.997	3.226	13.155	9.442	12	-
Public Illumination	7.925	3.499	10.866	22.290	37.093	-	-
Utilities	5.996	1.478	2.507	9.981	7.716	-	-
Unbilled supply	224.158	-	-	224.158	230.293	-	-
Unbilled supply - Portion B	10.091	-	-	10.091	-	-	-
Debt in installments	42.737	1.135	17.184	61.056	47.428	29.858	10.857
(-) Collection in classification process	9.463	-	-	9.463	3.525	-	-
Other credits	15.336	1.425	902	17.663	27.286	7.247	7.911
Regulatory assets							
Unbilled supply - tariff deferral	147.888	-	-	147.888	55.896	-	73.355
(-) Provision for tariff deferral - provisional	-	-	-	-	-	-	(52.691)
Revenue losses	139.024	-	-	139.024	137.458	62.778	191.318
Free energy	52.412	-	-	52.412	43.165	21.381	130.562
Discount in TUSD	626	-	-	626	-	209	-
Pis and Cofins of power producers	9.610	-	-	9.610	-	-	-
Other regulatory assets	4.339	-	-	4.339	4.049	-	-
	835.773	157.425	110.828	1.104.026	997.580	149.955	361.312
Concessionaires							
Conventional supply	13.499	7.320	24.993	45.812	29.104	-	-
Short term energy	4.747	-	3.147	7.894	5.038	13.565	16.940
Charges on use of electric power system	5.077	-	-	5.077	5.629	-	-
Others	23.803	3	40	23.846	53.579	18.330	-
	47.126	7.323	28.180	82.629	93.350	31.895	16.940
(-) Provision for doubtful accounts	(52)	-	(78.257)	(78.309)	(65.710)	-	-
Charges for use of electric power system	1.699	-	-	1.699	1.189	-	-
TOTAL	884.546	164.748	60.751	1.110.045	1.026.409	181.850	378.252

Notes to the Financial Statements

December 31, 2005 and 2004

6.1 – Short Term Power and Auction Supply

	Consolidated		Charge on System Service
	Assets	Liabilities	
	Sale	Purchase	
Balance as of December 31, 2004	21.978	2.049	1.448
Additions	9.817	16.476	9.536
Payments	(10.336)	(18.013)	(8.064)
Balance as of December 31, 2005	21.459	511	2.920

It refers mainly to transactions of sale and purchase of power and charges of the system service carried out at the level of the Chamber for Commercialization of Electric Power – CCEE.

A part of the assets value is subject to modification depending on the decision of judicial actions in progress filed by companies of the sector and relating to construction of market rules in force.

6.2 – Concessionaries - others

The amount of R\$18,330 in the noncurrent assets account refers to the amount receivable from Companhia Piratininga de Força e Luz - Piratininga, by virtue of the partial split-up of Bandeirante on October 1st, 2001, according to the terms established in the split-up protocol.

On December 31, 2004, such account included the amount of R\$25,923 referring to the claim made by Bandeirante to Piratininga, based on the split-up protocol of Bandeirante, related to recomposition of losses suffered by virtue of the electric power rationing. The right to recomposition of losses referring to the rationing period in the proportion established in the split-up protocol was expressly recognized in an arbitration award, which, however, failed to condemn Piratininga in the scope of the object of the arbitration proceeding in which the award was given. In the evolution of the collection proceeding, jointly with external consultants, some issues were identified at the end of the 3rd quarter of 2005 that may make the realization of the asset difficult. The reversal of such asset in the third quarter of 2005 due to accounting conservatism does not mean that the Company has given up the receipt thereof.

Bandeirante also has a liability to Piratininga in the amount of R\$14,349, recorded as noncurrent liability.

There is no disagreement between the parties about the balances currently recorded to receive and pay, which will be liquidated opportunely.

6.3 – Unbilled supply – tariff deferral and tariff return (periodic tariff repositioning)

6.3.1 - Bandeirante

The provisional tariff repositioning of Bandeirante, ratified by ANEEL Resolution no. 566, of October 22, 2003, was of 18.08%, so that in order to observe the principle of lowest tariff to ultimate consumer and the condition of the economic-financial equilibrium of the concession contract, the tariffs were repositioned to 14.68% as from October 23, 2003 and for the difference between 18.08% and 14.68% a regulatory asset was recorded that would be offset in the three subsequent tariff readjustments, by means of additions to "Portion B". As of December 31, 2004, such regulatory asset reached the amount of R\$52,691, shown in the table of note 6 of the unbilled supply - tariff deferral caption.

By means of the Ratifying Resolution no. 243, of October 18, 2004, ANEEL decided to review the provisional tariff repositioning of October 23, 2003, of 18.08% to 10.51%, by virtue of review, by the Regulatory Body, of the previously used Compensation Basis.

Accordingly, on September 30, 2004, Bandeirante recorded a full provision in the amount of R\$64,678, at the time recorded in Noncurrent Liabilities, in the tariff Return caption, corresponding to the difference of revenue obtained by the provisional tariff repositioning of 14.68% applied between October 23, 2003 and October 22, 2004 and the tariff that would be imposed by the new provisional tariff repositioning of 10.51%; concerning the regulatory asset mentioned in the first paragraph, Bandeirante recorded a provision for full reduction of such asset.

On October 18, 2005, by means of the Ratifying Resolution no. 226, ANEEL fixed the index of tariff repositioning of 2003 at 9.67%, on a permanent basis, and, consequently, the difference of revenue received due to the repositioning amounted to R\$102,292, requiring an additional provision in the 4th quarter of 2005 of R\$ 37,614. In the fiscal year of 2005 the realization of such asset amounted to R\$ 26,719.

6.3.2 - Escelsa

By means of the second periodic tariff revision established in the agreement for concession of electric power distribution of Escelsa, on August 7, 2001, ANEEL fixed, on a provisional basis, the tariff repositioning of the Company, resulting in a 19.89% increase, applied to the tariffs for supply of electric power effective August 7, 2001.

On August 7, 2004, ANEEL reduced such percentage, on a permanent basis, to 17.80% which resulted in a reduction in revenue in the amount of R\$ 56,720, recorded against the result of the year ended December 31, 2004.

(Amounts in thousands of Reais, unless otherwise indicated)

In the third periodic tariff revision established in the concession agreement of Escelsa, on August 7, 2004, ANEEL fixed the tariff repositioning on a provisional basis, resulting in an increase of 6.33%, which, added-up by the CVA of 3.63% and by the effects of the Emergency Program for Reduction of Consumption of Electric Power – PERCEE, of 0.11%, deducted of 5.11% referring to the difference resulting from the adjustment of the second periodic tariff revision, an average adjustment of 4.96% was applied on the tariffs for electric power supply effective August 7, 2004, which was in force up to August 6, 2005.

By the end of the period of tariff realization, on August 6, 2005, it was verified a non-realized balance of tariff return in the total amount of R\$ 4,879 (R\$ 34,967 in 2004).

On August 1st, 2005, ANEEL ratified the result of the third periodic tariff revision, fixing final values for the Regulatory Compensation Basis – BRR, depreciation rate and operating costs of the Reference Company, so that the tariff repositioning was increased from the provisional value of 6.33% to the final value of 8.58%, corresponding to a revenue increase in the amount of R\$ 17,162 to be financially offset by Escelsa in its tariffs. In the year of 2005 there was an amortization amounting to R\$ 7,353.

On August 5, 2005, ANEEL approved an average index of annual tariff adjustment of -1.63%, which, added-up by the referred addition of the revenue of the third revision of 1.49%, by the CVA of 3.03% and by the effects of the Emergency Program for Reduction of Electric Power Consumption – PERCEE of 0.02% and by the financial adjustment of PIS/COFINS of 2.02% resulted in an increase of 4.93%, to be applied to the tariffs for electric power supply of Escelsa, as from August 7, 2005 through August 6, 2006.

6.3.3 - Enersul

By means of the first periodic tariff revision established in the agreement for concession of electric power distribution of Enersul, on April 8, 2003, ANEEL fixed the tariff repositioning of the Company on a provisional basis, resulting in a 42.26% increase, 32.59% out of which were applied to the tariffs for electric power supply as from April 8, 2003, so that the difference should be recovered in four installments of R\$ 55,253, in the years from 2004 to 2007.

On April 8, 2004, ANEEL modified such percentage, on a provisional basis, to 43.59% and re-distributed the recovery of the difference in four cumulative installments in the amount of R\$ 28,389 each, to be added-up to the revenue of the tariff adjustments of the years 2004 to 2007.

On April 8, 2005, ANEEL fixed on a permanent basis, the tariff increase to 50.81%, re-distributing payment of the difference in four cumulative installments in the amount of R\$ 46,601 each, to be added up to the revenue of the tariff adjustments for the years from 2004 to 2007.

Such modification resulted in an increase of the revenue of the fiscal year in the amount of R\$ 169,533. The amount relating to the referred payment in installments is recorded every year in current assets and noncurrent assets, and will be recovered by inclusion in the electric power bills in the period beginning April 8, 2004 to April 7, 2008. The tariff repositioning related to the first periodic tariff revision of Enersul was approved on a final basis, pursuant to ANEEL Resolution 072, of 04/06/05, thus completing the process of the first periodic tariff revision of Enersul. The net effect of the tariff revision in the statement of income of the fiscal year was in the amount of R\$ 101,482. In the year 2005 there was an amortization amounting to R\$ 98,205.

Also on April 8, 2005, by virtue of the tariff adjustment established in the agreement for concession of electric power distribution of Enersul, ANEEL fixed the tariff adjustment of the Company, resulting in an increase of 20.69%, composed of 7.36% of IRT, 9.92% of installments of the difference of the first periodic tariff revision, 3.41% of CVA applied to the tariffs for electric power supply as from April 8, 2005.

7 - General agreement of the electricity sector

The General Agreement of the Electricity Sector to which the companies adhered on December 20, 2001, established conditions to solve contractual and administrative controversies, eliminating the possibility of occurrence of judicial or extra-judicial litigation on issues relating to the rationing period. The main aspects of the Agreement are listed herein below:

- Declaration of Desistance/Waiver;
- Agreement for Purchase of Net Contractual Surplus;
- Agreement for Reimbursement of Free Energy;
- Addenda to the Initial Agreements; and
- Energetic Development Account - CDE.

Based on the 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 Recomposition – RTE applicable to each concessionaire of electric power distribution, with the purpose of neutralizing the effects of loss of revenue resulting from the Emergency Program for Reduction of Electric Power Consumption – PERCEE, which was in force in the period comprehended between June, 2001 and February, 2002.

Notes to the Financial Statements

December 31, 2005 and 2004

On the other hand, the monthly variations of non-manageable costs ("Portion A"), also including the portions of additional cost with purchase of electric power at the level of the Chamber for Commercialization of Electric Power – CCEE (Free Energy) to be repassed to the Producers.

Pursuant to the provisions of Provisional Measure no. 14 (converted into Law no. 10.438/02), in order to reimburse the amount of Loss of Revenue, Free Energy and "Portion A", as from January, 2002, it was granted an extraordinary tariff adjustment of 2.9%, applicable to residential and rural consumers (except low-income consumers) and of 7.9% to the other consumers.

In the year 2002 there were granted resources corresponding to 90% of the amounts approved for Loss of Revenue and "Portion A", relating to opening of credit at the level of the Emergency and Exceptional Program of Financial Support to the Concessionaires of Public Services of Electric Power Distribution, through finance agreements with the BNDES, signed on February 13, 2002.

The ANEEL Normative Resolution 1, of January 12, 2004, re-published on June 1st, 2004, rectified to R\$ 231,667 the amount of Free Energy previously approved by ANEEL Resolution no. 483, of August 29, 2002 (Note 7.1), changed to 63 months for

Bandeirantes, 69 months for Escelsa and 73 months for Enersul the maximum term of permanence of the Extraordinary Tariff Recomposition – RTE in the tariffs for electric power supply previously established by ANEEL Resolution no. 484, of August 29, 2002, excluded from such term the amount relating to the variations of the items of "Portion A", verified in the year 2001 and established that its recovery will be made by means of a mechanism corresponding to the one established in Article 4 of Law no.10.438/02 and that for the Company, in its capacity of concessionaire of the public service of electric power distribution located in the National Interconnected System subject to the Emergency Program for Reduction of Electric Power Consumption – PERCEE, such recovery will be made immediately after the end of the Extraordinary Tariff Recomposition provided in Article 4 of Law no. 10.438/02, for the term necessary to reach the amount approved by ANEEL Resolution no. 482, of August 29, 2002.

7.1 - Composition of the RTE approved by ANEEL, representing the loss of revenue and free energy

The composition of the RTE is as follows:

Consolidated						
ITEMS	APPROVAL INSTRUMENT NUMBER	APPROVED VALUE	12/31/05		12/31/04	
			ACCRUED COMPENSATION	AMORTIZED VALUE	BALANCE TO BE AMORTIZED	BALANCE TO BE AMORTIZED
Loss of revenue	Resolutions No.	514.868	341.734	(566.895)	289.707	354.115
Provision for losses	480/02, 481/02 and 01/04				(87.905)	(25.339)
					<u>201.802</u>	<u>328.776</u>
ITEMS	APPROVAL INSTRUMENT NUMBER	APPROVED VALUE	ACCRUED COMPENSATION	12/31/05 AMORTIZED VALUE	BALANCE TO BE AMORTIZED	12/31/04 BALANCE TO BE AMORTIZED
Free energy	Resolutions No.	231.666	117.663	(161.088)	188.241	200.377
Provision for losses	01/04 and 45/04				(114.448)	(26.850)
					<u>73.793</u>	<u>173.527</u>

According to studies prepared by Management and that are periodically reviewed, the Company foresees that within the maximum established term there will be insufficient recovery of parts of such assets in Bandeirante and Escelsa, and, for such reason, for purposes of prudence, a provision for losses was recorded on December 31, 2005, at Bandeirante, and the provision previously recorded for losses at Escelsa was maintained.

However, based on the legislation that recorded the RTE itself and especially on the terms of the General Agreement of the Electricity Sector, Management will endeavor all efforts for full recovery of the referred credits.

(Amounts in thousands of Reais, unless otherwise indicated)

The values referring to Free Energy refer to the generated energy not linked to initial agreements or equivalent.

Monetary Correction:

ANEEL Resolution no. 31, of January 24, 2002 and the ANEEL Circular Letter no. 2.212, of December 20, 2005, determined that the remaining balance of the Extraordinary Tariff Recomposition should be compensated by the interest rate corresponding to the one charged to each concessionaire in the financing operations dealt with in Article 5 of the Provisional Measure no. 14, of December 21, 2001, resulting from a financing program subsidized by the National Bank for Economic and Social Development – BNDES, and, in the absence of such operation, the Selic rate

should be used. In the fiscal year of 2005 there was a Loss of Revenue amounting to R\$ 80,308 (R\$ 62,653 in 2004) and Free Energy amounting R\$ 49,952 (R\$ 35,925 in 2004), both recorded as balancing items of the net income of the year in the Financial Income group. Thereafter, Free Energy was recorded in the Suppliers caption, as a balancing item of the net income of the year in the Financial Expenses group, by virtue of the repass to the Producers.

Additionally, Bandeirante, Escelsa and Enersul are waiting for receipt of information from the Producers, related to the financings obtained by them, in order to comply with the terms of ANEEL Circular Letter no. 74, of January 23, 2006.

The composition of the RTE in liabilities is as follows:

ITEMS	Consolidated					
	APPROVED VALUE RES. No. 01/04 and 45/04	ACCRUED COMPENSATION	12/31/05		12/31/04	
			TOTAL ACCRUED	AMORTIZED VALUE	BALANCE TO BE AMORTIZED	BALANCE TO BE AMORTIZED
Free Energy Repass	231.666	116.626	348.292	(159.774)	188.518	208.779
Provision for Losses					(114.448)	(26.850)
					74.070	181.929

For the same amount of Free Energy it was recorded an obligation in current liabilities and noncurrent liabilities, under the account of Suppliers of electric power, with the corresponding debit in the net income in the account of Electric Power acquired for resale.

7.2 - Variation of items of "Portion A"

The agreements for concession of electric power distribution establish, in the composition of the tariffs practiced by the Concessionaires, values for each item of exogenous costs attributable to operating expenses, included in the variable called of "Portion A" of the formula of the "Index of Tariff Adjustment – IRT", demonstrated as follows:

- Tariff for repass of power originated from Itaipu Binacional;
- Tariff for transportation of electric power originated from Itaipu Binacional;
- Quota of contribution to the Fuel Consumption Account – CCC;
- Tariff for use of transmission installations that are part of the basic network;
- Financial compensation for the use of hydro resources;

- System Service Charges – ESS;
- Energy acquired, as established in the initial agreements;
- Quota of Global Reversal Reserve – RGR;
- Fee for inspection of electric power services;
- Connection charges;
- Energetic Development Account - CDE;
- Agreement for purchase of electric power in regulated environment - CCEAR; and
- Program of Incentive to Alternate Sources of Electric Power - PROINFA.

Upon the enactment of Provisional Measures no. 2.227 and 14 (converted into Law no. 10.438, of April 26, 2002), of September 4, 2001 and December 21, 2001, respectively and of ANEEL Resolution no. 90, of February 18, 2002, a graphic account was recorded to register the offset of positive or negative differences between the amounts paid for each item, from January 1st, 2001 to October 25, 2001.

The entries were made in noncurrent assets, under the Prepaid Expenses caption, which had balancing items in the income of the Operating Expenses account, due to their respective nature.

Notes to the Financial Statements

December 31, 2005 and 2004

7.2.1 - Composition of variation of the items of "Portion A" approved by ANEEL

ITEM	Consolidated					
	APPROVED VALUE	12/31/05			12/31/04	
	RESOLUTIONS No. 482/02 and 001/04	ACCRUED COMPENSATION	TOTAL ACCRUED	AMORTIZED VALUE	BALANCE TO BE AMORTIZED	BALANCE TO BE AMORTIZED
Portion "A"	124.906	136.978	261.884	-	261.884	225.896
	124.906	136.978	261.884	-	261.884	225.896

8 - Prepaid expenses

Monetary Correction:

The approved amount was updated based on the terms of ANEEL Circular Letter no. 2.212, of December 20, 2005, and in the year 2005, the amount of R\$ 35,987 (R\$ 29,651 in 2004) was recorded as a balancing item of the income of the year, in the Financial Income group.

	Consolidated			
	Current		Noncurrent	
	12/31/05	12/31/04	12/31/05	12/31/04
Portion "A" (Note 7.2.1)			261.884	225.896
CVA (Note 8.1)	65.231	133.449	3.231	90.608
Tax Rate Increase of PIS/Cofins (Note 8.2)	32.626	11.403	86.897	83.901
	97.857	144.852	352.012	400.405
Advanced coverage of Hedge Operations (Note 8.3)	7.575	-	21.447	-
Others	6.152	3.253	12.193	9.877
	13.727	3.253	33.640	9.877
	111.584	148.105	385.652	410.282

8.1 - CVA - Compensation of variation of costs of "Portion A" account

Period	Consolidated							
	Assets				Liabilities			
	Current		Noncurrent		Current		Noncurrent	
	12/31/05	12/31/04	12/31/05	12/31/04	12/31/05	12/31/04	12/31/05	12/31/04
From 10/26/01 to 09/23/02	2.586	2.673	307	3.099	218	227	26	264
From 03/08/02 to 03/07/03	12.852	22.358	-	7.453	3.250	5.655	-	1.885
From 08/08/02 to 08/07/03	17.990	41.244	-	16.983	4.973	11.401	-	4.695
From 09/24/02 to 09/23/03	55.390	55.320	6.362	64.137	19.233	20.112	2.313	23.318
From 03/08/03 to 03/07/04	3.872	10.397	-	-	863	2.315	-	-
From 08/08/03 to 08/07/04	1.694	21.927	-	-	1.185	15.337	-	-
From 09/24/03 to 09/23/04	7.201	44.169	-	-	3.407	20.818	-	-
From 03/08/04 to 03/07/05	5.394	10.196	-	3.721	1.217	2.616	-	872
From 08/08/04 to 08/07/05	23.979	8.289	-	11.884	22.276	4.643	-	6.500
From 09/24/04 to 09/23/05	38.044	-	-	25.744	45.086	-	-	4.879
From 09/24/05 to 12/31/05	-	-	11.814	-	-	-	18.538	-
From 08/08/05 to 12/31/05	16.630	-	25.659	-	16.600	-	23.241	-
From 03/08/05 to 12/31/05	3.156	-	4.957	-	5.249	-	1.750	-
Total	188.788	216.573	49.099	133.021	123.557	83.124	45.868	42.413

(Amounts in thousands of Reais, unless otherwise indicated)

It refers to the variations of the items of "Portion A" ascertained pursuant to Note 7.2 for the periods beginning on October 26, 2001.

The amounts are updated by the variation of the SELIC rate, and in the year 2005 it was recorded the amount of R\$ 29,248 (R\$ 29,725 in 2004) as a balancing item of the financial result. In the year 2005 there was an amortization amounting to R\$ 137,048 (R\$ 47,302 in 2004).

The Provisional Measure no. 127, of August 4, 2003, converted into Law no. 10.762/03 created the Emergency and Exceptional Program for Support to the Concessionaires of Public Services of Electric Power Distribution, designed to supply the insufficiency of resources arising from postponement of application of the offset mechanism dealt with in Article 1 of the Provisional Measure no. 2.227, of September 4, 2001, for the tariff adjustments and revisions made between April 8, 2003 and April 7, 2004, through a loan granted by the National Bank for Economic and Social Development – BNDES (Note 19).

8.2 - PIS and COFINS – Tax rate increase

Regulatory asset created by virtue of the amendments to Laws no. 10.833/03 and 10.637/02, which increased the PIS tax rate from 0.65% to 1.65% and the COFINS tax rate from 3% to 7.6%, the financial effects of which will be repassed to the tariffs. While awaiting a definition by ANEEL, so far the distributors have not registered any monetary correction of the balance receivable.

8.3 - Advanced coverage of hedge operations

It refers to advanced payment of adjustments to the projected future financial flows of Bandeirante, adjusted to present value, of the Hedge instruments for the total amount of the financing obtained from the Inter-American Development Bank – IDB (Note 19) established in the agreement to reduce credit risk exposure of both parties. Amortization of such amounts to the result will occur during the period of repayment of the financing, up to the year of 2012.

9 – Taxes and social contributions

	Parent Company		Consolidated			
	12/31/05	12/31/04	12/31/05		12/31/04	
	Current	Current	Current	Noncurrent	Current	Noncurrent
Assets - Recoverable						
Current Income and Social Contribution taxes	29.102	411	87.787	1.962	43.814	
ICMS			33.854	41.900	28.100	18.645
PIS and COFINS	211		19.013		15.757	
PIS and COFINS on repositioning difference provisional tariff						5.983
Others	2.275	8.847	11.174		14.152	1.019
Total	31.588	9.258	151.828	43.862	101.823	25.647
Liabilities - Payable						
ICMS			106.363	10.609	114.881	4.092
IRRF		40	8.076		145	
Current Income and Social Contribution taxes	4.595		56.592		29.226	42.878
PIS and COFINS	11.871	4.233	52.837	1.063	45.492	7.898
Others	305	500	25.056		10.784	
Total	16.771	4.772	248.923	11.672	200.528	54.868

According to Cosit Opinion no. 26/2002, it was required taxation of the extraordinary tariff recomposition – RTE at the time of effective reimbursement of such revenues. Concerning Bandeirante, the amount is R\$ 854, out of which R\$ 69,933 in 2004 (income tax, social contribution, PIS and COFINS); concerning Escelsa, the amount is R\$ 28,809 (income tax and social contribution); and concerning Enersul the amount is R\$ 226, out of which R\$ 9,142 in 2004 (PIS and COFINS).

Notes to the Financial Statements

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10 - Deferred income and social contribution taxes

10.1 - Assets

The tax credits listed below, which are incident upon the tax loss carryforward, negative basis of social contribution and other amounts that constitute deductible temporary differences that will be used to reduce the future tax burden were recognized based on the historical profitability of the Company and expectations of generation of taxable profits in the next fiscal years, within the maximum term of ten years.

	Consolidated			
	Current		Noncurrent	
	12/31/05	12/31/04	12/31/05	12/31/04
Income Tax on Tax Losses Carryforward	28.492	23.962	289.483	320.564
Negative Bases of Social Contribution	10.406	8.713	109.225	110.880
Income and Social Contribution taxes on Other Temporary Additions	44.725	20.965	150.233	152.953
Income and Social Contribution taxes on Provision for Social Security Deficit - PSAP	1.721	1.939	18.928	23.269
Income and Social Contribution taxes on Incorporated Tax Credit - premium	12.361	5.963	268.386	133.881
Total	97.705	61.542	836.256	741.547

The expected realization of deferred tax credits for a term not exceeding ten years is demonstrated below:

Realization Expectation	Consolidated							
	Total Current Assets	2007	2008	2009	2010	2011	After 2012	Total Noncurrent Assets
IRPJ and CSLL	97.705	230.501	176.234	103.326	83.208	47.038	99.615	836.256
	<u>97.705</u>	<u>230.501</u>	<u>176.234</u>	<u>103.326</u>	<u>83.208</u>	<u>47.038</u>	<u>99.615</u>	<u>836.256</u>

For compliance with the provisions of CVM Instruction no. 371/02, on December 31, 2005, Management prepared a projection of future taxable results, discounted to present value, demonstrating the capacity of realization of such tax credits in the indicated periods, which was approved by the Supervisory Board. Such estimates are periodically reviewed, so that any eventual changes in the perspective of recovery of such credits may be considered in the financial statements in due time.

10.1.1 - The tax credit resulting from the Provision for Social Security Deficit – PSAP refers to the portion of benefits exceeding the assets related to the social security plans of the defined benefit type, which provision, on December 31, 2001, was recorded as a balancing item to shareholders' equity, deductible at the time of the monthly payments, with expectation of termination in the year 2017.

10.1.2 - The premium tax credit originates from:

- at Bandeirante, from the merger that occurred in the year 2002, of the split-up portion of the former controlling company, Enerpaulo - Energia Paulista Ltda., represented by the premium paid by Enerpaulo at the time of acquisition of shares issued by Bandeirante;
- at Escelsa, from the merger that occurred in April, 2005, of the split-up portion of the controlling company, EDP Energias do Brasil S.A., represented by the premium paid

by the Merged companies, EDP 2000 Participações Ltda. and EDP Investimentos Ltda. at the time of acquisition of shares issued by IVEN, then controlling company of Escelsa; and

- at Enersul, from the merger that occurred in April, 2005, of the split-up portion of the former controlling company, Magistra Participações S.A., represented by the premium paid by Magistra, at the time of acquisition of the shares issued by Enersul, which were accounted for based on the CVM Instructions no. 319/99 and 349/99 and that, according to ANEEL's determination, will be amortized based on the curve between expectation of future results and term of concession of the Companies, resulting in an average annual realization of the tax credit of R\$ 6,085 to Bandeirante up to the year 2027, R\$ 1,767 to Escelsa up to the year 2025 and R\$ 5,069 to Enersul up to the year 2027.

10.1.3 - The projection of future taxable results indicates that the Companies had a basis of calculation sufficient for recovery of the full balance of the tax credits in the period, as demonstrated. However, concerning the credits related to PSAP and Premium, mentioned in Notes 10.1.1 and 10.1.2, they will be realized up to 2017 and 2027, respectively, pursuant to the amortization rules of the values related to them.

(Amounts in thousands of Reais, unless otherwise indicated)

10.2 - Liabilities

	Consolidated	
	12/31/05	12/31/04
Income Tax	66.555	111.782
Social Contribution	23.959	40.241
PIS	1.470	2.075
COFINS	6.761	9.561
	98.745	163.659
Current Liabilities	64.369	24.040
Noncurrent Liabilities	34.376	139.619

11 - Transactions with related parties

	Parent Company				Consolidated					
	Assets		Liabilities	Revenue (Expense)		Assets		Liabilities	Revenue (Expense)	
	12/31/05	12/31/04	12/31/05	12/31/05	12/31/04	12/31/05	12/31/04	12/31/04	12/31/05	12/31/04
Bandeirante	290	141.611		4.110	27.247					
Escelsa			7							
Enersul	77			163						
CESA	32.069									
Pantanal	55	2								
Escelsapar	2.446			213						
ESC 90	30.326			13.937		30.511	30.370		13.937	
TVIX	752					1.232				
Ace/Edinfor								4.518		(33.696)
Others	38					34	648			
Total	66.053	141.613	7	18.423	27.247	31.777	31.018	4.518	13.937	(33.696)

12 - Accounts receivable from Furnas

It referred to the sale of 40% of the equity held by EDP – Energias do Brasil S.A. in Enerpeixe S.A., occurred in 2003.

Payments were monthly made based on the variation of the IGP-M thru September, 2005.

13 - Accounts receivable from Petrobras

It referred to the sale of 80% of Fafen Energia S.A. that occurred on December 27, 2004, in the total amount of R\$ 96,000. (20% was already held by PETROBRAS).

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Payment of the amount will be made as follows:

- R\$ 48,000 and R\$ 24,000 paid in January and December, 2005, respectively; and
- R\$ 24,000 due on December 27, 2006.

The installments of the sale price are represented by "pro solvendo" promissory notes issued by PETROBRAS. The amounts of the installments are adjusted based on the accumulated variation of the IGP-M as from December 27, 2004.

14 - Advances for future capital increase

	Parent Company		Consolidated			
	Assets		Assets		Liabilities	
	12/31/05	12/31/04	12/31/05	12/31/04	12/31/05	12/31/04
Energest	29.340	3.169				
Enercorp		2.065				
EDP Lajeado		32.520				
Investco			216	1.478		
Enerpeixe					30.000	30.000
Couto Magalhães			1.211	1.173		
Enercouth					1.612	1.574
Total	29.340	37.754	1.427	2.651	31.612	31.574

EDP - Energias do Brasil S.A. recorded a provision for losses in the above amount, referring to Enercouth S.A., and for such reason, the amount will be pending in the liabilities.

The balance of advance payment for future capital increase of Enerpeixe refers to the credit of Furnas S.A. and the other balances refer to credits of the Company.

15 - Escrows and judicial deposits

The balance of such assets amounts to:

CLASSIFICATION/TYPE	Parent Company		Consolidated	
	12/31/05	12/31/04	12/31/05	12/31/04
Current				
Judicial deposits	127		211	66
	127	-	211	66
Noncurrent				
Judicial deposits (Note 23)	2.546		175.012	186.178
Securities in escrow -				
Secretariat of National Treasury	-		6.262	5.391
	2.546	-	181.274	191.569
	2.673	-	181.485	191.635

(Amounts in thousands of Reais, unless otherwise indicated)

16 - Investments

16.1 Investments in the year 2005

	Parent Company										
	<u>Bandeirante</u>	<u>Iven</u>	<u>Escelsa</u>	<u>Enersul</u>	<u>TVIX</u>	<u>Escelsapar</u>	<u>Pantanal</u>	<u>Cesa</u>	<u>EDP Lajeado</u>	<u>Enerpeixe</u>	<u>Energest</u>
Balance as of December 31, 2004	674.853	69.803							21.417	268.780	
Capital increase							600		32.520	223.544	11.860
Provision for losses											(2.860)
Acquisition of shares											
Incorporation of Investments											
Iven		(98.728)	275.930								
Split-up (Escelsa and Enersul)			414.135	664.053	(376)	434		54.222			
Escelsa											
Bandeirante	24.477										
Capital Gain upon share exchange			34.021								
Accrued dividends	(30.394)		(269.693)	(147.225)					(10.185)		
Capital increase/reduction per net asset			(3)	(3)			2	1			2
Incorporation of Investments -											
CESA and Pantanal							(48)	(56.328)			56.376
Goodwill amortization											
Prior-year adjustment	(24.289)		(8.142)	(8.959)							
Equity in income	41.420	28.925	126.909	85.474		(58)	(554)	2.105	106.606		16.742
Special premium reserve			35.348								
Capital loss											
Balance as of December 31, 2005	686.067	-	608.505	593.340	(376)	376	-	-	150.358	492.324	82.120

continues...

Notes to the Financial Statements

December 31, 2005 and 2004

...continuation

	Parent Company									
	Enertrade	Enercorp	Enercuto	Other Investments	Escelsa Discount	Provision for dividends maintenance of Magistra	Iven Goodwill	Bandeirante Goodwill	Enerpeixe Goodwill	Total
Balance as of December 31, 2004	49.275	4.908	1				23	34.620	3.643	1.127.323
Capital increase		(5.742)								262.782
Provision for losses			360							(2.500)
Acquisition of shares		1.391								1.391
Incorporation of Investments										
Iven										177.202
Split-up (Escelsa and Enersul)				36		227.007				1.359.511
Escelsa					(2.388)					(2.388)
Bandeirante										24.477
Capital Gain upon share exchange										34.021
Accrued dividends	(67.416)									(524.913)
Capital increase/reduction per net asset										(1)
Incorporation of Investments - CESA and Pantanal										-
Goodwill amortization						(7.461)	(23)	(1.458)	(63)	(9.005)
Prior-year adjustment										(41.390)
Equity in income	47.905	(492)	(361)							454.621
Special premium reserve										35.348
Capital loss		(65)								(65)
Balance as of December 31, 2005	29.764	-	-	36	(2.388)	219.546	-	33.162	3.580	2.896.414

	Consolidated						
	Provision for dividends maintenance of Magistra	Investco Goodwill	Escelsa Discount	Bandeirante Goodwill	Enerpeixe Goodwill	Other investments	Total
Balance as of December 31, 2004	348.169	17.692	(2.388)	34.621	3.641	9.743	411.478
Incorporation of Investments							
Split-up (Escelsa and Enersul)	(4.218)						(4.218)
Reclassification for tax credits	(116.943)						(116.943)
Reclassification of Goodwill to investment		(9.728)					(9.728)
Premium on acquisition of shares		218.291					218.291
Premium amortization	(7.461)	(285)		(1.459)	(62)	(23)	(9.289)
Write-off of other investments						(2.185)	(2.185)
Balance as of December 31, 2005	219.547	225.970	(2.388)	33.162	3.579	7.535	487.406

(Amounts in thousands of Reais, unless otherwise indicated)

EDP Lajeado proceeded with the analysis of recovery of its investment in Investco, based on the study prepared in December, 2005, by an independent appraiser, and concluded that the previously recorded provision was no longer necessary, so that it was reversed at the end of the year 2005, by virtue of the modification of premises such as: reduction of the Brazil risk and beginning of collection, by EDP Lajeado, of certain sectorial charges.

Concerning the operation described in Note 22, the participation of Centrais Elétricas Brasileiras S.A. - Eletrobrás in EDP Lajeado caused an increase of participation in Investco S.A., from 16.16%, in December, 2004 to 26.70% in December, 2005.

A premium in the amount of R\$ 218,291 was ascertained in such operation, as described below:

Value of Operation	295.113
Increase of participation in Investco S.A. at the book value per share (10.37% increase)	(76.822)
Value of Premium	218.291

Such premium, based on future profitability, is supported by an economic-financial appraisal report issued by independent appraisers and will be amortized on a straight-line basis, for the remaining term of the concession, up to 2032, generating no tax benefits to EDP Lajeado.

16.2 - Direct participation of investments

Direct Participation of EDP - Energias do Brasil S.A.				
Company	Parent Company		% interest	
	12/31/05	12/31/04	12/31/05	12/31/04
	Bandeirante	686.067	674.853	100,00%
Energest	82.120	-	100,00%	100,00%
Enertrade	29.764	49.275	100,00%	100,00%
EDP Lajeado	150.358	21.417	59,93%	100,00%
Iven	-	69.803	-	23,99%
Enerpeixe	492.324	268.780	60,00%	60,00%
Enercorp**	-	4.908	-	100,00%
Enercoutho	-	1	100,00%	100,00%
Escelsa	608.505	-	100,00%	-
Energul *	593.340	-	100,00%	-
Escelsapar *	376	-	100,00%	-
TV a Cabo Vitória - Tvix S.A.* and ****	(376)	-	97,40%	-
ESC 90 * and ***	-	-	-	-
Other investments	36	-	-	-
Goodwill	253.900	38.286	-	-
Total	2.896.414	1.127.323		

* Investments transferred to EDP - Energias do Brasil on 07/31/2005

** Enercorp was merged into Energest S.A.

*** ESC 90 is not consolidated and has provision for negative equity in the balance sheet amounting to R\$ 48.037 in December 2005.

**** TV a Cabo Vitória is not consolidated

Direct Participation of Escelsa				
Company	Parent Company		% interest	
	12/31/05	12/31/04	12/31/05	12/31/04
	Magistra*	-	874.549	-
Escelsapar **	-	629	-	100,00%
TV a Cabo Vitória - Tvix S.A.**	-	(375)	-	100,00%
ESC 90 **	-	-	-	97,40%
Other Investments	4.982	6.647	-	-
Total	4.982	881.450		

* Magistra was merged into EDP - Energias do Brasil on 07/31/2005

** Investments transferred to EDP - Energias do Brasil on 07/31/2005

Direct Participations of Iven *				
Company	Parent Company		% interest	
	12/31/05	12/31/04	12/31/05	12/31/04
	Escelsa	-	249.418	-
Total	-	249.418		

* Iven was merged into EDP Energias on 04/29/2005.

Direct Participations of Energest				
Company	Parent Company		% interest	
	12/31/05	12/31/04	12/31/05	12/31/04
	Costa Rica *	9.348	-	51,00%
Castelo Energética S.A.**	59.455	-	100,00%	-
Pantanal Energética Ltda **	4.767	-	100,00%	-
Total	73.570	-		

* Participation in Costa Rica was transferred to Energest as from 07/31/2005

** Participations transferred to Energest S.A as from 09/02/2005

Direct Participations of EDP Lajeado				
Company	Parent Company		% interest	
	12/31/05	12/31/04	12/31/05	12/31/04
	Investco*	197.742	104.451	26,70%
Total	197.742	104.451		

* Participation proportionally consolidated

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Direct Participations of Magistra*

Company	Parent Company		% interest	
	12/31/05	12/31/04	12/31/05	12/31/04
	Castelo Energética S.A.**		51.724	-
Enersul ***		338.866	-	65,20%
Goodwill		348.169		
Other		181		
Total	-	738.940		

* Magistra was merged into EDP - Energias do Brasil on 07/31/2005

** Participation in Castelo Energética S.A. was transferred to Energest S.A. as from 09/02/2005

*** Participation in Enersul was transferred to Escelsa as from 04/29/2005 and to EDP - Energias do Brasil as from 07/31/2005

Direct Participation of Enersul

Company	Parent Company		% interest	
	12/31/05	12/31/04	12/31/05	12/31/04
	Costa Rica*		9.524	-
Total	-	9.524		

* Participation in Costa Rica was transferred to Energest as from 07/31/2005

On April 29, 2005, at the Extraordinary Shareholders' General Meetings of EDP - Energias do Brasil S.A., Escelsa and its subsidiaries, Magistra and Enersul, approved an Instrument of Justification and Protocol of Partial Split-up and Merger of Companies and Shares, pursuant to the Relevant Fact of April 7, 2005, published on April 8, 2005.

The Reorganization contemplated the following corporate events, which occurred successively on the same date and in the following order:

1) partial split-up of Magistra, with the merger, into Enersul, of the split-up net assets represented by the participation held by MAGISTRA in the capital of ENERSUL and by the premium registered at the time of acquisition of the referred participation;

2) merger of Iven into EDP - Energias do Brasil S.A.;

3) partial split-up of EDP - Energias do Brasil S.A., with the merger of the split-up net assets into Escelsa;

4) merger of the shares issued by Enersul into Escelsa; and

5) merger of the shares issued by Escelsa and of the shares issued by Bandeirante into EDP - Energias do Brasil S.A..

The following specialized companies were selected to make the necessary appraisals, with the approval of the Companies' Extraordinary Shareholders' General Meetings:

(a) Appraisal of the Net Equity at Book Value of the Companies: the company selected was PricewaterhouseCoopers Auditores Independentes;

(b) Economic Appraisal for Determination of the Substitution Relations of the Companies: the company selected was Ernst & Young Consultores Associados Ltda;

(c) Appraisal of Net Equity at Market Value: Pursuant to Article 264 of Law no 6.404/76, for purposes of comparison with the criterion proposed to determine the substitution relations in each stage of the Reorganization, the company selected was ACAL Consultoria e Auditoria S/S.

On July 31, 2005, the second stage of the process of corporate reorganization was implemented, having as purpose to separate the activities of distribution, transmission and generation of the subsidiaries, Escelsa and Enersul, for compliance with the "de-verticalization" rules established by the New Model of the Electricity Sector Act.

The de-verticalization of activities may result in more transparency in the disclosure and determination of the result of operations of EDP - Energias do Brasil S.A., making easier the follow-up of the activities by the regulatory bodies and the access of EDP - Energias do Brasil S.A. to the capital market.

The de-verticalization process comprised: (a) the split-up of Escelsa, with the transfer of the split-up net equity to EDP - Energias do Brasil S.A., to Energest and to CESA; (b) the merger of Magistra into EDP - Energias do Brasil S.A.; (c) the split-up of Enersul, with transfer of the split-up net equity to Energest and to Pantanal Energética Ltda.; and (d) merger of Enercorp into Energest. After implementation of the second stage of corporate reorganization:

(i) Enersul, which capital was fully held by Escelsa, became a wholly controlled company of EDP - Energias do Brasil S.A.;

(ii) the debt of Escelsa to EDP - Energias do Brasil S.A., arising from the assumption of debt described above, was part of the portion of the split-up net equity of Escelsa incorporated into EDP - Energias do Brasil S.A., what caused the consequent extinction of the referred debt, due to the merger of debts;

(iii) the electric power producers, CESA and Costa Rica, previously directly and indirectly owned by Escelsa, respectively, became directly controlled by Energest, which, on its turn, is directly controlled by EDP - Energias do Brasil S.A.; and

(iv) other generation assets previously held by Escelsa and Enersul were transferred to Energest, CESA and Pantanal Energética Ltda, all directly or indirectly controlled by EDP - Energias do Brasil S.A..

(Amounts in thousands of Reais, unless otherwise indicated)

17 - Fixed assets

	Parent Company		Consolidated	
	12/31/05	12/31/04	12/31/05	12/31/04
In Service				
Generation	-	-	671.426	485.773
Transmission	-	-	35.900	26.877
Distribution	-	-	4.097.240	3.779.639
Commercialization	-	-	69.649	70.213
Administration	4.211	3.761	338.911	308.247
Provision for assets devaluation			-	(89.964)
Others			1.868	2.692
	4.211	3.761	5.214.994	4.583.477
(-) Depreciation				
Generation	-	-	(164.844)	(138.602)
Transmission	-	-	(7.926)	(7.357)
Distribution	-	-	(1.817.482)	(1.670.027)
Commercialization	-	-	(27.672)	(15.615)
Administration	(1.684)	(1.123)	(190.102)	(162.132)
Others			(1.243)	(1.172)
	(1.684)	(1.123)	(2.209.270)	(1.994.905)
	2.527	2.638	3.005.725	2.588.572
In Progress				
Generation	-	-	1.641.311	1.022.398
Transmission	-	-	85.778	7.521
Distribution	-	-	253.015	222.426
Commercialization	-	-	1.425	(596)
Administration	45	30	51.486	25.601
	45	30	2.033.015	1.277.350
Non-related activities				
Goodwill on merger of the Parent Company	-	-	908.499	460.584
(-) Provision for goodwill loss	-	-	(908.499)	(460.584)
Amortization of provision for goodwill loss	-	-	82.771	47.855
(-) Amortization of provision for goodwill loss	-	-	(82.771)	(47.855)
	-	-	-	-
Obligations linked to concession			(443.874)	(378.265)
Total	2.572	2.668	4.594.866	3.487.657

The composition of the obligations linked to the concession is the following:

	Consolidated	
	12/31/05	12/31/04
Contribution of consumers	248.234	223.709
Donations and subsidies	131.589	113.845
Federal Union Participation	34.971	15.826
State Participation	29.080	24.885
	443.874	378.265

17.1 - Concession-linked assets

Pursuant to Articles 63 and 64 of Decree no. 41.019, of February 26, 1957, the assets and installations used in the generation, transmission, distribution and commercialization are linked to such services and may not be removed, disposed of, assigned or given in mortgage guarantee without the previous and express authorization of the Regulatory Body.

The ANEEL Resolution no. 20, of February 3, 1999, regulates the separation of the assets from the concessions of Public Service of Electric Power, granting a previous authorization to separate the assets that do not serve the concession for disposal of, provided that the product of the disposal be deposited in a blocked banking account for use in the concession.

17.2 - Assets and rights of the Union used by the concessionaire

The assets of the Union under the administration of Escelsa comprise lands and old buildings that, due to the practical impossibility of utilization, are not being used, are unproductive and the amounts thereof are registered in the "Sistema Extrapatrimonial".

Notes to the Financial Statements

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18 - Suppliers

	Parent Company		Consolidated			
	Current		Current		Noncurrent	
	12/31/05	12/31/04	12/31/05	12/31/04	12/31/05	12/31/04
Electric Power Supply						
Itaipú (Eletrobrás)			111.490	99.408		
Furnas			35.680	48.323		
Tractebel			4.591	8.423		
Free energy			58.367	54.817	15.703	127.112
Energy auction			14.744	1.188		
Other suppliers			61.109	54.056		
CCEE			592	1.891		
Pis and Cofins of Power Producers			9.122			
Subtotal	-	-	295.695	268.106	15.703	127.112
Charges on the Use of Electric Power system			51.708	53.409		
Charges on System Services			2.920	782		
CCEE			-	56		
Subtotal	-	-	54.628	54.247	-	-
Materials and Services	557	3.844	128.054	87.512	714	
Total	557	3.844	478.376	409.865	16.417	127.112

19 - Loans, financing and related charges

19.1 - Table of composition of loans

	Parent Company							
	12/31/05				12/31/04			
	Charges		Principal		Charges		Principal	
Current	Noncurrent	Current	Noncurrent	Current	Noncurrent	Current	Noncurrent	
Foreign currency								
Citibank N.A.					247		31.401	
Senior Notes	2.095			45.702				
Subtotal	2.095	-	-	45.702	247	-	31.401	-
National currency								
Citibank S.A.								
Subtotal	-	-	-	-	-	-	-	-
Swap result								
Citibank N.A.					2.147		110.379	
Senior Notes	150	72		2.900				
Subtotal	150	72	-	2.900	2.147	-	110.379	-
Total	2.245	72	-	48.602	2.394	-	141.780	-

(Amounts in thousands of Reais, unless otherwise indicated)

Company	Consolidated								
	12/31/05				12/31/04				
	Charges		Principal		Charges		Principal		
Energias do Brasil	Current	Noncurrent	Current	Noncurrent	Current	Noncurrent	Current	Noncurrent	
Foreign currency									
Banco Itaú BBA S.A.(a)	Bandeirante	79		2.809		310	7.786	3.185	
Credit Suisse First Boston S.A. (b)	Bandeirante					11	53.088		
BID - Banco Interamericano de Desenvolvimento (c)	Bandeirante	2.538		47.133	186.937	1.979		265.440	
Banco Santander Brasil S.A.(d)	Bandeirante	1.117		25.772			37	29.226	
BNDES	Cesa	25		781	4.360	36	909	5.981	
BNDES	Energest	10		462	1.772				
Citibank N.A	Energias					247	31.401		
Senior Notes (n)	Energias	2.095			45.702				
BNDES	Enerpeixe		7.219		53.434			42.278	
BNDES	Enersul	16		1.874	1.561	30	2.180	3.996	
EUROPEAN INVEST BANK	Enersul	107		6.895	10.853	126	7.818	20.125	
STN-DMLP	Enersul	318		2.265	24.886	336	2.956	30.791	
BRADESCO (e)	Enersul	15		6.736		805	6.228		
UNIBANCO (f)	Enersul	70		1.251		166	36	6.360	1.646
Banco Itaú BBA S.A. FMO (g)	Enersul	76		1.268	1.268	194	3.594	2.876	
Banco Itaú BBA S.A. KE5 (h)	Enersul	241		9.470					
Banco Santander Brasil S.A. (i)	Enersul	111	176	10.031	9.668	41	27.263		
UNIBANCO (j)	Enersul		56		14.600				
Banco Itaú BBA S.A. CIEIG5.63 (k)	Enersul	158			11.592				
Banco Itaú BBA S.A. KC4 (m)	Enersul					950	36.643		
BNDES	Escelsa	13		2.934		79	10.780	6.014	
SENIOR NOTES (l)	Escelsa	12.214			266.493	52.431		1.143.935	
Subtotal		19.203	7.451	119.681	633.126	57.741	73	197.006	1.555.493

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	Company	Consolidated							
		12/31/05				12/31/04			
		Charges		Principal		Charges		Principal	
Energias do Brasil	Current	Noncurrent	Current	Noncurrent	Current	Noncurrent	Current	Noncurrent	
National currency									
BNDES - Extraordinary Tariff Recomposition	Bandeirante	386		80.668	73.520	814		56.819	139.157
BNDES - CVA	Bandeirante	367		43.408		687		43.324	39.207
Secured Accounts	Bandeirante	1.783		149.215		183		1.000	
BNDES - FINAME	Bandeirante	43		4.290	5.449	71		3.591	6.646
Consumers	Bandeirante					218		164	
Eletrobrás	Bandeirante			1.182	4.158	18		943	3.025
Interest on Reversion Fund	Bandeirante	73				73			
BNDES	Energest	82		4.287	16.078				
BNDES	Cesa	191		6.618	36.400	213		6.389	41.528
Eletrabras	Costa Rica	66		526	3.399	68		524	3.842
BNDES	Pantanal	4		392	458				
Others - FCO	Pantanal	4		54	371				
Citibank S.A.	Energias					2.147		110.379	
BNDES	Enerpeixe		77.333		624.058		24.711		412.642
Eletrobrás	Enersul	94		4.162	45.708	100		7.191	32.812
BNDES	Enersul	206		24.474	24.330	303		24.006	47.933
Banco Safra	Enersul	48		19.828		23		19.828	
BNDES - Extraordinary Tariff Recomposition	Enersul	192		12.053	55.846	382		13.644	67.557
BNDES - CVA	Enersul	10		1.144		180		15.212	5.713
Banco Itaú BBA S.A.	Enersul	5.746		18.000	92.000				
Bradesco	Enersul					20		2.228	
Fundação Enersul	Enersul	95		5.306	9.805	202		3.999	13.960
Secured Accounts	Enersul	131		6.260		30		27.000	
Banco do Brasil - FCO	Enersul	242		3.280	22.685	277		3.333	26.389
Banco Santander Brasil S.A.	Enersul	3.344		76.085					
Alfa Compror	Enersul	1.273		62.399					
BNDES	Escelsa	104		24.946		352		42.230	43.740
BNDES - CVA	Escelsa	163		19.267		364		26.257	17.505
BNDES - Extraordinary Tariff Recomposition	Escelsa	305		33.448	71.172	527		30.432	88.824
Secured Accounts	Escelsa			131.811				105.527	46.931
Eletrobrás	Escelsa			4.704	23.404			1.718	13.780
Banco Fibra	Investco	12		3.192		54		2.418	
Banco da Amazônia	Investco	1.252		3.915	17.091	706		2.145	12.151
BNDES	Investco	319		8.316	68.034	185		3.998	40.379
Debentures	Investco	1.054	4.988	8.831	67.243	681	1.425	5.238	40.924
Others	TVIX								1.289
Subtotal		17.589	82.321	762.061	1.261.209	8.878	26.136	559.537	1.145.934

(Amounts in thousands of Reais, unless otherwise indicated)

Company	Consolidated							
	12/31/05				12/31/04			
	Charges		Principal		Charges		Principal	
Energias do Brasil	Current	Noncurrent	Current	Noncurrent	Current	Noncurrent	Current	Noncurrent
Swap result								
Banco Itaú BBA S.A.(a)				1.757			2.091	822
Banco Santander Brasil S.A .(d)				9.565				926
BID - Banco Interamericano de Desenvolvimento (c)				25.843	59.988		3.080	43.107
Crédit Suisse First Boston S.A .(b)							976	
Sênior Notes (n)								
Enersul	150	72	-	2.900				
BRADESCO (e)				(204)			1.274	
UNIBANCO (f)				877			1.573	339
Banco Itaú BBA S.A.(g)				1.145	817		1.973	930
Banco Itaú BBA S.A. - KE5 (h)				1.591				
Banco Santander Brasil S.A. (i)				178	724		1.068	
UNIBANCO COMPROR (j)					1.096			
Banco Itaú BBA S.A. CIEIG15.63 (k)					489			
Banco ITAÚ BBA KC4 (m)							7.966	
HSBC (l)	3.909							
Escelsa					1.110			
Banco Santander Brasil S.A. . (l)					4.130			
Pactual (l)					4.116			
Banco Itaú BBA S.A. (l)					2.788			
Subtotal	4.059	72	40.752	78.158	-	-	20.001	46.124
Total	40.851	89.844	922.494	1.972.493	66.619	26.209	776.544	2.747.551

Notes to the Financial Statements

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19.2 – Additional information on the Bandeirante's debt service

Banco Itaú BBA S.A. – Foreign repass agreement supported by funds obtained from DEG - Deutsche Investitions und Entwicklungsgesellschaft MBH, entered into on February 5, 2002. The remaining balance corresponds to US\$1.2 million, with interest of 9.5% per annum to be due twice a year, in the months of March and September, with final maturity on March 15, 2006, guaranteed by a promissory note and that also establishes covenants, fully complied with so far, the non-compliance of which would result in the increase of the interest rate and acceleration of the loan. An exchange swap operation with characteristics of hedge was carried out for such loan.

Banco Santander Brasil S.A. – Resolution no. 2770/00 – agreement of US\$11 million, entered into on December 20, 2004, with interest of 4.15% per annum and guaranteed by a promissory note, with maturity of principal and charges in one single installment on December 11, 2006. An exchange swap operation with characteristics of hedge was carried out for such loan.

BID - Banco Interamericano de Desenvolvimento – Foreign financing agreement with participation of a consortium of Brazilian, Portuguese and Spanish banks, entered into on March 5, 2004, in the amount of US\$100 million, disbursed in the year 2004, with a two-year grace period to begin payment of principal and final maturity in up to 8 years, as follows:

- Tranche "A" - US\$38.9 million, with principal due in quarterly installments in the period of May 15, 2006 to February 15, 2012, remunerated by interest calculated based on the Libor rate added-up by 4.375% per annum, quarterly due as from May 15, 2004.
- Tranche "B" - US\$61.1 million, with principal due in quarterly installments in the period of May 15, 2006 to February 15, 2009, remunerated by interest calculated based on the Libor rate added-up by interest of 4% per annum, quarterly due as from May 15, 2004.

Such financing is designed to investment projects as guarantee of receivables of the Company for the supply of the electric power, with establishment of covenant (total debt in relation to total debt plus equity, total debt in relation to EBITDA and index of coverage of debt service, among other non-financial covenants), which have been fully complied with so far and the violation of which could result, totally or partially, in acceleration of the loan. An exchange swap operation with characteristics of hedge was carried out for such loan.

Credit Suisse First Boston S.A. – Resolution no. 2770/00 – Agreement entered into on March 9, 2004, in the amount of de US\$20 million, with principal and interest paid on December 28, 2005, with interest at the rate of 2.5% per annum, guaranteed by promissory notes. An exchange swap operation with characteristics of hedge was carried out for such loan.

BNDES - CVA – agreement entered into on April 7, 2004, according to the Emergency and Exceptional Program for Support of Concessionaires of Public Services of Electric Power Distribution, pursuant to Law no. 10.762/03. It is designed to supply

the insufficiency of resources resulting from postponement of application of the mechanisms for compensation of variation of the items of "Portion A" for the annual tariff adjustments and revisions referring to the period comprised between April 8, 2003 and April 7, 2004. In the year 2004 there were disbursed funds in the amount of R\$ 78,134. On the amount of principal there will accrue interest at the rate of 1% per annum above the annual adjusted average Selic rate, capitalized on the 15th day of each month as from the date of disbursement of the funds up to December 14, 2004 and monthly payable as from December 15, 2004, together with the installments of principal and final maturity on November 15, 2006, guaranteed by a bank account by linking the amount corresponding to 2.77% of the monthly revenue of the company.

BNDES – Extraordinary Tariff Recomposition – agreement entered into on February 13, 2002, according to the General Agreement of the Electricity Sector and Law no. 10.438/02. In the year 2002 there were disbursed funds in the amount of R\$ 306,105, corresponding to 90% of the amount of the Loss of Revenue and Compensation of Variation of the Items of "Portion A" Account, from January 1st, 2001 to October 25, 2001. Principal accrues interest at the rate of 1% per annum above the annual average adjusted Selic rate. The credit installment in the original amount of R\$ 250,736 and interest thereon is being monthly amortized as from March, 2002, in 55 monthly and successive installments with final maturity on September 15, 2006, and the credit installment in the original amount of R\$ 55,369 will be amortized in 9 monthly and successive installments, the first due on October 15, 2006 and the last on June 15, 2007, and during the grace period interest is being incorporated to principal of the loan. Both guaranteed by a bank account by linking the amount corresponding to 3.77% of the monthly revenue of the Company.

Secured Accounts – they refer to loans obtained from several domestic financial institutions to cover operating cash flow with average interest rate of 104.5% of the CDI, guaranteed by promissory notes.

Eletróbrás:

"Programa Luz no Campo" - agreement entered into on June 1st, 2000. Funds disbursed in the amount of R\$ 2,986 (R\$ 1,635 on 08/10/2000 and R\$ 1,351 on 12/06/2004). The updated balance due will accrue interest at the rate of 5% per annum and an administration fee of 1% per annum, both monthly due as from September 30, 2002. The balance due will be paid in 60 monthly, equal and successive installments, the first to be due on 09/30/2002 and the last on 08/30/2007. Guarantee by promissory notes and linking of own revenue.

"Programa Reluz" - agreement entered into on December 19, 2002. Funds disbursed in the amount of R\$ 511 on December 5, 2003. The updated balance due will accrue interest at the rate of 5% per annum and an administration fee of 1.5% per annum, both monthly due as from July 30, 2005. The balance due will be paid in 36 monthly, equal and successive installments, the first to be due on 07/30/2005

(Amounts in thousands of Reais, unless otherwise indicated)

and the last on 06/30/2008. Guarantee by promissory notes and linking of own revenue.

"Programa Luz para Todos" - agreement entered into on May 28, 2004. Credit line in the amount of R\$ 11,523 as financing and an economic subsidy of R\$ 1,773. Funds disbursed in the amount of R\$ 3,457 (R\$ 1,152 on 07/22/2004 and R\$ 2,305 on 08/05/2005) as financing and R\$ 532 as economic subsidy. The updated balance due will accrue interest at the rate of 5% per annum and an administration fee of 1% per annum, both monthly due as from July 30, 2004. The balance due will be paid in 120 monthly, equal and successive installments, the first to be due on 08/30/2006 and the last on 07/30/2016. The non-disbursed balance will accrue a credit reserve commission of 1% per annum, due every 30th day of each month, up to full disbursement. Guarantee by promissory notes and linking of own revenue.

19.3 – Additional information on the Escelsa's debt service

BNDES (Foreign currency) - agreement entered into in October, 2001, with repass of funds through the Banks ITAÚ (leader), ALFA and SUDAMERIS, destined to investments in transmission and distribution of electric power. In the year 2001 there were disbursed funds in the amount of R\$ 57,357. The updated balance due will accrue interest at the rate of 3.5% per annum + UMBNDES, monthly due together with the installments of principal, with final maturity on April 15, 2006. The guarantee established is the linking of the revenue from electric power services in the amount corresponding to, at least, 1.4 (one point four) times the amount of the highest installment due by the beneficiary.

SENIOR NOTES - It refers to the residual balance of raising of funds through the notes called "Senior Notes" (Notes) in the total amount corresponding to US\$ 113,852, with single maturity in July, 2007, and interest at the rate of 10% per annum, payable twice a year, in January 15 and July 15 of each year. On May 21, 1998, the referred notes were listed with the Securities and Exchange Commission of the United States, pursuant to the Securities Act of 1933. For such purposes several swap operations were carried out, as demonstrated in the above table, further to application in exchange notes, destined to reduce the net debt exposure. On July 7, 2005, a part of the Senior Notes migrated to the controller, EDP Energias do Brasil, by means of the Instrument for Formalization of Effectiveness of Assumption of Debt in the amount of R\$ 794,103.

BNDES (National currency) - agreement entered into in September, 1998, with repass of funds through the banks UNIBANCO (leader), CITIBANK and ITAU, destined to the program of investments in substations, transmission and distribution of electric power. In the fiscal year of 1998 there was disbursement of funds in the amount of R\$ 131,000. Principal will accrue interest at the rate

of 3.8% per annum + TJLP, monthly payable as from November 15, 1999, together with the installments of principal and with final maturity on October 15, 2006. The established guarantee is a part of the monthly earnings from electric power services in the amount corresponding to, at least, 130% of the installments of principal and accessories of the debt.

BNDES - CVA - agreement entered into in December, 2003, according to the Emergency and Exceptional Program for Support of Concessionaires of Public Services of Electric Power Distribution, pursuant to Law no. 10.762/03. It is designed to supply the insufficiency of resources resulting from postponement of application of the mechanisms for compensation of variation of the items of "Portion A" for the annual tariff adjustments and revisions referring to the period comprised between April 8, 2003 and April 7, 2004. In the year 2003 there were disbursed funds in the amount of R\$ 22,788 and in 2004, in the amount of R\$ 23,724. On the amount of principal there will accrue interest at the rate of 1% per annum above the annual adjusted average Selic rate, capitalized on the 15th day of each month as from the date of disbursement of the funds up to August 15, 2004 and monthly payable as from September 15, 2004, together with the installments of principal and final maturity on August 15, 2006, guaranteed by a bank account by linking the amount corresponding to 2.95% of the monthly revenue of the company.

BNDES – Extraordinary Tariff Recomposition – agreement entered into in February, 2002, according to the General Agreement of the Electricity Sector and Law no. 10.438/02. In the year 2002 there were disbursed funds in the amount of R\$ 166,226, corresponding to 90% of the amount of the Loss of Revenue and Compensation of Variation of the Items of "Portion A" Account, from January 1st, 2001 to October 25, 2001. Principal will accrue interest at the rate of 1% per annum above the annual average adjusted Selic rate. The credit installment in the original amount of R\$ 131,861 and interest thereon is being monthly amortized as from March, 2002, in 59 monthly and successive installments with final maturity on January 15, 2007. The credit installment in the original amount of R\$ 34,365 will be amortized in 11 monthly and successive installments, the first due on February 15, 2007 and the last on December 15, 2007, and during the grace period interest is being incorporated to principal of the loan. Both guaranteed by a bank account by linking the amount corresponding to 5.75% of the monthly revenue of the Company.

Secured ACCOUNTS – They refer to loans obtained from several national financial institutions for coverage of operating cash flow with interest rate varying from 106% to 106.5% of CDI, guaranteed by Promissory Notes.

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ELETRORÁS:

"PROGRAMA LUZ PARA TODOS" - Program created by Decree no. 4.873, of November 11, 2003, coordinated by the Ministry of Mines and Energy and implemented by ELETRORÁS. Agreement entered into on May 21, 2004, being in 2004 there were disbursed funds in the amount of R\$ 17,867. Principal will accrue interest at the rate of 5% per annum and an administration fee of 1% per annum, both monthly due as from October 30, 2004. Principal installments will be paid as from July 30, 2006 up to June 30, 2016, guaranteed by linking of the own revenue and Promissory Notes.

"PROGRAMA RELUZ" - several agreements entered into with ELETRORÁS, relating to the Program for Financing of Projects for Energetic Maintenance and Efficiency for the Municipalities of Vila Velha, Serra, Ibirapu, Aracruz, in the contracted amount of R\$ 17,023. The balance due will accrue interest at 5.0% per annum and an administration fee of 1% per annum, monthly incorporated during the grace period. The principal installments will be paid monthly, as from termination of the grace period, guaranteed by linking of the own revenue and Promissory Notes.

19.4 – Additional information on Enersul's debt service

BNDES (Foreign currency) - agreement entered into in February, 2003 for financing of works, in the amount of R\$ 6,663, with funds of the National Bank for Economic and Social Development – BNDES, through Banco ALFA (leader) and participation of Itaú BBA, amortization in 36 monthly installments and 4% interest indexed to the Basket of Currencies (UMBNDDES + Variable Interest Rate + Income Tax), terminating in October, 2007, with guarantee of receivables and promissory note.

European Invest Bank - no. IE0.63/01 agreement signed in April, 2000, with a credit line of US\$ 15,000, repassed by Itaú BBA destined to financing of works, amortization in 11 semi-annual installments, interest of quarterly Libor rate added-up by 5.0% per annum, updated by the exchange rate, ending in June, 2008, guaranteed by a promissory note and Guarantee ("Aval") by EDP -Energias do Brasil.

no. OB1.63/01 - agreement signed in February, 2001, with a credit line of US\$ 1,200, repassed by Itaú BBA destined to financing of works, amortization in 11 semi-annual installments, interest of quarterly Libor rate added-up by 4.0% per annum, updated by the exchange rate, ending in March, 2009, guaranteed by a promissory note and Guarantee ("Aval") by EDP -Energias do Brasil.

National Treasury Secretariat - STN - (Medium and Long Term DMLP Debt) – agreement signed in March, 1997, in the amount of US\$ 14,616, object of foreign obligations arising from medium and long term loan agreements from foreign creditors, not deposited with the Central Bank of Brazil, pursuant to Resolutions no. 1.541/88, 1.564/89, of the National Monetary Council and its normative acts, including the installments with maturity after December, 1993. Object of exchange for Bonus issued by the Union,

pursuant to Resolutions no. 98/92, 90/93 and 132/93. Updated by the variation of the exchange rate informed by the SISBACEN PTAX-800, option 1, variable semi-annual Libor rate added-up by 7/8 and 13/16 of 1% per annum and fixed rates of 6% to 8% plus a 0.2% commission, with semi-annual amortization, ending in April, 2004, guaranteed by the Government of the State, Own Revenue and Escrow of part of the debt.

Banco BRADESCO – Agreement no. 289.242-1 signed in December, 2005, in the amount of US\$ 2,878, amortization in one single installment, interest at the rate of 4.82% per annum. Such loan involved a swap operation in order to protect against financial risks from variation of assets and liabilities, with interest at the rate of 1.0% per annum plus CDI, ending in March, 2006, guaranteed by a Promissory Note.

Banco UNIBANCO - Agreement no. 337.742-1 signed in March, 2004, in the amount of US\$ 4,964, with amortization in 24 monthly installments, interest from 2.4% to 5% per annum. Such loan involved a swap operation in order to protect against financial risks from variation of assets and liabilities, with updated CDI + 3%, guaranteed by Receivables.

Agreement no. 358.810-0 (COMPROR)- Agreement signed in July, 2005, in the amount of US\$ 7,118, in a single installment, interest of 1% per annum. Such loan involved a swap operation in order to protect against financial risks from variation of assets and liabilities, with updated 110% CDI, guaranteed by a Promissory Note, ending in August, 2007.

BBA - FMO - (Netherlands Development Finance Company) - Agreement no. JJ1.63/05 signed in October, 2001, with a credit line of US\$ 6,500, repassed by Itaú BBA, designed to financing of works with amortization in 11 semi-annual installments, interest at the rate of 8.90% per annum, updated by the exchange rate. Such loan involved a swap operation in order to protect against financial risks deriving from variation of assets and liabilities, with interest at the rate of 0.95% per annum plus CDI, ending in September, 2007 guaranteed by a Promissory Note and the Guarantee ("Aval") by EDP Energias do Brasil.

Itaú BBA - KE5.63/07 - Agreement signed in May, 2005, in the amount of US\$ 1,345, with interest at the rate of 4.0% per annum, amortization in a single installment in April, 2006, with a swap operation in order to protect against financial risks deriving from variation of assets and liabilities, with 110% CDI and guarantee ("Aval") by EDP – Energias do Brasil. **KE5.63/08** - Agreement signed in May, 2005, in the amount of US\$ 2,701, with interest at the rate of 4.0% per annum, amortization in a single installment in April, 2006, with a swap operation in order to protect against financial risks deriving from variation of assets and liabilities, with 110% CDI and guarantee ("Aval") by EDP – Energias do Brasil. **CI5.63/01** - Agreement signed in September, 2005, in the amount of US\$ 2,145, with interest at the rate of 4.0% per annum, amortization in a single installment in January, 2008 and interest payable on a semi-annual basis, with a swap operation in order to protect against financial

(Amounts in thousands of Reais, unless otherwise indicated)

risks deriving from variation of assets and liabilities, with 109% CDI and ending on January, 2008. **EI5.63/02** - Agreement signed in September, 2005, in the amount of US\$ 1,413, with interest at the rate of 4.62% per annum, amortization in a single installment in January, 2008 and interest payable on a semi-annual basis, with a swap operation in order to protect against financial risks deriving from variation of assets and liabilities, updated at 109% of the CDI and terminating in January, 2008. **GI5.63/01** - Agreement signed in September, 2005, in the amount of US\$ 1,394, with interest at the rate of 4.54% per annum, amortization in a single installment in January, 2008, with a swap operation in order to protect against financial risks deriving from variation of assets and liabilities, updated at 109% of the CDI and ending in January, 2008.

Banco Santander - Agreements no. 101286704 and no. 101248704 signed in November, 2004, in the amount of US\$ 20,000, Renewal of the operation due on November 25, 2005, **no.1073623**, with interest at the rate of 3.8% per annum, maturity of principal and charges in March, 2006. Such loan involved a swap operation in order to protect against financial risks arising from variations of assets and liabilities, being updated at 109% of the CDI, guaranteed by a Promissory Note. **COMPROR no.150124605** - Credit Opening Agreement signed in July, 2005, in the amount of US\$ 6,400: in July of 2005 there was a disbursement of R\$ 7,806, corresponding to US\$ 3,285, interest of 4.10% per annum, with annual maturity of principal and charges. **no.150144505** - agreement signed in August, 2005, with disbursement of the amount of R\$ 4,405 corresponding to US\$ 1,854, with interest at the rate of 4.70% per annum, amortization of principal and charges in annual single installment. In August there was a disbursement of the amount of R\$ 2,427, corresponding to US\$ 1,056, interest at the rate of 4.70% per annum, maturity of principal and charges in annual single installment. Such loans involved a swap operation in order to protect against financial risks arising from variation of assets and liabilities, being updated at 110.50% of the CDI, ending in June, 2008, guaranteed by a Promissory Note.

ELETROBRÁS - IRD's (Debt Confession Instrument) - Funds originating from a repass of the Federal Government consisting of a financing of the Federal Electricity Fund to the Concessionaire, amortization in 80 quarterly equal installments and interest rate of 8% per annum, ending in May, 2022. **Capitalization and Financing Loans ECF-1975/00** - Amount of R\$ 25,608, funds for financing of the Rural Electricity Program that is part of the "Programa Luz no Campo", 1st stage, interest of 6% per annum, ending on 07/30/2012. **ECF-2162/02** - amount of R\$ 1,500 funds for financing of the Rural Electricity Program that is part of the "Programa Luz no Campo", 2nd stage, interest of 6% per annum, ending on 06/30/2015. **ECFS-024-B/2005** - amount of R\$ 18,103, remaining the disbursement of R\$ 12,840, to finance the National Program of Rural Electricity that is part of the "Programa de Universalização - "Luz para Todos" - MME - corresponding to 39.67% of the total cost of the works, amortization in 120 monthly, equal and successive installments, interest at the rate of 6.0% per annum, ending on

06/30/2016, guaranteed by Revenue and a Promissory Note. **ECFS-097/05** - Amount of R\$ 19,642, disbursement of R\$ 5,893 to finance the 2nd Tranche of the National Program for Rural Electricity, which is part of the "Programa de Universalização - "Luz para Todos" - MME - corresponding to 45.3% of the total cost of the works, amortization in 120 monthly, equal and successive installments, interest at the rate of 6% per annum, ending on 11/30/2017; **ECF-2480/05** - Amount of R\$ 893, disbursement of R\$ 89, implementation of the "Programa Luz para Todos", through Adaptation of the 138 kV Substation of the Itamarati Farm in order to serve the "Assentamento Itamarati", amortization in 60 monthly, equal and successive installments, interest at the rate of 7% per annum, ending on 11/30/2012;

All the **ECFs** being guaranteed by Revenue and Promissory Note.

BNDES - Agreement signed in February, 2003 to finance works, in the amount of R\$ 27,084, with funds from the BNDES (Finem/Finame) through Banco ALFA as the Leader and participation of Banco Itaú BBA. Amortization in 36 monthly installments and interest at the rate of 4% per annum, indexation of the TJLP, ending in September, 2007, guaranteed by Receivables and Promissory Note.

Banco Safra S.A. - Agreement for the granting of Loans - **COMPROR, 06/27/05** with a credit limit of R\$ 20,000, interest of 107% of the CDI and maturity in April, 2006, guaranteed by Promissory Note.

BNDES - Agreement signed in July, 1999 to finance works, in the amount of R\$ 73,300 for financing of works, with funds from the BNDES (Finem/Finame) through Banco UNIBANCO as the Leader and participation of Banco Itaú BBA and Banco ALFA. Amortization in 78 monthly installments and interest at the rate of 3.85% per annum, indexation of the TJLP, ending in February, 2008, guaranteed by Receivables.

BNDES - Extraordinary Tariff Recomposition - agreement entered into in February, 2002, according to the General Agreement of the Electricity Sector and Law no. 10.438/02. In the year 2002 there were disbursed funds in the amount of R\$ 100,767, corresponding to 90% of the amount of the Loss of Revenue and Compensation of Variation of the Items of "Portion A" Account, from January, 2001 to October 25, 2001 (note 7). Principal will accrue interest at the rate of 1% per annum above the annual average adjusted Selic rate. The credit installment in the original amount of R\$ 78,085 and interest thereon is being monthly amortized as from March, 2002, in 67 monthly and successive installments with final maturity on September 15, 2007. The credit installment in the original amount of R\$ 22,682 will be amortized in 15 monthly and successive installments, the first due on October 15, 2007 and the last on December 15, 2008, and during the grace period interest is being incorporated to principal of the loan. Both guaranteed by a bank account by linking the amount corresponding to 3.63% of the monthly earnings of the Company.

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BNDES - CVA - agreement entered into in December, 2003, according to the Emergency and Exceptional Program for Support of Concessionaires of Public Services of Electric Power Distribution, pursuant to Law no. 10.762/03. It is designed to supply the insufficiency of resources resulting from postponement of application of the mechanisms for compensation of variation of the items of "Portion A" for the annual tariff adjustments and revisions referring to the period comprised between April 8, 2003 and April 7, 2004. In the year 2003 there were disbursed funds in the amount of R\$ 22,405 and in 2004, in the amount of R\$ 5,711. On the amount of principal there will accrue interest at the rate of 1% per annum above the annual adjusted average Selic rate, capitalized on the 15th day of each month as from the date of disbursement of the funds up to April 15, 2004 and monthly payable as from May 15, 2004, together with the installments of principal and final maturity on April 15, 2006, guaranteed by a bank account by linking the amount corresponding to 2.97% of the monthly revenue of the company.

Itaú BBA - IB5.01/02, Agreement signed in February, 2005, in the amount of R\$ 30,000, updated based on CDI + 2.4% per annum, with maturity of principal in semi-annual installments as from July, 2008 and charges in semi-annual installments as from July, 2005, ending in January 2010, guaranteed by the Guarantee ("Aval") of EDP Energias do Brasil. **FC5.01/01**, Agreement signed in March, 2005, in the amount of R\$ 35,000, updated based on CDI + 2.4% per annum, with maturity of principal in semi-annual installments as from December, 2008 and charges in semi-annual installments as from December, 2005, ending in June, 2010, guaranteed by the Guarantee ("Aval") of Magistra. **HC.01/01**, Agreement signed in March, 2005, in the amount of R\$ 15,000, updated based on CDI + 2.4% per annum, with maturity of principal in semi-annual installments as from August, 2008 and charges in semi-annual installments as from August, 2005, ending in February 2010, guaranteed by the Guarantee ("Aval") of EDP Energias do Brasil, and **VC5.01/03**, Agreement signed in March, 2005, in the amount of R\$ 30,000, updated based on CDI + 2.28% per annum, with maturity of principal in semi-annual installments as from April, 2006 and charges in semi-annual installments as from October, 2005, ending in October, 2007, guaranteed by the Guarantee ("Aval") of Magistra and Fiduciary Assignment of Public Notes – Assignor Espírito Santo Centrais Elétricas S.A. – ESCELSA.

Fundação Enersul 02/97 – Instrument for re-establishment and Payment in Installments of the consolidated debt up to February, 1997, for regularization of contributions due of Enersul, agreement signed in June, 1997, in the amount of R\$ 13,157, with amortization in 120 monthly installments and interest at the rate of 10% per annum, indexation to INPC, ending in June, 2008, guaranteed by a Promissory Note.

Secured Accounts – They refer to loans obtained from several national financial institutions for coverage of operating cash flow with an average interest rate of 104.89% of the CDI, guaranteed by Promissory Notes.

Banco do Brasil - FCO - Agreement signed in November, 2001, for financing of works with resources from the Constitutional Fund of the Mid West – FCO, through Banco do Brasil, with disbursement of R\$ 30,000, with amortization in 108 monthly, equal and consecutive installments, interest at the rate of 11.1987% per annum, ending in November, 2013, guaranteed by a Guarantee ("Aval") of EDP – Energias do Brasil and bank intervenience.

Banco Santander - Agreements no. 150076605, 150077105, 150080305, 150083205, 150085705, 150089405 signed in June, 2005, in the amount of R\$ 22,000, updated at 110% of the CDI, with maturity of principal and charges in a final installment in June, 2006. **Renegotiation of Agreements** on December 1st, 2005, in the amount of R\$ 54,930, in a single installment with interest of 108.80% of the CDI, ending in May, 2006, guaranteed by Promissory Note.

Banco Alfa - Rotating Credit Agreement no. 257003851 – signed in July, 2005, in the amount of R\$ 11,200, with interest at the rate of 108.5% per annum, amortization of principle in a single installment in January, 2006 and monthly payments of interest, guaranteed by a Promissory Note. **COMPROR - no. 257003868, 257003900** – agreements signed in July, 2005, in the amount of R\$ 8,340, interest at the rate of 108.50% per annum of the CDI, amortization of principal and interest in January, 2006. **no. 256004480, 256004487, 256004513 and 356004542** – agreements signed in November, 2005, in the amount of R\$ 19,517, monthly payment of interest at the rate of 104.74% per annum of the CDI and amortization of principal in a single installment in February, 2006. **no. 256004713, 256004732 and 256004754** – agreements signed in December, 2005, in the amount of R\$ 14,842, amortization of principal and interest in a single installment in March, 2006, interest of 104.74% per annum of the CDI, guaranteed by Promissory Note.

19.5 – Additional information on the Enerpeixe's debt service

The balance of loans and financings arises from the financial support of BNDES, in the total amount of R\$ 670,000, approved pursuant to the Decision of the Directors of the BNDES, no. 691/2003, of November 10, 2003 and contracted on May 21, 2004, out of which R\$ 335,000 were directly contracted and R\$ 335,000 through financial agents.

Financial conditions

Grace period up to February, 2007.

Amortization

- Concerning sub-credits A and C, 12 monthly and successive installments, the first being due on March 15, 2007 and the last on February 15, 2008.

(Amounts in thousands of Reais, unless otherwise indicated)

- Concerning sub-credits B and D, 108 monthly and successive installments, the first being due on March 15, 2008 and the last on February 15, 2017.

Charges

- Concerning sub-credits A and C, a variable quarterly adjusted rate based on the weighted average cost of all fees and expenses incurred by BNDES to raise the funds in foreign currency, added-up by 4.5% per annum, during the term of validity of the guarantee ("fiança") granted by EDP Energias de Portugal S.A.
- Concerning sub-credits B and D, the TJLP (Long Term Interest Rate) index added-up by 4.5% per annum during the validity of the guarantee ("fiança") granted by EDP Energias de Portugal S.A.
- The aforementioned spreads started to be of 6% per annum as from the effective date of validity of the guarantee ("fiança") granted by EDP Energias do Brasil S/A in substitution to the guarantee ("fiança") granted by EDP Energias de Portugal S/A. Such fee may be reduced to 5% per annum, if EDP Energias do Brasil S/A presents a minimum capitalization index of 38% and the Company presents a coverage index of the debt service of 1.3.

Guarantees

(i) Pledge of shares corresponding to 60% of the capital of the beneficiary, held by EDP Energias do Brasil S/A.

(ii) Pledge of the rights arising from the concession, including, among others:

- The credit rights of the beneficiary arising from sale of the electric power produced by UHE Peixe Angical to the companies: Bandeirante Energia S.A., Espírito Santo Centrais Elétricas S.A. - ESCELSA, Empresa Energética de Mato Grosso do Sul S.A. - ENERSUL and Centrais Elétricas Mato-grossenses S.A. - CEMAT.
- The guarantees contained in the Agreement for Sale and Purchase of Electric Power - CCVEs.

(iii) To maintain in a financial reserve account the amount corresponding, at least, to three months of the amortization installment, interest and charges, as well as three months of payment of the O&M (Operation and Maintenance Agreement) during the amortization phase.

(iv) Letter of guarantee of EDP Energias de Portugal S.A. governed by the Portuguese laws, which shall be replaced by the guarantee of EDP Energias do Brasil S/A, upon compliance with the contractual obligations.

19.6 – Additional information on the Investco's debt service

Debentures - Series of debentures issued by Investco during the years of 2002 and 2003, with the following main characteristics: (i) 2002 issuance – charges

calculated based on the variation of the IGP-M, added-up by interest of 12.8% per annum, due in November, 2011 (during the year of 2002 the charges calculated to such time were capitalized to principal and are being repaid in monthly payments as from November, 2003, up to 2011); (ii) 2003 issuance – convertible in preferred shares, due in November 2011, interest of TJLP added-up by a spread of 4% per annum. The two series are guaranteed by the shareholders.

BNDES - Credit Opening Agreement signed with BNDES, with the intervenience of the shareholders of Investco and its controlling companies on September 21, 2000, due on October 15, 2012, in the total amount of R\$ 180,000 and Credit Opening Agreement through Repass of Loan contracted with BNDES, entered into with Banco Itaú, Bradesco, BBA Creditanstalt and Banco ABC, with intervenience of the shareholders of Investco and its controlling companies, on September 21, 2000, due on October 15, 2012, in the amount of R\$ 120,200. Among other obligations, Investco also committed to maintain, up to final liquidation of the BNDES agreements, the list of Net equity/Total Assets equal to or exceeding 30%, as well as cash funds in the minimum amount of R\$ 3,000.

BASA – Agreements with the Banco da Amazônia S.A., entered into on September 30, 1999 with BASA, with the intervenience of EEVP, CEMAT, CEB, CPEE, CELPA, CELTINS, and Energest, in the capacity of guarantors, due on December 10, 2009, in the total amount of R\$50.0 million; and the Finance Agreement signed on December 28, 2000 with BASA, with the intervenience of CELPA, CELTINS and Agro Pastoral Lajeado Ltda. ("Agro Pastoral"), in the capacity of mortgagor, and of the shareholders of Investco, in the capacity of guarantors, due on January 10, 2010, in the total amount of R\$44,300.

The amounts are consolidated at EDP Lajeado in proportion to its equity interest of 16.33% in December, 2004 and of 26.70% in December, 2005.

19.7 – Additional information on the debt service of Cesa - Castelo Energética S.A.

BNDES - Agreement entered into in February, 2002, destined to implantation of three Small Power Plants – PCH's, in Viçosa and São João, in the State of Espírito Santo, with an installed power of 4MW and 25MW, respectively; and in Paraíso, State of Mato Grosso do Sul, with an installed power of 21MW. In the fiscal year of 2002 there was a disbursement of funds in the amount of R\$ 39,280 and in 2004 of R\$ 17,565. The principal accrues interest at the rate of 4.5% per annum + TJLP (national currency) and 4.5% + UMBNDES (foreign currency), monthly payable together with the installments of principal, with final maturity on 07.15.2012. The contracted guarantees are the following: (i) linking of the receivables arising from the authorization granted by ANEEL, either by extinction of the authorizations, sale and purchase of electric power and the right to generate electric power by its plants (PCH); and (ii) pledge of nominative common shares comprising the totality of the participation of ENERGEST S.A. in the Company.

Notes to the Financial Statements

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19.8 – Additional information on the service debt of EDP Energias do Brasil S.A.

CITIBANK – On December 31, 2004, EDP Energias do Brasil had a financing to Citibank, N.A. in dollars, with interest at the rate of 6.74% per annum, guaranteed by promissory notes and the SWAP clause of 109.9% of the CDI, which was settled in October, 2005.

SENIOR NOTES - They refer to the residual balance of assumption of debt of Escelsa that occurred on July 7, 2005, with a balance, on September 30, 2005, of US\$ 19,525, with an interest rate of 10% per annum and a swap of 103.85% of the CDI on the principal, plus 50% of total interest. Interest is due on a semi-annual basis, the next maturity date being January 13, 2006, and the principal is due in a single maturity, on July 13, 2007.

19.9 – Additional information on the Energest's debt service

BNDES - Agreement entered into in October, 2001 with repass of funds through the banks ITAU 4 (leader), ALFA and SUDAMERIS, destined to investment in the installation of the 4th generating unit of UHE Mascarenhas. In the year 2001 there were disbursed funds in the amount of R\$ 24,102. Principal accrues interest at the rate of 3.5% per annum + TJLP (national currency) and 3.5% per annum + UMBNDES (foreign currency), monthly payable together with the installments of principal with final maturity on 10.15.2010. The contracted guarantee is the linking of the revenues arising from the rendering of electric power services, in the amount corresponding, at least, to 1.4 (one point four) times the amount of the highest installment due by the beneficiary.

19.10 – Additional information on the Pantanal's debt service

BNDES CRÉDITO 'A,B' - Agreement signed in July, 1999 for financing of works with funds from BNDES (Finem/Finame) through Bank UNIBANCO as the Leader and participation of Banco Itaú BBA and Banco ALFA, with amortization in 78 monthly installments and interest of 3.85%, TJLP indexation, ending in February, 2008, guaranteed by receivables. This agreement was split-up during the process for de-verticalization of ENERSUL.

BANCO DO BRASIL - FCO – Agreement signed in November, 2001, for financing of works with funds from the Constitutional Fund of the Mid West – FCO, through Banco do Brasil, with amortization in 108 monthly equal and consecutive installments, interest of 11.1987% per annum, ending in November, 2013, guaranteed by the controlling shareholder and with Bank Intervention. This agreement was split-up during the process for de-verticalization of ENERSUL.

19.11 - Additional information on the Costa Rica's debt service

Capitalization and Loan Financing ECF-1568/97 - Agreement signed by ENERSUL on November 4, 1997, in the amount of R\$ 5,375, financing of the construction of the Power Plant of Costa Rica with resources from the Investment Fund of ELETROBRÁS – FINEL with interest at the rate of 6.5% per annum, ending on 05.31.2014, with amortization in 180 monthly, equal and successive installments, guaranteed by revenue and Promissory Note. Such agreement was transferred to Costa Rica Energética through the Private Agreement of Commitment of Release of Debtor.

19.12 – Maturity of short and long term installments (principal + charges)

	Consolidated		
	12/31/05		
	Type of currency		
	National	Foreign	Total
Current Assets			
2006	779.651	183.692	963.343
Subtotal	779.651	183.692	963.343
Noncurrent			
2007	231.978	500.408	732.386
2008	177.380	117.220	294.600
2009	166.889	38.137	205.026
2010	144.946	21.660	166.606
2011	118.675	20.251	138.926
2012	142.738	5.916	148.654
2013	98.562	709	99.271
2014	83.078	353	83.431
After 2014	179.281	14.158	193.439
Subtotal	1.343.527	718.812	2.062.339
Total	2.123.178	902.504	3.025.682

20 - Estimated obligations

	Parent Company		Consolidated	
	12/31/05	12/31/04	12/31/05	12/31/04
INSS and FGTS	187	185	6.350	5.769
Payroll	530	525	30.781	27.966
Income Tax, Social Contribution, Pis and Cofins			6.527	6.608
Total	717	710	43.658	40.343

(Amounts in thousands of Reais, unless otherwise indicated)

21 - Regulatory fees

The obligations payable arising from the charges established by the electricity sector legislation are the following:

Charge	Consolidated	
	12/31/05	12/31/04
Financial Compensation due to Use of Hydro Resources	1.523	403
Inspection rate - ANEEL	2.571	4.478
Quota of Global Reversal Reserve - RGR	1.609	14.563
Quota of Fuel Consumption Account - FCA	9.027	12.335
Energetic Development Account - EDA	4.613	3.562
	19.343	35.341

22 - Eletrobrás

Investco, the company that holds the concession for exploitation of the Hydroelectric Utilization of the Power Plant Luiz Eduardo Magalhães and its shareholders EDP LAJEADO ENERGIA S.A., REDE LAJEADO ENERGIA S.A., CEB LAJEADO S.A. AND PAULISTA LAJEADO ENERGIA S.A. ("Lajeado Companies") reached an agreement with Centrais Elétricas Brasileiras S.A. – Eletrobrás, for solution of the issues resulting from participation of Eletrobrás in redeemable shares issued by Investco (the "PN-R Shares").

The referred PN-R Shares, the total number of which was 234,452,116, corresponded to 37.52% of the capital of Investco, being monetarily updated up to their redemption based on the IGP-M added-up by 12% per year. The updated amount on November 30, 2005 was R\$ 1,067,259. Such PN-R Shares had a projection of redemption in five annual installments, the first due on December 31, 2003 and the second on December 31, 2004. Investco did not redeem any of such shares, due to the non-existence of capital reserves in its balance sheet, as required by the Brazilian Corporate Law.

The company EDP Lajeado, which is 99.99% controlled by EDP - Energias do Brasil, was responsible for 27.65% of the total PN-R Shares, which corresponded to 64,829,527 shares and to R\$ 295,113 on the basis date of November 30, 2005, and the installments due corresponding to its portion are fully provisioned.

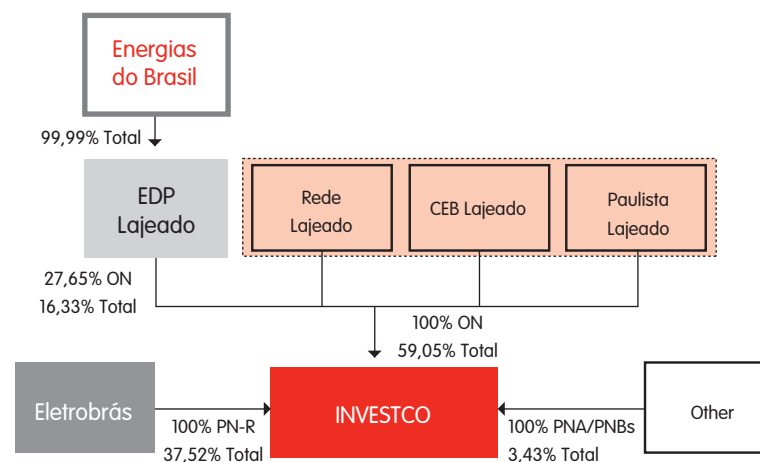
By virtue of the agreement reached, on December 29, 2005, through the Private Instruments for Sale and Purchase of Shares between the Lajeado Companies and Eletrobrás, the company EDP Lajeado acquired the PN-R Shares from Investco S.A., in proportion to its participation in its common capital, making the corresponding payment by means of credits attributed to Eletrobrás, in the following amounts:

(a) R\$ 110,536, to be used by Eletrobrás to subscribe 83,234,057 new preferred shares of its capital with no right to vote or redemption, corresponding to 40.07% of the total capital ; and

(b) R\$ 184,577, to be used by Eletrobrás to acquire securities representing Founders' Shares with an yield equal to 10% of its annual income before the other participations, with a condition of being convertible into preferred shares with no voting rights, at the end of the period of concession of the Power Plant Luiz Eduardo Magalhães (in the year 2032). The conversion of the Founders' Shares into Preferred Shares will correspond, at the time of conversion, to 5.084% of the total shares issued by EDP Lajeado. The profit participation attributed to the Founders' Shares will be due and paid on the same dates of distribution of dividends and any payments as remuneration to the shareholders of the Company.

Follows below the configuration prior and subsequent to the referred agreement:

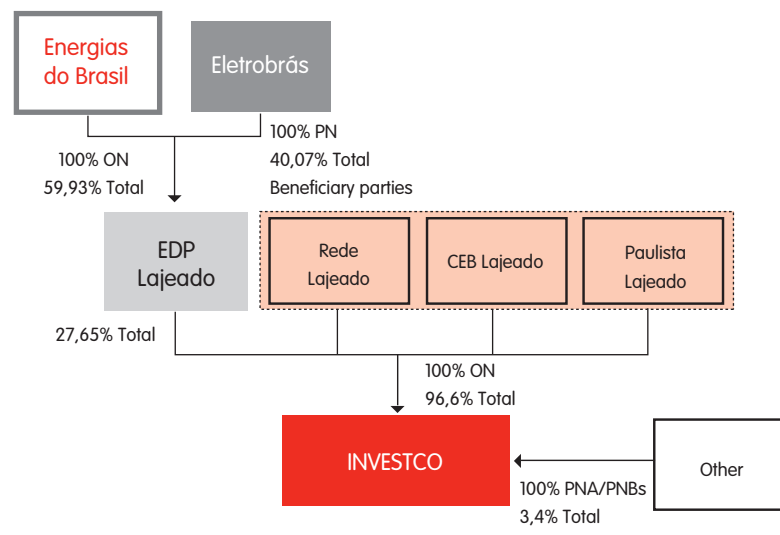
Prior to the agreement:



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After the agreement:



This process was approved by the National Electric Power Agency – ANEEL, by means of the Order of the Superintendent of Economic and Financial Supervision no. 2.186 of 12/21/2005, by the Supervisory Board of Eletrobrás at meetings dated 09/21/2005 and 01/31/2006. The implementation by EDP Lajeado was approved by the Extraordinary Shareholders' General Meeting of February 15, 2006, for increase of its capital and issuance of Founders' Shares.

After such negotiation, the book entries made up to November, 2005 were reversed concerning the current liabilities of R\$ 116,222 (balance on 11/30/2005) referring to the installments due of December, 2003 and December, 2004, updated as established in the agreement (IGPM + 12% per year) as a balancing item of the noncurrent assets (account: Eletrobrás)

23 - Provision for Contingencies - Current and Noncurrent

Contingency	Parent Company			Consolidated					
	12/31/05			12/31/05			12/31/04		
	Provision Value		Judicial	Provision Value		Judicial	Provision Value		Judicial
	In the year	Accrued	Deposit	In the year	Accrued	Deposit	In the year	Accrued	Deposit
Labor				2.282	34.020	29.193	(1.060)	31.738	23.737
Civil				14.336	70.834	8.055	8.908	56.498	6.969
Tax	4.796	4.796	2.546	(60.837)	164.858	132.030	28.019	228.322	153.508
Other					50	5.734	5.514	5.514	1.964
	4.796	4.796	2.546	(44.219)	269.762	175.012	41.381	322.072	186.178

Management understands that all provisions already recorded are sufficient to cover eventual losses with the judicial actions in progress. Based on the opinion of the legal council, all lawsuits with probability of the company being unsuccessful were duly provisioned.

Furthermore, there are labor, civil and tax actions in progress in a total amount of R\$ 62.924 (R\$ 44,584 in December 2004), with a possibility of the company being unsuccessful, but not requiring the constitution of a provision in the financial statements.

23.1 - Labor

23.1.1 - Bandeirante

The claims filed corresponding to the periods after January 1st, 1998, pursuant to the protocol of partial split-up of Eletropaulo – Eletricidade de São Paulo S.A. Subsequently, pursuant to the Protocol of Partial Split-up of Bandeirante, which occurred on October 1st, 2001, each concessionaire (Bandeirante and Piratininga) is responsible for the obligations corresponding to the employees allocated to the regions by each company, while the claims will be assumed in the percentage proportion of the controllers (Bandeirante and Piratininga), determined in the respective protocol of split-up.

(Amounts in thousands of Reais, unless otherwise indicated)

23.1.1 - Escelsa and Enersul

They refer to several labor claims questioning, among others, payment of overtime, additional payment for danger conditions of work and reintegration to the position.

23.2 - Civil**23.2.1 - Bandeirante**

It refers mainly to claims for return of amounts paid as tariff increase, made by the industrial consumers by virtue of applicability of DNAEE Directives no. 38, of February 27, 1986 and no. 45, of March 4, 1986 – Plano Cruzado – which were in force from March to November 1986. The original amounts were updated according to the system practiced by the Judiciary Power.

23.2.2 - Escelsa and Enersul

The civil contingencies comprise lawsuits having the Companies as Defendants, being mostly associated to claims of moral and property damages, further to questioning of amounts paid by consumers due to increase of electric power tariffs, based on the DNAEE Directives no. 38 and 45, of January 27 and March 4, 1986, respectively, during the validity of the Plano Cruzado. The original amounts were updated according to the system practiced by the Judiciary Power.

23.2.3 - Enertrade

Enertrade is judicially questioning the constitutionality of payment of the Energetic Development Account – CDE charge, and, for such purpose, it made the deposit of the amounts in Court. Such deposit as of December, 2005 corresponds to R\$ 3,708 and has a provision in the amount of R\$ 3,589 in Liabilities.

23.3 - Tax**23.3.1 - Bandeirante**

COFINS – Tax Rate Increase - Bandeirante is judicially questioning the increases of COFINS based on Law no. 9.718, of November 27, 1988. On July 1st, 1999 it obtained a preliminary injunction enabling the payment of such tax up to the month of December, 1999, at the amount established in the previous legislation, that is, 2% on the revenue, with retroactive effects to February 1st, 1999. On December 31, 2005, the balance provisioned referring to the difference of base and additional of 1% was R\$ 50, 025.

Income Tax - Questioning of the non-deductibility of the Social Contribution on Net Income in the determination of the Income Tax for the years 2001 and 2002. On December 31, 2005 the provision was in the amount of R\$ 7,104.

23.3.2 - Escelsa

Escelsa has an administrative proceeding pending judgment filed with the Federal Revenue Department, claiming the offset of the amounts paid in excess as FINSOCIAL, by virtue of the unconstitutionality of Decrees Law no. 2.445/88 and 2.499/88.

It also has actions questioning the constitutionality of incidence of PIS and COFINS on other revenues obtained by the Company.

Escelsa recorded a provision by virtue of the Notices of the INSS requiring payment of contributions of suppliers of services of a continuous nature, which are compared to employees with an employment relationship, further to the provision related to the judicial questioning made by the Company on the constitutionality of applicability of the Labor Accident Insurance – SAT.

On June 29, 2005, by virtue of the Injunction granted by the 1st Federal Court of Espírito Santo, the judicial deposits related to the action claiming unconstitutionality of collection of PIS on the revenues were converted in income to the benefit of the Federal union, pursuant to the provision of the Third Paragraph of Article 155 of the Federal Constitution. By virtue of the injunction, there was the write-off of the corresponding provision in the total amount of R\$ 70,721 and of the effect of deferred income and social contribution taxes of R\$ 17.518.

Since the decision of the Superior Court in Lawsuit no. 2000.50.01.002043-0 that the amounts paid as FINSOCIAL based on Article 1 of Law no. 2138/97 and Normative Instruction no. 32 of the SRF, of 04/09/1997 had no constitutional basis became final, on December 31, 2005, the provision in the amount of R\$ 23,195 was reverted to credit of the result of the year.

23.3.2 - Enersul

The balance of the provision basically refers to judicial deposits related to actions against the Federal Union, claiming the unconstitutionality of collection of PIS on the revenues, by virtue of the provision of the Third Paragraph of Article 155 of the Federal Constitution.

23.3.3 - Enertrade and EDP Lajeado

Enertrade and EDP Lajeado made the judicial deposit of R\$ 820 referring to payment of penalties by virtue of spontaneous accusation. (provided in Article 44 and 61 of Law no. 9.430/96)

Notes to the Financial Statements

December 31, 2005 and 2004

23.3.4 - EDP - Energias do Brasil, Enertrade, EDP Lajeado, Energest, Enercorp

Tax Rate Increase – The companies EDP - Energias do Brasil S.A., Enertrade, EDP Lajeado, Energest and Enercorp are judicially questioning the increases of PIS and COFINS based on Law no. 9.718, of November 27, 1988, with retroactive effects to the period of February, 1999 to January, 2004, through a declaratory action filed on June 8, 2005, under no. 2005.61.00.010816-8.

The amounts being questioned were normally paid according to the legislation in force at that time. Such declaratory action aims to obtain the refund of the amounts claimed or the constitution of the tax credit to be offset with future payment of Federal taxes. The amounts claimed amount to R\$ 5,038.

24 - Post-employment benefits

Accounted actuarial Liabilities

Company/Benefit	12/31/05		12/31/04	
	Current	Noncurrent	Current	Noncurrent
Bandeirante				
Retirement and Pension Supplement - PSAP	13.148	88.157	12.451	92.569
Assistance Programs	4.436		3.460	
Escelsa				
Retirement Incentive - AIA,				
Medical Assistance and Life Insurance	3.447	37.803	3.979	33.824
Energest				
Retirement Incentive - AIA,				
Medical Assistance and Life Insurance	122	886		
Total	21.153	126.846	19.890	126.393

24.1 - Bandeirante

24.1.1 – Composition of the accounted actuarial liabilities balance

	12/31/05		12/31/04	
	Current	Noncurrent	Current	Noncurrent
BSPS – Reserves to be amortized	13.148	88.157	12.451	92.569
Assistance Programs	4.436		3.460	
Total	17.584	88.157	15.911	92.569

Bandeirante is the sponsor of FUNDAÇÃO CESP, a non-profit private pension entity with the purpose of managing and administrating several social security benefit plans to the benefit of employees and former employees, through the Plan for Supplement of Retirement and Pension - PSAP/Bandeirante.

Such benefits plan has its mathematical reserves calculated on an actuarial basis, according to the capitalization system, and such reserves are annually revalued.

“Plano de Benefício Suplementar Proporcional Saldado – BSPS” – It corresponds to the proportional benefits of employees, calculated based on time of service up to March, 1998. The amount of R\$ 101,305, ascertained on December 31, 2005, according to CVM resolution no. 371, of December 13, 2000, corresponds to the portion of benefits exceeding the assets of the plan. The deficit will be paid in 240 months counted as from September, 1997, based on a percentage of payroll and may be revised on a semi-annual basis to assure payment of the balance in the above period. The percentage of current contribution is 28.16%, and for the first half of 2006 is 26.89%.

“Plano BD” – In force up to March 31, 1998 – “Plano de Benefício Saldado”, of the Defined Benefit type, which grants a supplementary proportional benefit – “Benefício Suplementar Proporcional Saldado (BSPS)”, in the form of a perpetual income that may be converted into pension, to the participants enrolled up to March 31, 1998, in an amount defined by virtue of proportion of past time service accumulated to such date, as from compliance with the regulatory requirements of the granting. The full responsibility for the total coverage of actuarial insufficiencies of such plans is to the Company.

“Plano BD” – Effective after March 31, 1998 – Plan of the Defined Benefit type, which grants a perpetual income that may be converted into pension, relating to the time of service accumulated after March 31, 1998, based on 70% of the average actual monthly salary referring to the last 36 months of activities. In the case of death in activity or disability, the benefits comprise all past time of service (including the one accumulated up to March 31, 1998) and, therefore, include not only the time of past service accumulated after March 31, 1998. The full responsibility for the total coverage of actuarial insufficiencies of such plans is divided between the Company and the participants.

“Plano CD” – Implanted together with the “Plano BD” in force after March 31, 1998, this is a social security plan that, up to the granting of the perpetual income that may (or not) be converted into pension is of the Defined Contribution type, and does not generate any actuarial responsibility to the Company. Only after the granting of the perpetual income, revertible (or not) in pension, the Social Security

(Amounts in thousands of Reais, unless otherwise indicated)

Plan becomes a Defined Benefit type, and may generate actuarial responsibility to the Company.

The demonstration of the number of participants of the Plan, is as follows:

	<u>PSAP</u>
Active Participants	1.222
Assisted Participants:	
With deferred benefits	179
Retirees and Pensioners	<u>292</u>
	471
Total	<u>1.693</u>

In the capacity of sponsor, Bandeirante contributes with a monthly installment proportional to the contribution made by the participants of the "Fundação CESP", as established in the benefits plan, provided that the maximum percentage of contribution of the company is limited to 7% of the payroll of collaborators. In the year 2005 there were contributions in the amount of R\$ 16,819 (R\$ 15,257 in 2004).

The actuarial status of the Plano BSPS and Plano Misto as of December 31, 2005, as supplied by the "Fundação CESP" is the following:

	<u>BSPS (*)</u>		<u>Plano Misto (*)</u>	
	<u>12/31/05</u>	<u>12/31/04</u>	<u>12/31/05</u>	<u>12/31/04</u>
Mathematical Reserves				
Benefits granted	83.393	62.743	14.100	16.336
Benefits to be granted	155.024	146.335	60.685	50.513
Technical Surplus			<u>14.981</u>	<u>13.689</u>
Net Equity	<u>238.417</u>	<u>209.078</u>	<u>89.766</u>	<u>80.538</u>

(*) non-audited

As established by CVM Resolution no. 371, of December 13, 2000, as from January 1st, 2002, the publicly-traded companies must account for liabilities arising from post-employment benefits based on the rules established in the NPC Pronouncement no. 26 of the IBRACON.

In order to comply with such requirement, Bandeirante contracted independent actuaries to make the actuarial appraisal of such benefits based on the Projected Credit Unit Method. The main premises used in the actuarial appraisal of the benefits were as follows:

Economic	<u>Nominal Rate</u>	
	<u>2005</u>	<u>2004</u>
Discount rate	10,75% a.a.	10,76% a.a.
Expected return rate from assets	12,20% a.a.	10,76% a.a.
Growth of social security benefits and of benefit plans	4,50% a.a.	4,00% a.a.
Inflation	4,50% a.a.	4,00% a.a.
Capacity Factor – Salaries and Benefits	100,00%	98,00%
Demographic		
Mortality Reference	GAM - 83	GAM - 83
Disabled Mortality Reference	RP 2000 Disability	IAPB - 55
Disability Incidence Reference	TASA 27	Light medium
Rotation Reference	Null as from a 3-year affiliation to the Benefit Plan	Null as from a 3-year affiliation to the Benefit Plan

The actuarial appraisal as of December 31, 2005 showed that in the PSAP/Bandeirante the present value of the actuarial obligations net of the fair value of the assets and adjusted by the deferral of actuarial losses has a deficit, as demonstrated below:

	<u>12/31/05</u>	<u>12/31/04</u>
Present value of actuarial obligations		
totally or partially covered	(348.630)	(257.173)
Fair value of assets	<u>184.479</u>	<u>152.259</u>
	<u>(164.151)</u>	<u>(104.914)</u>
Unrecognised actuarial loss	<u>62.846</u>	<u>(106)</u>
Total	<u>(101.305)</u>	<u>(105.020)</u>

In the year 2005 the amount of R\$ 3,715 was recorded as credit of the result (R\$ 656 on 12/31/2004) as a balancing item of noncurrent liabilities, due to the indication of reduction of actuarial liabilities in the report.

The net expense with the PSAP/Bandeirante, to be recognized in the result of 2006, will have the following composition:

Current service cost	1.350
Interest cost	37.008
Expected return on plan assets	(23.215)
Amortization of unrecognised actuarial loss	1.430
Expected contributions from employees	<u>(3.425)</u>
Total	<u>13.148</u>

Notes to the Financial Statements

December 31, 2005 and 2004

24.2 - Escelsa

24.2.1 – Retirement plans

Escelsa is the sponsor of FUNDAÇÃO ESCELSA DE SEGURIDADE SOCIAL - ESCELSOS, a non-profit legal entity that has as legal purposes to supplement the benefits granted by the social security to the workers of the Company, through two benefit plans: the Benefit Plan I, of the defined benefit type, and the Benefit Plan II, of the defined contribution type.

Such benefit plans have their mathematical reserves calculated on an actuarial basis, according to the capitalization system, and such reserves are annually revalued.

The demonstration of the number of participants per type of Plan, is as follows:

	PLAN I	PLAN II	TOTAL
Active participants	23	1.132	1.155
Assisted participants			
Retirees	615	172	787
Pensioners	124	8	132
	739	180	919
Total	762	1.312	2.074

In the capacity of sponsor, ESCELSA contributes with a monthly installment proportional to the contribution made by the participants of the "Fundação ESCELSOS", as established in each benefit plan, the maximum contribution percentage of the Company, considering the two plans, being limited to 7% of the payroll of workers. In the year 2005 ESCELSA contributed with R\$ 3,103 (R\$ 3,019 in 2004).

The compared demonstration of Reserves, together with the status of the "Fundação Escelsa de Seguridade Social", are as follows:

	2005	2004
TECHNICAL RESERVES		
Mathematical Reserves:		
Benefits granted	109.834	110.520
Benefits to be granted	146.874	125.014
	256.708	235.534
TECHNICAL SURPLUS		
Contingency reserve	52.262	29.411
Pension funds	14.551	13.224
	66.813	42.635
Total	323.521	278.169

24.2.2 – Post-employment benefits

As established by CVM Resolution no. 371, of December 13, 2000, as from January 1st, 2002, the publicly-traded companies have to account for liabilities arising from post-employment benefits, based on the rules established in the NPC Pronouncement no. 26 of the IBRACON.

In order to comply with such requirement, ESCELSA contracted independent actuaries to make the actuarial appraisal of such benefits based on the Projected Credit Unit Method. The main premises used in the actuarial appraisal of the benefits were as follows:

ECONOMIC	Rates	
	2005	2004
Discount rate	10,75 % a.a.	10,76 % a.a.
Expected return rate from assets	12,45 % a.a.	12,98 % a.a.
Future salary growth	5,55 % a.a.	6,08 % a.a.
Growth rate of social benefits and benefits plan	4,5 % a.a.	4,0 % a.a.
Growth of medical costs	from 10,0 to 5,5 % a.a.	8,16 % a.a.
Inflation	4,5 % a.a.	4,0 % a.a.
Capacity factor - Salaries and Benefits	100%	100%

DEMOGRAPHIC

Mortality Reference	GAM – 83	GAM – 83
Disabled Mortality Reference	RP 2000 Disability	IAPB-55
Disability Incidence Reference	TASA 27	Light medium
Rotation Reference	T-1 Service Table	Experience in similar companies

The actuarial appraisal showed that in the "Planos Previdenciários I e II" the fair value of assets exceeds the present value of the actuarial obligations, as follows:

	12/31/05	12/31/04
Present value of actuarial obligations		
Totally or partially covered	(113.167)	(105.310)
Fair value of assets	178.395	154.597
	65.228	49.287
Actuarial gains	(17.447)	(10.410)
Total	47.781	38.877

The existence of surplus in the pension plans of defined benefit reduces the risk of an eventual future actuarial liability to the Company. However, management of the Company, in a conservative manner, decided not to record such assets, since

(Amounts in thousands of Reais, unless otherwise indicated)

the effective reduction of the contributions of the Sponsor or will be reimbursed in the future is not assured.

Also, according to such actuarial appraisal, the following post-employment benefits were appraised:

- Coverage with expenses of medical and odontological assistance, medication, life insurance and, in the proven cases of existence of special dependent, corresponding to 50% of the salary level of the Company;
- The Auxílio Incentivo à Aposentadoria (AIA) which is due to the hired workers up to December 31, 1981, payable at the time of rescission of employee contract, free of the reason of the termination, assures a payment in the form of an annuity, the value of which is calculated considering, for each employee, the proportionality of the time of contribution to the INSS up to October 31, 1996, of the remuneration and the benefit of the INSS on October 31, 1996.

The actuarial liability recognized in the financial statements of the Company, in the current and noncurrent liabilities is as follows:

	<u>12/31/05</u>	<u>12/31/04</u>
Current value of actuarial obligations		
totally or partially covered	(47.856)	(61.647)
Net value of recognized losses	<u>6.606</u>	<u>23.844</u>
Total	<u>(41.250)</u>	<u>(37.803)</u>

The amount of actuarial losses exceeding 10% of the present value of the actuarial obligations will be amortized on an annual basis, for the period corresponding to the average remaining time of work estimated for the employee participants of the Plan.

The movement of actuarial liabilities recognized in the balance sheet of the fiscal year of 2005, is as follows:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Balance as of December 31, 2004	<u>3.979</u>	<u>33.824</u>	<u>37.803</u>
Current service cost		694	694
Interest cost		6.151	6.151
Amortization of loss		1.464	1.464
Paid Benefits	(3.976)	(3.444)	(7.420)
Transfer by split-up		(886)	(886)
Transfer to Current Liabilities	<u>3.444</u>		<u>3.444</u>
Balance as of December 31, 2005	<u>3.447</u>	<u>37.803</u>	<u>41.250</u>

The amounts relating to medical benefits, life insurance and retirement incentive to be recognized in the result of 2006 are as follows:

Cost of current service	867
Cost of interest	4.809
Amortization of actuarial losses	<u>155</u>
Total	<u>5.831</u>

24.3 - Enersul

24.3.1 - Post-employment benefits

Enersul is the sponsor of "Fundação Enersul", a non-profit legal entity that has as legal purposes to supplement the benefits granted by the social security to the workers of the Company, through two benefit plans: the Benefit Plan I, of the defined benefit type, and the Benefit Plan II, of the defined contribution type.

Such benefit plans have their mathematical reserves calculated on an actuarial basis, according to the capitalization system, and such reserves are annually revalued.

The demonstration of the number of participants per type of Plan, is as follows:

	<u>Initial Plan</u>	<u>Plan II</u>	<u>Total</u>
Active Participants	<u>1</u>	<u>875</u>	<u>876</u>
Assisted Participants			
Retirees	248	9	257
Pensioners	<u>75</u>	<u>4</u>	<u>79</u>
	<u>323</u>	<u>13</u>	<u>336</u>
	<u>324</u>	<u>888</u>	<u>1.212</u>

In the capacity of sponsor, ENERSUL contributes with a monthly installment proportional to the contribution made by the participants of the "FUNDAÇÃO ENERSUL" as established in each benefit plan, the maximum percentage of contribution by the Company, considering the two plans, being limited to 7% of the payroll. Up to December 31, 2005, ENERSUL contributed with R\$ 1,680 (R\$ 1,755 up to December 31, 2004).

Notes to the Financial Statements

December 31, 2005 and 2004

Follows below a compared demonstration of Reserves:

	<u>12/31/05</u>	<u>12/31/04</u>
Technical Reserves		
Mathematical Reserves		
Benefits granted	64.227	63.646
Benefits to be granted	81.734	68.549
	<u>145.961</u>	<u>132.195</u>
Technical Surplus		
Provision for contingencies	15.676	7.935
Provision for revision	3.798	
Pension Funds	50.053	42.752
	<u>69.527</u>	<u>50.687</u>
	<u>215.488</u>	<u>182.882</u>

As established by CVM Resolution no. 371, of December 13, 2000, as from January 1st, 2002, the publicly-traded companies have to account for liabilities arising from post-employment benefits, based on the rules established in the NPC Pronouncement no. 26 of the IBRACON.

In order to comply with such requirement, ENERSUL contracted independent actuaries to make the actuarial appraisal of such benefits based on the Projected Credit Unit Method.

The main premises used in the actuarial appraisal of the benefits were as follows::

ECONOMIC	Rates	Rates
Discount rate	10,75 % a.a.	10,76 % a.a.
Expected return rate on assets	12,00 % a.a.	12,81 % a.a.
Future salary growth	5,55 % a.a.	6,08 % a.a.
Growth rate of social benefits and benefits plan	4,5 % a.a.	4,0 % a.a.
Inflation	4,5 % a.a.	4,0 % a.a.
Capacity factor- Salaries and benefits	100%	100%

DEMOGRAPHIC

Mortality Reference	GAM – 83	GAM – 83
Disabled Mortality Reference	RP 2000 Disability	IAPB-55
Disability Incidence Reference	TASA 27	Light medium
Rotation Reference	Null	Experience in similar companies

The actuarial appraisal showed that in the Planos Previdenciários I and II the fair value of the assets exceeds the present value of actuarial obligations, as follows:

	<u>12/31/05</u>	<u>12/31/04</u>
Present value of actuarial obligations		
totally or partially covered	(63.297)	(57.252)
Fair value of assets	119.697	98.941
	56.400	41.689
Actuarial gains	(26.918)	(22.242)
Total	<u>29.482</u>	<u>19.447</u>

The existence of surplus in the pension plans of defined benefit reduces the risk of an eventual future actuarial liability to the Company. However, management of the Company, in a conservative manner, decided not to enter such assets, since the effective reduction of the contributions of the Sponsor or will be reimbursed in the future is not assured

24.4 - Energest

24.4.1 – Retirement plan

Energest is the sponsor of FUNDAÇÃO ESCELSA DE SEGURIDADE SOCIAL - ESCELSOS, a non-profit legal entity that has as legal purposes to supplement the benefits granted by the social security to the workers of the Company, through two benefit plans: the Benefit Plan I, of the defined benefit type, and the Benefit Plan II, of the defined contribution type.

Such benefit plans have their mathematical reserves calculated on an actuarial basis, according to the capitalization system, and such reserves are annually revalued.

The demonstration of the number of participants per type of Plan, is as follows:

	<u>PLAN I</u>	<u>PLAN II</u>	<u>TOTAL</u>
Active Participants	2	40	42
Assisted Participants			
Retirees	8	1	9
	8	1	9
Total	<u>10</u>	<u>41</u>	<u>51</u>

In the capacity of sponsor, ENERGEST contributes with a monthly installment proportional to the contribution made by the participants of the "FUNDAÇÃO ESCELSOS" as established in each benefit plan, the maximum percentage of contribution by the Company, considering the two plans, being limited to 7% of the payroll. In the year 2005, ENERGEST contributed with R\$ 71.

(Amounts in thousands of Reais, unless otherwise indicated)

Follows below a compared demonstration of Reserves, together with the status of Fundação Escelsa de Seguridade Social:

	<u>12/31/05</u>
TECHNICAL RESERVES	
Mathematical Reserves	
Benefits Granted	109.834
Benefits to be granted	<u>146.874</u>
	<u>256.708</u>
TECHNICAL SURPLUS	
Provision for contingencies	52.262
Pension Funds	<u>14.551</u>
	<u>66.813</u>
	<u>323.521</u>

24.4.2 – Post-employment benefits

As established by CVM Resolution no. 371, of December 13, 2000, as from January 1st, 2002, the publicly-traded companies have to account for liabilities arising from post-employment benefits, based on the rules established in the NPC Pronouncement no. 26 of the IBRACON.

In its capacity of full subsidiary of a publicly-traded company that is part of its accounting consolidation, in order to comply with such requirement, ENERGEST contracted independent actuaries to make the actuarial appraisal of such benefits based on the Projected Credit Unit Method. The main premises used in the actuarial appraisal of the benefits were as follows:

	<u>2005</u>
ECONOMIC	Rates
Discount rate	10,75 % a.a.
Expected return rate on assets	12,45 % a.a.
Future salary increases	5,55 % a.a.
Growth of social security benefits and benefits plan	4,5 % a.a.
Growth of medical costs	from 10,0 to 5,5 % a.a.
Inflation	4,5 % a.a.
Capacity Factor - Salaries and Benefits	100%
DEMOGRAPHIC	
Mortality Reference	GAM – 83
Disabled Mortality Reference	RP 2000 Disability
Disability Incidence Reference	TASA 27

The actuarial appraisal showed that in the Planos Previdenciários I and II, the fair value of the assets exceeded the present value of the actuarial obligations, as follows:

	<u>2005</u>
Present value of actuarial obligations	
totally or partially covered	(660)
Fair value of assets	<u>959</u>
	299
Actuarial gains	<u>(44)</u>
Total	<u>255</u>

The existence of surplus in the pension plans of defined benefit reduces the risk of an eventual future actuarial liability to the Company. However, management of the Company, in a conservative manner, decided not to enter such assets, since the effective reduction of the contributions of the Sponsor or will be reimbursed in the future is not assured.

Also, according to such actuarial appraisal, the following post-employment benefits were appraised:

- Coverage with expenses of medical and odontological assistance, medication, life insurance and, in the proven cases of existence of special dependent, corresponding to 50% of the salary level of the Company;
- The Auxílio Incentivo à Aposentadoria (AIA) which is due to the hired workers up to December 31, 1981, payable at the time of rescission of employee contract, free of the reason of the termination, assures a payment in the form of an annuity, the amount of which is calculated considering, for each employee, the proportionality of the time of contribution to the INSS up to October 31, 1996, of the remuneration and the benefit of the INSS on October 31, 1996.

The actuarial liability recognized in the financial statements of the Company, in the current and noncurrent liabilities is as follows:

	<u>2005</u>
Present value of actuarial obligations	
totally uncovered	(1.237)
Net value of recognized losses	<u>229</u>
Total	<u>(1.008)</u>

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The amount of actuarial losses exceeding 10% of the present value of the actuarial obligations will be amortized annually, for the period corresponding to the average remaining time of work estimated for the employees participants of the Plan.

The actuarial liabilities recognized in the balance sheet of the year 2005 are summarized as follows:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Balance as of July 31, 2005	-	886	886
Current service cost	-	19	19
Interest cost	-	145	145
Amortization of loss	-	35	35
Paid benefits	(77)	-	(77)
Transfers to Current	199	(199)	-
Balance as of December 31, 2005	<u>122</u>	<u>886</u>	<u>1.008</u>

The amounts relating to medical benefits, life insurance and incentive to retirement to be recognized in the result of 2006 are the following:

Current service cost	31
Interest cost	25
Amortization of actuarial losses	12
Total	<u>68</u>

25 – Shareholders' equity

25.1 – Capital

The composition of the capital as of December 31, 2005 and 2004 is the following:

Shareholder	12/31/05		12/31/04		Controlling shareholder
	Quantity of shares	% interest	Quantity of shares	% interest	
ENERGIAS DE PORTUGAL INVESTMENTS AND SERVICES, SOCIEDAD LIMITADA (1)	38.234.188	23,17%			yes
BALWERK - CONSULT. ECONÔMICA E PARTICIP., SOC.UNIPESSOAL L.DA * (1)	23.545.820	14,27%	663.521.204	46,31%	yes
EDP - ENERGIAS DE PORTUGAL, S.A. * (1)	20.130.902	12,20%	667.459.859	46,58%	yes
ELECTRICIDADE DE PORTUGAL INTERNACIONAL, SGPS, S.A. * (1)	19.621.852	11,89%	92.334.445	6,45%	yes
HERALD SECURITIES INC *	1.383.094	0,84%			yes
Others **	62.100.748	37,63%	9.468.428	0,66%	
	<u>165.016.604</u>	<u>100,00%</u>	<u>1.432.783.936</u>	<u>100,00%</u>	

(1) shareholder holding more than 5% of voting shares

* Foreign Controlled Companies

** There are 62,075,660 outstanding shares from the total of 165,016,604, that is, approximately 37,62 % of the total of shares.

There are 153 shares held by officers being 114 members of the Board of Directors and 39 Officers.

The fiscal council has not been installed to date

(Amounts in thousands of Reais, unless otherwise indicated)

Calculation of quantity of outstanding shares

	<u>12/31/05</u>	
Quantity of controlling shares	102.915.856	62,37%
Quantity of reciprocal participation shares (according to explanatory note no. 37)	24.913	0,02%
Quantity of treasury shares	22	
Quantity of shares of directors and officers	153	
Total of non-outstanding shares	<u>102.940.944</u>	
Total shares	165.016.604	
Total of outstanding shares	<u>62.075.660</u>	37,62%

There was a grouping of shares at the ratio of 28.18 shares, what caused the apparent reduction of the number of shares demonstrated on December 31, 2005 versus December 31, 2004.

Within the scope of the corporate restructuring that took place on April 29, 2005, as detailed in Note 36, there was a capital increase of R\$ 659,743 and an increase of 48,153,265 shares.

On July 12, 2005 there was the payment of capital of EDP – Energias do Brasil S.A., by EDP – Investments & Services Limited, amounting to R\$ 29,000, which represented an increase of paid shares by 1,011,966.

Within the scope of the public offer of shares that took place on July 13, 2005, as described in Note 36, there was a capital increase of R\$ 1,104,898 and an increase of 61,383,222 shares.

On August 8, 2005, the total quantity of Shares subject of the Offer was added-up by a supplement lot of 3,624,150 common shares issued by EDP – Energias do Brasil S.A., pursuant to the option for acquisition of additional shares granted by EDP – Energias do Brasil S.A. to the banks that coordinated the Offer, under the same conditions and price of the initially offered Shares, the purpose of which was to meet the excess of demand during the Offer, in the amount of R\$ 65,235, thus completing the total increase of 114,172,603 shares in the period from December 31, 2004 to December 31, 2005.

As described in Note 36, the shareholders that are not the controllers of Bandeirante and Enersul, holders of common and preferred shares, and of Escelsa, holders of common shares, with guarantee of the right of withdrawal of the dissenting shareholders, became the holders of the common shares of EDP Energias do Brasil S.A. and the latter, on its turn, became the holder of the totality of shares of Bandeirante and Escelsa, making the necessary amendments to their

By-Laws, in order to adapt them to the condition of wholly owned subsidiary of EDP Energias do Brasil S.A.

25.2 - Dividends

According to the policy of distribution of dividends adopted by the Company, the Supervisory Board will recommend to the Shareholders General Meeting the distribution of dividends, in each fiscal year, in a minimum amount corresponding to 40% of the adjusted net income calculated based on Articles 189 and following articles of the Corporation Law, which amount may be reduced whenever so required by a legal or regulatory provision or also when recommended in view of the financial status and/or future perspectives of the Company.

In the current fiscal year the dividends include Interest on the equity reserve (JSCP) and were calculated as follows:

	<u>12/31/05</u>
Net Income for the Year	439.406
Prior year adjustment	(41.390)
Others	(14)
	<u>398.002</u>
Creation of Legal Reserve - 5%	(19.900)
Adjusted Net Income	<u>378.102</u>
Dividends	
Dividends (40% of Adjusted Net Income)	151.241
Interim Dividends - JSCP	96.061
Dividends Payable	55.180
	<u>226.861</u>
Destination to the Profit Retention Reserve	226.861
	<u>916,52</u>
Dividends per Lot of thousand shares - in Reais	916,52

On December 28, 2005, the Supervisory Board of the Company approved the credit of interest on equity reserve in the gross amount of R\$ 96,061, attributable to the dividends to be distributed by the Company on a date to be established for payment of dividends, which have been calculated according to Article 9 of Law no. 9.249/95, with observance of the long term interest rate – TJLP and accounted as financial expenses, as required by the tax legislation. For the purposes of such financial statements, such interest was reclassified to the shareholders' equity, pursuant to the CVM Resolution no. 207/96.

The amount destined to the Profit Retention Reserve has as purposes to make feasible the budget of investments of the Company to be submitted to the Shareholders Meeting.

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The prior year adjustment results from compliance with the ANEEL Instruction no. 176, of November 28, 2005, where the whole-owned subsidiaries, Bandeirante, Escelsa and Enersul recognized the liability referring to the amounts due and still not applied in the Program for Energetic Efficiency – PEE, as from the effective date of Law no. 9.991, of July 24, 2000. By virtue of the non-provisioning of such costs in previous years, in 2005 there was recorded the amount of R\$ 41,390 under accumulated profits, as a balancing item of other accounts payable in current liabilities.

26 - Dividends – assets and liabilities

	Parent Company			Consolidated			
	Assets		Liabilities	Assets	Liabilities		
	12/31/05	12/31/04	12/31/05	12/31/04	12/31/05	12/31/04	
Escelsa	131.710				58	17.761	*
Energest	35.036	21		21		21	*
Cesa	38.073						
Pantanal	14.760						
Enersul	141.225				21	6.059	*
Enertrade	66.697						
Bandeirante	25.835	18.170			777	1.329	*
EDP Lajeado	10.184						
Eletrobrás					16.261		
Shareholders - EDP Energias			134.475		134.475		
EDP Produção					188	188	*
Total	463.520	18.191	134.475	21	151.780	25.358	

* The amounts reflected on the consolidated of 2004 refer to minorities existing on that date

(Amounts in thousands of Reais, unless otherwise indicated)

27 - Net operating revenue

	Consolidated				R\$ thousand	
	Number of Consumers*		MWh *		2005	2004
	2005	2004	2005	2004	2005	2004
Electric Power Supply						
Residential	2.523.718	2.464.754	4.553.289	4.386.340	1.827.939	1.658.987
Industrial	23.087	23.435	6.111.792	7.432.812	1.448.372	1.481.905
Commerce, services and other activities	227.539	224.162	2.758.353	2.594.813	1.004.259	871.116
Rural	172.807	158.665	757.140	739.401	163.986	141.518
Public Power	20.432	20.218	515.726	493.314	187.678	160.658
Public Illumination	1.873	1.463	676.606	674.287	144.803	130.671
Utilities	2.474	2.424	489.951	633.413	114.424	120.991
Own consumption	424	423	21.799	19.128	-	-
Total billed supply	2.972.354	2.895.544	15.884.656	16.973.508	4.891.461	4.565.846
(-) Extraordinary tariff recomposition (net of ICMS)						
Residential					(39.424)	(35.326)
Industrial					(85.092)	(83.553)
Commerce, services and other activities					(58.904)	(50.924)
Rural					(4.135)	(3.615)
Public Power					(11.654)	(10.062)
Public Illumination					(3.276)	(3.043)
Utilities					(6.703)	(7.146)
					(209.188)	(193.669)
(-) ICMS						
Residential					(381.795)	(343.273)
Industrial					(291.031)	(297.417)
Commerce, services and other activities					(198.867)	(173.335)
Rural					(16.181)	(13.387)
Public Power					(28.013)	(23.071)
Public Illumination					(28.136)	(25.817)
Utilities					(22.935)	(23.353)
Self consumption					-	-
					(966.958)	(899.653)
Total billed supply net of RTE and ICMS					3.715.315	3.472.524
Billed supply - Commercialization (exempt from ICMS)					115.691	91.222
Unbilled supply					(16.591)	4.217
Unbilled supply - PIS/PASEP Furnas					9.610	-
Unbilled supply - tariff deferral					81.418	31.113
Tariff return					21.653	(97.291)
Revenue reduction - Low income					37.195	36.297
Tariff re-alignment					(2.888)	3.819
Conventional Supply					30.790	30.713
Commercialization Supply					110.642	59.056
Other Supplies					38.089	486
ECE and EAEEEE					128.828	216.780
(-) ICMS on ECE and EAEEEE					(24.528)	(21.463)
					4.245.224	3.827.473
Other operating revenues						
Electric power system availability					510.071	272.045
(-) ICMS on availability of electric power system					(95.004)	(48.893)
Connection charge					530	477
Short term energy and Auction Supply					29.638	2.615
Free energy					-	15.762
Rate charged services and others					64.587	50.276
					509.822	292.282
Sub-total					4.755.046	4.119.755
(-) Revenue deductions						
RGR					(42.101)	(45.187)
Pis					(50.272)	(28.298)
Cofins					(224.550)	(158.430)
Reallocation of Pis/Cofins - Res. ANEEL 162/2005					(9.823)	-
ECE and EAEEEE - repass for CBEE					(104.299)	(195.317)
ISS					(776)	(451)
					(431.821)	(427.683)
Total	2.972.354	2.895.544	15.884.656	16.973.508	4.323.225	3.692.072

* Non-audited

Notes to the Financial Statements

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27.1 – Emergency capacity charge

Such charge that was created by Provisional Measure no. 14, of December 21, 2001, converted into Law no. 10.438, of April 26, 2002, has as purpose the coverage of costs necessary to the contracting of capacity of generation of electric power by Comercializadora Brasileira de Energia Emergencial – CBEE. The concessionaires of electric power distribution are responsible for the billing of such tariff charge that reaches all consumer classes, except residences classified as low-income, having as basis the verified individual consumption.

The collection of the charge is fully transferred to CBEE, according to the amount collected, net of the generated taxes.

27.2 – Low-income consumers

Law no. 10.438, of April 26, 2002 established the directives for classification in the low-income residential subclass of the consuming unit with a monthly consumption of less than 80kW, and Decree no. 4.336, of August 15, 2002, extended such classification for consuming units with monthly consumption between 80 and 220 kWh.

By virtue of the new classification, the Companies made the monthly survey of gains and losses of revenues, and the amounts approved so far are listed in Note 4.

28 – Operating expenses

	Consolidated	
	2005	2004
Non Manageable		
Electric power purchased for resale		
Initial agreements	379.923	729.115
Itaipu	552.693	591.473
Auction	301.569	5.860
Other suppliers	373.114	206.621
Appropriation of C.V.A.	80.791	(9.199)
Amortization of C.V.A.	(77.364)	2.324
Free energy		15.187
Charge of use of transmission and distribution system		
Charge of use and connection	476.506	425.898
Appropriation of C.V.A.	20.011	(21.583)
Amortization of C.V.A.	24.882	11.473
Charge of system service	83.550	24.711
Energetic Development Account - EDA	184.960	109.598
Fuel Consumption Account - FCA	258.892	163.492
Energy rationing program	784	4.336
Inspection rate	9.241	6.881
Financial Compensations	7.631	5.287
Energetic Efficiency, Research and Development	15.500	15.161
Subtotal	<u>2.692.683</u>	<u>2.286.635</u>
Manageable		
Personnel and officers/Private Pension	267.969	258.368
Material	30.930	26.897
Raw material/inputs for electric power production	5.278	4.392
Third parties services	239.282	198.400
Depreciation and amortization	239.823	226.343
Provision for allowance for doubtful accounts/net losses	53.079	50.513
Provisions for contingencies	16.366	5.044
Rents and Leasings	37.289	40.353
Others	67.743	46.250
Subtotal	<u>957.759</u>	<u>856.560</u>
Total	<u>3.650.442</u>	<u>3.143.195</u>

(Amounts in thousands of Reais, unless otherwise indicated)

29 – Financial result

	Parent Company		Consolidated	
	2005	2004	2005	2004
Financial income				
Income from financial investments	30.698	1.988	65.535	62.198
Monetary variation and late charge of energy sold			73.647	64.893
Swap and hedge operations			13.833	7.087
SELIC rate on Portion A, loss of revenue, free energy and deferral of common tariff revision			84.782	134.816
Pis and Cofins on financial revenues	(11.855)	(5.582)	(13.010)	(14.367)
Interests on Pis/Cofins				1.693
Monetary variations	23.883	36.825	15.894	22.747
SELIC rate on taxes and social contributions to be offset	1.786	985	4.232	7.483
Interests on equity reserve	128.426		128.426	
Other financial revenues	228	62	23.688	11.017
Subtotal	173.165	34.277	397.027	297.567
Financial expenses				
Monetary variation and late charge of energy sold			(199)	3.487
Debt charges	(35.329)	(20.132)	(376.930)	(408.050)
Monetary variation of national currency	(76)	(1.158)	(22.229)	(18.124)
Interests and penalties - Cofins - Provision			(5.655)	(456)
Swap and hedge Operations	(15.065)	(4.661)	(148.370)	(100.061)
Selic rate on free energy			(11.369)	(37.691)
CPMF	(7.194)	(1.165)	(35.406)	(27.414)
Pis and Cofins credits on financial expenses				7.177
Interests on equity reserve	(96.061)		(224.487)	(51.128)
Other financial expenses	(28.687)	(273)	(69.719)	(77.586)
Subtotal	(182.412)	(27.389)	(894.364)	(709.845)
Exchange variations on loans, net	66.794	2.791	215.358	142.304
Other exchange variations, net			(611)	(400)
Total	57.547	9.679	(282.590)	(270.373)

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30 - Financial charges and capitalized monetary variations

In accordance with the Accounting Instruction no. 10, item 4, of the Accounting Manual of the Public Electric Power Service and the CVM Instruction no. 193, of July 11, 1996, the following amounts were transferred to Fixed Assets in progress:

	Consolidated	
	2005	2004
Debt charges reflected on the result	392.150	416.495
Transfer to fixed assets in progress	(15.220)	(8.445)
Net effect on the result	376.930	408.050
Monetary and exchange variation reflected on the result	(130.196)	75.322
Transfer to fixed assets in progress	(591)	(1.742)
Net effect on the result	(130.787)	73.580
Related financial expenses - swap operations, transferred to fixed assets in progress	100.944	70.128
Transfer to fixed assets in progress	(392)	(812)
Net effect on the result	100.552	69.316
Total capitalized	(16.203)	(10.999)

31 - Income and social contribution taxes

	Parent Company				Consolidated			
	Income Tax		Social Contribution		Income Tax		Social Contribution	
	2005	2004	2005	2004	2005	2004	2005	2004
Income before Income and Social Contribution taxes	472.067	112.908	472.067	112.908	472.067	237.099	472.067	237.099
Additions	78.813	17.329	77.129	16.358	1.771.597	1.002.929	1.752.988	986.275
Exclusions	(549.600)	(112.272)	(549.600)	(112.272)	(1.438.034)	(775.718)	(1.386.097)	(773.625)
	1.280	17.964	(404)	16.993	805.630	464.310	838.957	449.749
Offset 30% (up to the limit of loss)					(213.816)	(118.649)	(224.211)	(114.572)
	1.280	17.964	(404)	16.993	591.814	345.661	614.746	335.177
Nominal Tax Rates of Income and Social Contribution taxes	25%	25%	9%	9%	25%	25%	9%	9%
Provision for Income and Social Contribution taxes	(320)	(4.491)		(1.529)	(148.044)	(86.415)	(55.397)	(30.166)
Tax Incentives					1.847	1.912	-	-
Others	24	1		(13)	(16.281)	7.000	(5.810)	2.277
Income and Social Contribution taxes - deferred					82.750	68.565	38.324	27.105
Total	(296)	(4.490)	-	(1.542)	(79.727)	(8.938)	(22.883)	(784)

(Amounts in thousands of Reais, unless otherwise indicated)

32 - Officers' compensation

On September 14, 2005, the Shareholders Meeting approved the annual and global compensation of the members of the Supervisory Board, Executive Directors and functional committees of the EDP – Energias do Brasil S.A. of up to R\$ 6,000 for the period of May, 2005 to April, 2006, inclusive.

33 - Insurance

The Company and its subsidiaries have insurance policies with coverage established by orientation of experts taking into consideration the nature and level of risk involved, at amounts considered sufficient to cover eventual substantial losses on its assets and liabilities. The adopted risk assumptions, given their nature, are not part of the scope of an audit of financial statements and, accordingly, they were not examined by our independent auditors. The main insurance coverages are as follows:

Description	<u>Consolidated</u>
	<u>12/31/05</u>
Substations	641.746
Power plants	53.829
Warehouses	11.091
Buildings and Contents (Owned)	37.613
Buildings and Contents (Third Parties)	24.160
Transportation (Materials)	12.000
Public Liability	554.004
Operating Risk	65.827
Risk of Equipment	429.318
Transportation (Vehicles)	40.158
Personal Accidents/Trips	203.555

34 - Financial Instruments

34.1 - General aspects

The use of instruments and operations involving interest rate has as purposes the protection of the result of the active and passive operations of the controlling company and its subsidiaries. The operations are carried out through the financial areas, according to the strategy approved by the Boards. The

managements analyze that the risks are minimum, since there is no concentration and the operations are made with banks of renowned reliance and within the approved limits.

34.2 - Market value of financial instruments

The market values of the main financial instruments of the subsidiaries are similar to the book values, with emphasis on loans, financings and hedge operations.

When applicable, the market values are calculated based on the present value of such financial instruments, considering the interest rate applicable by the market for operations with similar risks and have no relevant differences as regards the book values.

34.3 - Credit risk

Another financial instrument that is able to expose mainly the subsidiaries, Bandeirante, Escelsa and Enersul, to the risk of credit is represented by accounts receivable, which, however, is reduced by the sale to a pulverized client base. Additionally, the CCEE values also represent risk.

34.4 - Hedge Operations

In order to eliminate the exposure of all its debts in dollar to the variations of the exchange rate, the companies of the group EDP – Energias do Brasil have Hedge operations, as of December 31, 2005, as described in Note 19.1.

35 - New model of the electricity sector

On March 15, 2004, the Federal government enacted Law no. 10.848, in an effort to restructure the electricity sector to supply incentives to private and public agents to construct and maintain the generation capacity and guarantee the supply of power at moderate tariffs, by means of competitive processes of public power auctions.

Such law, which is called the New Model of the Electricity Sector Act, was regulated by decrees issued as from May, 2004, being also subject to regulation to be issued by ANEEL and by MME. The main characteristics of such law include the following:

- creation of two different environments for commercialization of power, being (1) one for contracting of power destined to distribution companies, called Regulated Contracting Environment, which is operated based on auctions for the purchase of power; and (2) another market with more flexible commercialization rules for power producers, free consumers and commercialization companies, called Free Contracting Environment;

Notes to the Financial Statements December 31, 2005 and 2004

- compulsoriness by the distribution companies of acquiring power sufficient to satisfy 100% of its market;
- existence of physical generation guarantee for all power commercialized in agreements;
- it was established the need for de-verticalization of the companies, separating the distribution activities from generation and transmission, within the term of 18 months as from the date of Law no. 10.848 entering into force, with possibility of such term being postponed one only time, for an equal period, conditioned to ANEEL's approval;
- restriction to self-dealing, that is, the purchase, by the distributors of electric power, from related parties;
- compliance with the agreements signed prior to the New Model of the Electricity Sector Act, in order to provide stability to the transactions carried out prior to its enactment; and
- prohibition of distributors selling electric power to free consumers at non-regulated prices.

During such transition phase, on December 7, 2004, according to the rules of the New Model of the Electricity Sector, it was carried out the Auction of Electric Power of Existing Enterprises, having as purpose the acquisition of electric power arising from enterprises in operation to satisfy market needs of distributors as from January, 2005, January, 2006 and January, 2007, all agreement having the duration of 8 years.

Also, on April 2, 2005, there was the second Auction of Electric Power of Existing Enterprises for delivery as from the year 2008, also with eight-year agreements. In such auction the financial volume negotiated was in the amount of R\$ 7.7 billion, at prices of April, 2005. The producers sold close to 93 million MWh to the distributors at an average price of R\$ 83.13 per MWh, with supply between 2008 and 2015.

It is expected to December, 2005 the first auction to contract new enterprises (new energy auction), leading to consolidation of the transition phase to the New Model of the electricity sector.

36 - Corporate reorganization, de-verticalization and Public Offer of Shares

On April 29, 2005, the Extraordinary Shareholders' General Meetings of the companies that are part of the Grupo Energias do Brasil approved the corporate reorganization, which has as purposes:

- to simplify the corporate structure of the Grupo Energias do Brasil, exclusively consolidating in EDP – Energias do Brasil S.A. the liquidity and dispersion of shares issued by the subsidiaries of electric power distribution, making it responsible for the financial consolidation and strategic planning of the companies of the Group;
- to optimize allocation of own resources or of resources obtained from third parties with the purpose of guaranteeing the best possible return to the shareholders;
- to implement a policy of corporate administration to improve efficiency and transparency of the decision process of EDP – Energias do Brasil S.A., such as expansion of the rights of minority shareholders and improvement of quality of the information given;
- to make the adaptation and adjustments necessary for implementation of the strategic policy of the Group, aiming at development of the business of distribution, generation and commercialization of electric power, taking into account the economic and competitive environment of the Country and the new rules of the Electricity Sector;
- to use the existing synergy between the activities of the subsidiaries of distribution, generation and commercialization, providing a better return of invested capital; and
- to make easier the process for de-verticalization of activities required by the new legislation of the Electricity Sector.

The referred corporate reorganization comprised the following events, among others:

- merger of Iven into EDP - Energias do Brasil S.A.;
- transformation of Enersul into a wholly owned subsidiary of Escelsa, through merger of shares issued by Enersul into Escelsa; and
- transformation of Escelsa and Bandeirante into wholly owned subsidiaries of EDP - Energias do Brasil S.A., through merger of shares of Escelsa and Bandeirante into EDP - Energias do Brasil S.A..

Upon implementation of the aforementioned corporate reorganization, the minority shareholders of Bandeirante, Escelsa, Enersul and Iven received shares of EDP – Energias do Brasil S.A in exchange for the equity interest they had in the referred companies.

The implementation of the corporate reorganization was a preparatory act for the de-verticalization of the activities, pursuant to the New Model of the Electricity

(Amounts in thousands of Reais, unless otherwise indicated)

Sector Act, permitting implementation of the de-verticalization within the legal term, with no losses to the capital and corporate structures of the distributors.

On June 13, 2005, EDP - Energias do Brasil S.A., Escelsa and EDP Investments & Services Limited, the latter being a subsidiary of EDP - Energias de Portugal S.A. entered into a Commitment of Assumption of Debt, which became effective on July 7, 2005, whereby EDP - Energias do Brasil S.A. assumed the obligation of paying R\$ 794,126,547.46 of the debt of Escelsa to EDP Investments & Services Limited, represented by 10% of the Senior Notes due in the year of 2007. On its turn, Escelsa became the debtor of EDP - Energias do Brasil S.A. in the amount of R\$ 794,126,547.46. The assumption of part of the debt represented by 10% of the Senior Notes, as described below, was approved by the National Electric Power Agency - ANEEL.

On July 31, 2005, the second stage of the corporate reorganization process was implemented, having as purpose to segregate the activities of distribution, transmission and generation of the subsidiaries, Escelsa and Enersul, in compliance with the de-verticalization rules established by the New Model of the Electricity Sector Act.

The de-verticalization of activities will result in more transparency in the disclosure and determination of the result of operations of EDP - Energias do Brasil S.A., making easier the follow-up of activities by the regulatory bodies.

The de-verticalization comprised (a) the merger of Escelsa, with the transfer of the split-up assets to EDP - Energias do Brasil S.A., to Energest and to CESA; (b) the merger of Magistra into EDP - Energias do Brasil S.A.; (c) the split-up of Enersul with transfer of the split-up assets to Energest and Pantanal Energética Ltda.; and (d) merger of Enercorp into Energest. After implementation of the second stage of the corporate reorganization:

- (i) Enersul, the capital of which was fully held by Escelsa, became a wholly controlled company of EDP - Energias do Brasil S.A.;
- (ii) the debt of Escelsa to EDP - Energias do Brasil S.A., arising from assumption of the aforementioned debt was part of the installment of the split-up assets of Escelsa merged into EDP - Energias do Brasil S.A., what caused the extinction of the debt in question;
- (iii) the producers, CESA and Costa Rica, previously directly and indirectly held by Escelsa, respectively, became directly controlled by Energest, which, on its turn, is directly controlled by EDP - Energias do Brasil S.A.; and
- (iv) other generation assets previously held by Escelsa and Enersul were transferred to Energest, to CESA and to Pantanal Energética Ltda., all directly or indirectly controlled by EDP - Energias do Brasil S.A.

The second stage of the process of corporate reorganization was approved by the Extraordinary Shareholders' General Meetings of EDP - Energias do Brasil S.A. and other companies involved, held on June 30, 2005. The corporate events approved by the referred meetings became effective and produced effects as from July 31, 2005. The BNDES' approvals and the approvals of other creditors were obtained, and some of them established certain requirements such as division and addendum of agreements, substitution of guarantees and observance of certain financial indexes. Additionally, the corporate reorganization was previously approved by ANEEL, pursuant to Authorization Resolution no. 164, of April 25, 2005 and Directive no. 781, of June 29, 2005.

Following the above events, on September 2, 2005, there was a capital increase of Energest that was fully subscribed by Energias do Brasil S.A. and paid-in by means of contribution of its participation in CESA and Pantanal Energética, based on the relevant book values.

On July 13, 2005 it was published an announcement of beginning of primary and secondary public distribution of 62,192,668 (sixty-two million, one hundred and ninety-two thousand and six hundred and sixty-eight) common nominative shares, with no par value, issued by Energias do Brasil S.A. (the "Offer"), being: (i) 61,383,222 common shares issued by EDP - Energias do Brasil S.A. with exclusion of the right of first refusal of its current shareholders and within the limit of authorized capital established in its By-Laws (the "Primary Offer" and the "Shares Object of the Primary Offer"), and (ii) 809,446 (eight hundred and nine thousand, and four hundred and forty-six) common shares owned by the Investment Club of the Employees of Escelsa - Cinves and other Selling Shareholders that qualify as non-institutional investors and jointly with the Shares Object of the Primary Offer, the "Shares", at the price of R\$ 18,00 per Share, in the total amount of R\$ 1,119,468,024.

The capital increase and the public distribution of Shares Subject of the Primary Offer were approved by the Supervisory Board Meeting of the Company held on June 13, 2005, and the establishment of the price of issuance of the shares was approved by the Supervisory Board Meeting of the Company held on July 12, 2005.

In order to subscribe their Maximum Limits of Shares Subscription, EDP - Energias de Portugal S.A. and its subsidiaries, shareholders of EDP - Energias do Brasil S.A., made requests of Reserve in the total value R\$ 670,000,000 at the Price per Share, resulting in subscription of 37,222,222 common shares. Those shares were paid-in by EDP Investments & Services Limited, on behalf of EDP - Energias de Portugal S.A. and its subsidiaries, shareholders of EDP - Energias do Brasil S.A., through capitalization of the portion of the credit held by EDP Investments & Services Limited against EDP - Energias do Brasil S.A. by virtue of the aforementioned assumption of debt.

Notes to the Financial Statements

December 31, 2005 and 2004

The outstanding shares assure the following rights to their holders:

- (a) Right to vote in the resolutions of the shareholders meetings of the Company, each Share giving right to one vote;
- (b) Right to receive minimum annual dividends of 25% of the net income according to Article 202 of the Law of Corporations; and
- (c) Tag-along Right – to be included in a public offer for acquisition of shares – by virtue of disposal of the control of the Company, at 100% of the price paid per common share that is part of the control block.

The Shares will give right to all other benefits assured to them, including the full receipt of dividends and other income of any nature that may be declared by Energias do Brasil S.A., as from the date of its subscription or acquisition, referring to the period beginning on January 1st, 2005, according to the Corporation Law, of the Registration Regulation of the New Market and the By-Laws of EDP - Energias do Brasil S.A.

On August 8, 2005, the total quantity of Shares subject of the Offer was added-up by a supplementary lot of 3,624,150 common shares issued by EDP - Energias do Brasil S.A., pursuant to option for acquisition of additional shares granted by EDP - Energias do Brasil S.A. to the banks that coordinated the Offer, under the same conditions and at the same price of the initially offered Shares, with the purpose of satisfying the excess of demand during the Offer.

37 - Reciprocal participation

At the time of the corporate restructuring that took place on April 29, 2005, as described in note 36, the shareholders of Bandeirante, Escelsa and Enersul that exercised their right of retire (sell option) their shares acquired by such Companies, pursuant to Law no. 6.404/76. In the scope of the same reorganization, the referred shares were merged into EDP – Energias do Brasil S.A. and by virtue of such merger, the companies, Bandeirante, Escelsa and Enersul, became the holders of the following shares of their controller, EDP – Energias do Brasil S.A. as from July 15, 2005, as demonstrated below:

	<u>Number of shares</u>
BANDEIRANTE ENERGIA S.A.	15.601
EMPRESA ENERGÉTICA DE MATO GROSSO DO SUL S.A. - ENERSUL	8.877
ESPIRÍTO SANTO CENTRAIS ELÉTRICAS S.A. - ESCELSA	435
Total	24.913

Pursuant to Article 244, Fifth Paragraph of the Corporation Law, the reciprocal participation arising from merger, amalgamation, split-up or acquisition, by the company, of the control of the Company shall be eliminated within the maximum term of one year.

To such effect, with observance of the applicable rules, including the lock-up rules provided in the Registration Regulation of the New Market of BOVESPA Shares, EDP – Energias do Brasil is analyzing the manners to eliminate such reciprocal participations within the established term.

38 - Subsequent events

On January 31, 2006, by means of a Release to the Market, Bandeirante, Escelsa and Enersul informed that at a meeting held on January 30, 2006, their Supervisory Boards approved the contracting of the long term financing line with the purpose of extending its indebtedness profile, reducing its financial costs and diversifying the financing sources. The operation will be carried out as follows:

Amount: R\$ 250,000 for Bandeirante, R\$ 250,000 for Enersul and R\$ 200,000 for Escelsa;
 Remuneration: 106.3% of CDI for Bandeirante; and 107.3% of CDI for Escelsa and Enersul;
 Term: 5 years

If disbursed, the referred line will count with payment of semi-annual interest, a grace period of three years for amortization of principal and may be replaced by issuances of debentures of the Company, in which hypothesis the characteristics and costs of such issuances will be subject of corporate resolutions of Bandeirante, Escelsa and Enersul.

Independent auditors' report

Independent auditors' report

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

1. We have examined the balance sheet of EDP – Energias do Brasil S.A. and the consolidated balance sheet of the Company and its subsidiaries as of December 31, 2005 and the related statements of income, changes in shareholders' equity and changes in financial position for the year then ended, which are the responsibility of its management. Our responsibility is to express an opinion on these financial statements. The examination of the financial statements of the indirect jointly controlled, Investco S.A., as of December 31, 2005, was conducted under the responsibility of other independent auditors. In the financial statements of EDP – Energias do Brasil S.A., the participation in such Company is carried on the equity method of accounting and represents an investment of R\$ 423,712 thousand, and the participation of such investment in the result of the controlling company in 2005 amounted to R\$ 3,873 thousand of profit. The financial statements of this investee, with proportional total assets of R\$ 396,889 thousand as of December 31, 2005, are included in the consolidated financial statements. Our opinion, insofar as it relates to the amounts generated by such investee in the referred year, is based solely on the examination conducted by the independent auditors of Investco S.A.

2. Our examination was conducted in accordance with auditing standards generally accepted in Brazil and included: (a) planning of the audit, considering the materiality of the balances, the volume of transactions and the accounting 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, based on our audit and on the report of the other independent auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of EDP – Energias do Brasil S.A. and the financial position of the Company and its subsidiaries as of December 31, 2005, the result of its operations, changes in its shareholders' equity and changes in its financial position for the year then ended, in conformity with accounting practices adopted in Brazil.

4. Our examination was conducted 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 year ended December 31, 2005, are supplementary information to the aforementioned financial statements, and have been included to facilitate additional analysis. This supplementary information was subject to the same audit procedures as applied to the aforementioned financial statements and, in our opinion, are presented fairly, in all material respects, in relation to the financial statements taken as a whole.

5. The financial statements for the year ended December 31, 2004, which are presented for comparison purposes, were audited by another independent auditor whose report dated February 4, 2005, contained an unqualified opinion.

February 10, 2006



KPMG Auditores Independentes
CRC 2SP014428/O-6

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

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