

MINICENTRALES DOS, S.A.
(SOCIEDAD UNIPERSONAL)

ANNUAL ACCOUNTS AND DIRECTOR'S REPORT
FOR THE FINANCIAL YEAR ENDED
DECEMBER 31, 2006
TOGETHER WITH THE AUDIT REPORT
ON THE ANNUAL ACCOUNTS

(English Language Translation)



BDO Audiberia

MINICENTRALES DOS, S.A.(SOCIEDAD UNIPERSONAL)

**ANNUAL ACCOUNTS AND DIRECTOR'S REPORT
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AUDIT REPORT ON THE ANNUAL ACCOUNTS

ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON DECEMBER 31, 2006:

Balance Sheets as of December 31, 2006 and 2005

Profit and Loss Accounts corresponding to the financial year of 2006 and 2005

Notes to the Accounts for the financial year of 2006

DIRECTOR'S REPORT FOR THE FINANCIAL YEAR ENDED ON DECEMBER 31, 2006

MINICENTRALES DOS, S.A. (SOCIEDAD UNIPERSONAL)

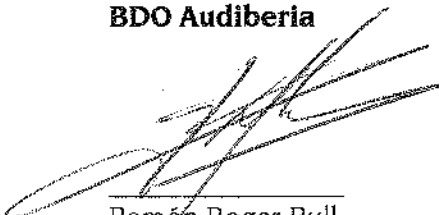
AUDIT REPORT ON THE ANNUAL ACCOUNTS

AUDIT REPORT ON THE ANNUAL ACCOUNTS
(Free translation of the original issued in Spanish.
In case of any discrepancy the Spanish version prevails)

To the Single Shareholder of **MINICENTRALES DOS, S.A. (SOCIEDAD UNIPERSONAL)**

1. We have audited the annual accounts of **Minicentrales Dos, S.A. (Sociedad Unipersonal)** (hereinafter "the Company") consisting of the balance sheet as at December 31, 2006, the profit and loss account and the related notes to the annual accounts for the year then ended, the preparation of which is the responsibility of the Directors of the Company. Our responsibility is to express an opinion on the annual accounts taken as a whole, based on the work carried out in accordance with auditing standards generally accepted in Spain, the accounting principles applied and the estimates made.
2. In accordance with the Spanish Corporate Law, the Company's Directors has presented, for comparative purposes only, for each item of the balance sheet, the profit and loss account, and statement of source and application of funds, the corresponding amounts for the previous year as well as the amounts for 2006. Our opinion refers exclusively to the annual accounts for 2006. On March 27, 2006, we issued our audit report on the 2005 annual accounts, in which we expressed an unqualified opinion.
3. In our opinion, the accompanying annual accounts for the financial year ended as at December 31, 2006, present fairly, in all material respects, the net worth and financial position of **Minicentrales Dos, S.A. (Sociedad Unipersonal)** and the results of its operations and its source and application of funds for the financial year then ended, and contain all the information necessary for their interpretation and comprehension in accordance with generally accepted accounting principles in Spain, applied on a basis consistent with that of preceding year.
4. The accompanying Directors' Report for the financial year ended as at December 31, 2006 contains the information that the Company's Directors consider relevant to the Company's position, the evolution of its business and other matters, and does not form an integral part of the annual accounts. We have verified that the accounting information contained in the aforementioned Directors' Report coincides with that of the annual accounts for the year ended as at December 31, 2006. Our work as auditors is limited to checking the Directors' Report within the scope already mentioned in this paragraph and it does not include a review of information other than that obtained from the Company's accounting records.

BDO Audiberia



Ramón Roger Rull
Partner

Barcelona, March 30, 2007

MINICENTRALES DOS, S.A. (SOCIEDAD UNIPERSONAL)

ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2006

MINICENTRALES DOS, S.A. (SOCIEDAD UNIPERSONAL)**BALANCE SHEETS AS OF DECEMBER 31, 2006 AND 2005**

(Stated in Euro)

ASSETS	31/12/2006	31/12/2005
UNCALLED SUBSCRIBED CAPITAL (Note 10)	9.015.015,00	9.015.015,00
FIXED ASSETS	186.091.257,20	187.343.943,53
Start-up costs (Note 5)	9.904,54	19.795,68
Intangible fixed assets (Note 6)	89.704.767,96	92.399.766,23
Cost	107.335.662,03	107.335.662,03
Depreciation	(17.630.894,07)	(14.935.895,80)
Tangible fixed assets (Note 7)	22.968.074,35	23.981.730,81
Cost	39.974.954,39	39.699.821,88
Depreciation	(17.006.880,04)	(15.718.091,07)
Investments	73.408.510,35	70.942.650,81
Loans to group and associated companies (Note 15)	65.052.105,67	62.586.246,13
Guarantees constituted	87,40	87,40
Public Administration - long-term (Note 17)	8.356.317,28	8.356.317,28
DEFERRED EXPENSES (Note 8)	13.225.662,10	14.079.448,37
CURRENT ASSETS	15.109.983,96	18.478.383,21
Inventories	901,01	901,01
Cost	901,01	901,01
Debtors	2.066.405,43	5.393.095,24
Trade debtors, debtors due to services	1.824.092,84	2.348.604,89
Group companies, debtors (Note 15)	242.312,59	3.044.411,93
Public Administration (Note 17)	-	78,42
Short term investments (Note 9)	12.419.638,93	12.523.220,91
Fixed-interest securities	-	136.811,56
Credits to group and associated companies (Note 15)	2.532.117,30	2.897.296,28
Security portfolio - short-term	9.869.491,27	9.459.828,55
Short-term guaranties and deposits	18.030,36	29.284,52
Cash at banks and in hand	266.629,12	316.143,36
Prepayments and accrued income	356.409,47	245.022,69
TOTAL ASSETS	223.441.918,26	228.916.790,11

The Company's Annual Accounts, which form a single unit, are composed of these Balance Sheets, the attached Profit and Loss Accounts, and the attached Notes to the Accounts consisting of 22 Notes.

MINICENTRALES DOS, S.A. (SOCIEDAD UNIPERSONAL)**BALANCE SHEETS AS OF DECEMBER 31, 2006 AND 2005**

(Stated in Euro)

LIABILITIES	31/12/2006	31/12/2005
NET EQUITY (Note 10)	11.783.624,64	12.070.641,59
Share capital	12.020.020,00	12.020.020,00
Reserves	64.159,20	-
Results from previous years	(13.537,61)	(590.970,48)
Profits and Loss	(307.016,95)	641.592,07
DEFERRED INCOME	340.960,44	372.118,68
Capital grants (Note 12)	340.960,44	372.118,68
LONG TERM CREDITORS	198.261.877,09	203.250.343,60
Issues of debentures and other negotiable securities (Note 13)	180.461.680,00	183.740.320,00
Debts with credit institutions (Note 13)	11.423.337,72	12.082.789,72
Debts with group and associated companies (Note 15)	-	519.745,82
Other creditors (Note 14)	6.376.859,37	6.907.488,06
SHORT TERM CREDITORS	13.075.456,09	13.223.686,24
Issues of debentures and other negotiable securities (Note 13)	3.278.640,00	2.920.080,00
No convertible debentures	3.278.640,00	2.920.080,00
Debts with credit institutions (Note 13)	7.460.712,37	7.462.366,50
Debts with group and associated companies (Note 15)	716.845,22	1.437.324,93
Trade creditors (Note 16)	1.059.745,09	1.066.020,45
Other non-trade debts	461.971,03	123.498,01
Public Administration (Note 17)	105.493,95	84.433,61
Other debts	353.319,46	36.060,00
Wages and salaries - pending payments	3.157,62	3.004,40
Provisions for trade operations	97.542,38	214.396,35
TOTAL LIABILITIES	223.441.918,26	228.916.790,11

The Company's Annual Accounts, which form a single unit, are composed of these Balance Sheets, the attached Profit and Loss Accounts, and the attached Notes to the Accounts consisting of 22 Notes.

MINICENTRALES DOS, S.A. (SOCIEDAD UNIPERSONAL)
PROFIT AND LOSS ACCOUNTS FOR THE FINANCIAL YEARS 2006 AND 2005
(Stated in Euro)

	2006	2005
Net turnover (Note 18.c)	14.372.293,12	14.311.965,69
TOTAL OPERATING INCOME	14.372.293,12	14.311.965,69
Supplies (Note 18.b)	1.098.116,05	-
Personnel expenses (Note 18.a)	180.697,60	165.851,02
Wages, salaries and similar	139.445,79	131.889,99
Social security charges	41.251,81	33.961,03
Provisions for fixed assets depreciation	3.993.678,38	4.111.946,32
Other operating expenses	1.634.755,97	2.766.042,24
External services (Note 18.b)	1.499.269,81	2.628.580,23
Taxes	135.486,16	137.462,01
TOTAL OPERATING EXPENSES	6.907.248,00	7.043.839,58
OPERATING RESULT	7.465.045,12	7.268.126,11
Income from other negotiable securities and credits of fixed assets with group and associated companies	3.437.299,29	3.733.771,01
Other similar interest and income	279.159,49	214.012,61
Exchange gains	112,13	-
TOTAL FINANCIAL INCOME	3.716.570,91	3.947.783,62
Financial and similar expenses	11.518.791,04	11.259.119,44
TOTAL FINANCIAL EXPENSES	11.518.791,04	11.259.119,44
FINANCIAL RESULT	(7.802.220,13)	(7.311.335,82)
RESULT FROM ORDINARY ACTIVITIES	(337.175,01)	(43.209,71)
Profits from the transfer of fixed assets	-	15,00
Extraordinary expenses	29.974,54	716.349,27
TOTAL EXTRAORDINARY INCOME	29.974,54	716.364,27
Extraordinary expenses	344,10	4.252,50
Prior years income and expenses	4.913,10	27.309,99
TOTAL EXTRAORDINARY EXPENSES	5.257,20	31.562,49
EXTRAORDINARY RESULT	24.717,34	684.801,78
RESULT BEFORE TAXES	(312.457,67)	641.592,07
Corporate Income Tax (Note 17)	(5.440,72)	-
RESULT FOR THE CURRENT YEAR	(307.016,95)	641.592,07

The Company's Annual Accounts, which form a single unit, are composed of these Profit and Loss Accounts, the attached Balance Sheet, and the attached Notes to the Accounts consisting of 22 Notes.

MINICENTRALES DOS, S.A. (SOCIEDAD UNIPERSONAL)

NOTES TO THE ACCOUNTS FOR THE FINANCIAL YEAR END 2006

NOTE 1. INCORPORATION, ACTIVITY AND LEGAL REGIME OF THE COMPANY

a) Incorporation and Registered Address

MINICENTRALES DOS, S.A. (SOCIEDAD UNIPERSONAL) was constituted as public limited company on December 17, 1987 for an undefined period. According to the agreement of the Extraordinary and Universal Shareholders' Meeting, constituted on September 17, 1999, it was decided to transform the Company Minicentrales Dos, S.A. into a limited partnership by shares, under the denomination of "Minicentrales Dos, Sociedad Comanditaria por Acciones".

On April 26, 2005, the General Extraordinary and Universal Shareholders' Meeting agreed to the transformation of the Company into a public limited company, under the denomination of Minicentrales Dos, S.A.

Because of the reorganization of the group to which the Company belongs, carried out in 2004, the Company became the property of a single shareholder, thus acquiring the character of Single Shareholder Company. In accordance with the 2nd additional resolution of Law 2/1995 of March 23 by which the text of the Spanish Limited Liabilities Companies Act is modified, the Company has been registered in the Mercantile Register as sole shareholder.

Its present address is Claudio Coello, number 106, Madrid.

b) Activity

Its activity consists in the processing of power stations for the production of electrical energy, the construction of these by own or other people's means and their operation.

On December 27, 1991 the Company acquired from Erkimia, S.A. the administrative concessions for the operation of two hydroelectric exploitations in the rivers Carrión and Pisuerga, denominated "Camporredondo" and "the Requejada", respectively. At the same time, it acquired from Kujal, S.A. the existing machinery and facilities in these exploitations. Until December 31, 1994, the sole activity of the Company consisted in operating the mentioned exploitations.

In the financial year 1995 a reorganization of the Minicentrales Group took place with the intention of concentrating its productive assets in a sole Company (Minicentrales Dos, S.A.), to obtain financing for the consolidation of new projects and to increase the base of the Group's net equity by incorporating new partners. Among other actions taken during the reorganization project, the following measures were implemented:

Acquisition of the Easement of Flix

On March 17, 1995, Minicentrales, S.A. acquired from Minicentrales Energéticas, S.A. an easement of provision of electrical energy of the hydroelectric exploitation named "Saltos de Flix". On July 14, 1995, Minicentrales, S.A. yielded to the Company the rights derived from this easement. From that date, the Company has operated the mentioned exploitation.

On May 3, 1995, the General Shareholders' Meeting of the Company approved the merger of the Company, as absorbent, with Minicentrales Tres, S.A. and Concesionaria de Obras, S.A. (COSA), as absorbed, with economic effects as of January 1, 1995. From that date, the Company has operated the hydroelectric exploitations of "Cebolla" and "Higares" (coming from Minicentrales Tres, S.A.) and of "Safont" (coming from COSA).

Purchase of other hydroelectric exploitations of the Minicentrales Group

On May 31, 1995, the Company bought from the companies Minicentrales, S.A., Concesiones y Obras, S.A. and Minipresas, S.A. the hydroelectric exploitations of "Lavaderos", "La Aldehuela" and "Villaverde", respectively. From that date, the Company has operated said exploitations.

The reorganization of Minicentrales Group was financed by means of a project finance loan, provided by Banco Santander Central Hispano and the Chase Manhattan Bank.

On May 18, 2005, The Single Shareholder of Minicentrales Dos, S.A., the Single Shareholders of the companies Caravasar, S.L. (Sociedad Unipersonal) and Comercial Inversora Guanarteme, S.L. (Sociedad Unipersonal), and the General Shareholders' Meeting of Producción de Energía de Xerta, S.L., approved merging the three latter ones with the first one, with the extinction for dissolution, without liquidation, of the absorbed companies and the transmission in block of their respective patrimonies to the absorbent company, Minicentrales Dos, S.A., which thus acquired by universal succession all the rights and obligations of the absorbed companies.

Said merger was carried out in order to proceed with the restructuring of the group to which Minicentrales Dos, S.A (Sociedad Unipersonal), and the absorbed companies (Group RPI) belong. The intention was to centralize the activities of the Spanish companies of RPI Group in a single company, hereby achieving a simplification of the administration. Additionally and in accordance with the contract signed between MBIA Insurance Corporation, a Northamerican insurance company, and Minicentrales Dos, S.A. on November 24, 2004, relating to the guarantees offered in order to assure the emission of obligations and bonds with a value of Euro 194 million, MBIA demanded said merger to take place no later than June 30, 2005.

c) Legal Regime

The Company is governed by the law contained in the Code of Commerce according to Law 19/1989, of July 25, being partially reformed and adapted to the mercantile legislation according to the Directives of the EEC concerning companies, and to any law that could replace, modify or complement it.

d) Legal Regime of the Hydroelectric Exploitations

The Company holds the title of the administrative concessions for the operation of the hydroelectric exploitations of Camporredondo, the Requejada, Lavaderos and Villaverde, granted by the Hydrographical Confederation of the Duero, in the first two cases, and by the Hydrographical Confederation of the Tajo, in the latter two cases. At the maturity of the concessions, all elements that constitute the exploitations will revert to the State, free of charge and free of encumbrances.

The hydroelectric exploitations of Cebolla and Higuera are operated by virtue of usufruct contracts which the Company maintains with Iberdrola, S.A., which holds the title of the corresponding administrative concessions of the Hydrographic Confederation of the Tajo. Similarly, the hydroelectric exploitations of Safont and La Aldehuela are operated by virtue of lease contracts that the Company maintains with Unión Eléctrica Fenosa, S.A., who holds the title of the corresponding administrative concessions of the Hydrographic Confederation of the Tajo. At the maturity of the respective contracts all elements that constitute the exploitations will revert to Iberdrola, S.A. or Unión Eléctrica Fenosa, S.A., free of charge and free of encumbrances,

The exploitation of Saltos de Flix is operated by virtue of the servitude of supply of energy acquired from Minicentrales Energéticas, S.A., with right to this supply over a property of Fuerzas Eléctricas de Cataluña, S.A. (FECSA). By virtue of the subscribed agreements, the Company will receive the annual amount of 63.7 million of kWh, during the term of use (including its prorogations), and in any case during a minimum period of 53 years as of the acquisition by Minicentrales, S.A.

The hydroelectric exploitation of the base of the irrigation dam of Xerta, is operated by virtue of the right of usufruct conceded by Hidroeléctrica de Xerta, S.L., holder of the corresponding administrative concession on the usage of water of the river Ebro. Said right of usufruct, that was conceded to the absorbed company Producción de Energía de Xerta, S.L. as of July 1, 2001 for a period of 30 years, implies the usufruct on all necessary goods for the production of electric energy. On March 8, 2005 the Company signed a rental agreement of Industry with Hidroeléctrica de Xerta, S.L., that extends the exploitation period of the installations of the hydroelectric power plant of Xerta by an additional period of seven years, until May 28, 2038.

In agreement with the valid legislation, the energy produced in the mentioned hydroelectric exploitations is delivered to distributing companies of electrical energy integrated in the National Electrical System.

The different systems under which the exploitations are operated, are as follows:

Royal Decree 2818/1998, of December 23, on production of electric power by hydroelectric plants: Plant of Villaverde.

Royal Decree 2366/94. - Exploitations of La Requejada and of Camporredondo.

Royal Decree 436/2004. - Cebolla, Higares, Safont, Lavaderos, La Aldehuela, Saltos de Flix and Xerta. These exploitations sell their production or surpluses of electric energy in the electric power production market, receiving in this case, the price negotiated in the market, plus an incentive for participating in it and a bonus. This incentive and this bonus are defined for hydroelectric power stations whose installed power does not exceed 25 MW as the 10% and the 40% of the electric average price of reference respectively.

The main characteristics of the described hydroelectric exploitations are as follows:

Denomination	Location	Company Acquirer of Energy	End of Operating
Camporredondo	Río Carrión (Palencia)	Iberdrola, S.A.	2032
La Requejada	Río Pisuerga (Palencia)	Iberdrola, S.A.	2025
Cebolla	Río Tajo (Toledo)	Iberdrola, S.A.	2018
Higares	Río Tajo (Toledo)	Iberdrola, S.A.	2019
Safont	Río Tajo (Toledo)	Iberdrola, S.A.	2016
Lavaderos	Río Tajo (Toledo)	Iberdrola, S.A.	2019
La Aldehuela	Río Tajo (Toledo)	Unión Eléctrica Fenosa, S.A.	2016
Villaverde	Río Tajo (Toledo)	Unión Eléctrica Fenosa, S.A.	2035
Saltos de Flix	Río Ebro (Tarragona)	Fuerzas Eléctricas de Cataluña, S.A.	2048
Azud de Xerta	Río Ebro (Tarragona)	Endesa, S.A.	2038

NOTE 2. BASIS OF PRESENTATION OF THE ANNUAL ACCOUNTS

a) True and Fair View

The attached Annual Accounts for the financial year 2006 have been drawn up by the Directors based on the accounting records at December 31, 2006 and are presented in accordance with the provisions of the Limited Liability Companies Act in order to provide a true and fair view of the net worth, the financial situation, the results and the funds obtained and applied by the Company. These annual accounts will be submitted for the approval of the Single Shareholder, and the Company Management expects that they will be approved without any modification.

b) Accounting Principles Applied

The attached Annual Accounts have been prepared applying the accounting principles prescribed in the Procedure of Adjustment of the General Plan of Accounting to the Companies of the Electrical Sector, in the Commercial Code and in the General Accounting Plan.

c) Comparability of the Information

In accordance with Spanish Mercantile Legislation, the Board of Directors present, for each figure of the balance sheet, the profit and loss account and of the statement of sources and applications of funds, of the financial year 2006, the corresponding figures of the previous period. Except for what is mentioned in Notes 18.b and 4.d, the accounts are comparable and presented consistently for both financial years.

d) Presentation of the financial statements

In accordance with current legal requirements, the financial statements are stated in Euro.

NOTE 3. APPLICATION OF THE RESULT

Given that the results obtained by the Company in the present financial year are losses amounting to Euro 307.016,95, they will be credited to negative results from previous financial years during the next financial year.

NOTE 4. VALUATION POLICIES

The principal valuation policies used by the Company in drawing up its Annual Accounts for the financial year 2006, in accordance with the General Accounting Plan, are as follows:

a) Start-up Costs

The Start-up costs, are booked at the costs incurred, net of the corresponding accumulated depreciation, and are depreciated systematically over a period no longer than five years.

The expenses of the financial year 2006 under the concept of amortization of deferred Start-up expenses amount to Euro 9.891,14.

b) Intangible Fixed Assets

Intangible fixed assets are recorded at acquisition cost or direct cost of production, less the corresponding accumulated amortization, in accordance with the following criteria:

b.1) Administrative Concessions:

The Administrative Concessions include the cost of acquisition of the concessions for the operation of the hydroelectric exploitations of "Camporredeondo", "La Requejada" and the right of supply of electric power of the hydroelectric utilization "Saltos de Flix".

The Company follows the criteria to depreciate these costs during the useful life of the concessions using the linear method, except for an amount of Euro 7.212.145,25, whose depreciation is related to the payment of a debt linked to the annual turnover generated by the Irrigation Dam of Xerta (Note 14).

The amortization of "Saltos de Flix" is calculated at an annual rate of 1,94%. The related charge to the profit and loss account for 2006 amounted to Euro 574.611,37.

The amortization of the Irrigation Dam of Xerta is calculated at an annual rate of 2,70%, except for the previously mentioned Euro 7.212.145,25, whose depreciation is related to the payment of a debt linked to the annual turnover generated by the Irrigation Dam of Xerta. The expenses affecting the profit and loss Account of the financial year 2006 under this concept amount to Euro 2.120.386,90.

c) Tangible Fixed Assets

The tangible fixed assets are evaluated at acquisition cost updated in agreement with the legal dispositions of Royal Decree-Law 7/1996, of June 7.

The fixed assets correspond to the constructions of the hydroelectric exploitations of Cebolla, Higares and Safont, acquired in 1995 through the merger by absorption of Minicentrales Tres, S.A. and Concesionaria de Obras, S.A. The assets were registered with a higher amount than in the balance sheets of the absorbed companies, the increase being Euro 2.577.302,00.

The costs of expansion, modernisation or improvements that result in an increase in the productivity, capacity or efficiency, or an extension of the useful life of the assets, are capitalized as an additional cost of the corresponding assets.

The repair and maintenance expenses incurred during the year are entered in the profit and loss account.

The interest and other financial charges incurred during the construction period of the tangible fixed assets, as well as the exchange rate differences originating during that period on loans assumed for financing the fixed assets are considered to be a component of the cost of the asset.

Additionally, also the costs of the personnel of the Company dedicated directly to the construction of the fixed assets are capitalized during the period of construction of the fixed assets.

During the financial year 1999/2000 the Company reclassified the amount of the reversion fund existing in the balance sheet at September 30, 1999, in an amount of 1.802.330,00 Euro, to the caption of accumulated amortization of fixed assets, as the yearly amortization of the fixed assets is calculated linearly based on the period of the corresponding administrative concession, which at the end of the useful life of the concession has a similar effect as calculating the amortization based on the useful life and in addition making the reversion fund's provision. The effect in the profit and loss account of every financial year, motivated by this change in the presentation of the reversion fund is zero.

The base for the assumption of this criterion is that the useful life of the assets is higher than the useful life of the administrative concession. In addition, the Company understands that the recurrent maintenance expenses of the facilities are sufficient to guarantee that the plants are in perfect conditions at the moment of the reversion.

The net increases in the value of the plants due to modernization are amortized over the remaining years of useful life of the modernized assets.

The expense entered in the profit and loss account for the financial year 2006 for depreciation of the tangible fixed assets amounts to Euro 1.288.788,97.

d) Deferred Expenses

The deferred expenses correspond to the expenses of formalization of Bonds and Debentures issued with Caja Madrid in the financial years 2004 and 2000. The Company follows the criterion to amortize these expenses based on the duration of the Bonds and Debentures, 30 years in the case of the issuance of the financial year 2004 and 28 years in the case of the issuance made in 2000 (Note 8).

The amount entered in the profit and loss account for the financial year 2006 for deferred expenses is Euro 939.714,36. In 2006 the Company has included the amortization of expenses corresponding to the issuance of bonds from financial year 2000 as part of the financial expenses, considering this treatment, identical with the one given to expenses for the bond issued in 2004, as more appropriate. In previous financial years they were included in the depreciation and amortisation expenses.

e) Classification of Balances According to Their Maturity Date

In the classification into short and long term the period remaining between the year end and the date of maturity is considered. Maturity dates of more than twelve months after the year end are considered long-term.

f) Grants

Capital grants correspond to grants obtained by Minicentrales Tres, S.A., Concesionaria de Obras, S.A. y Concesiones y Obras, S.A. for the financing of the power stations Cebolla, Higares, Safont and La Aldehuela. The Company registered the grants pending to be imputed to the profit and loss account at the moment of the merger with the first two companies, and at the moment of the acquisition of the assets and liabilities belonging to the plant of La Aldehuela from Concesiones y Obras, S.A.

Until the financial year 1997, the Company followed the criterion to impute these grants to the profit and loss account over a period of ten years, starting from the moment they were registered in the books. In the financial year 1998, this criterion was modified, in agreement with generally accepted principles of accounting, imputing the received grants to the profit and loss account by applying the straight-line method during the useful life of the subsidized assets.

g) Income and Expenses

Income and expenses are accrued, in other words, they are accounted for when the real flow of goods and services takes place, irrespective of the moment of the monetary or financial flow derived from them.

Following the principle of prudence, the Company only accounts for profits actually realized at the year end, while foreseeable risks and losses, even if only contingent, are accounted for as soon as they are known.

h) Severance Payments

In accordance with existing labour legislation, under certain conditions, the Company would be obliged to compensate employees with whom existing employment contracts are rescinded. At December 31, 2006, the Company's Management is not aware of any conditions that would result in severance payments, as a result of which the attached Balance sheet contains no provision in this regard.

i) Reversion Fund

As of the maturity date of the administrative concessions, contracts of usufructs, lease and servitude contracts of provision of energy for the operation of the hydroelectric exploitations described in Note 1, all the elements that constitute the exploitations will revert to the State, Iberdrola S.A., Unión Eléctrica Fenosa S.A. and Endesa, S.A., respectively, free of charge and free of encumbrances.

Until the financial year 1999/2000, in those cases where the considered useful life was superior to the operation period, a reversion fund was constituted so that, as of the maturity of the administrative concessions, contracts of usufruct and of the lease or servitude contracts, the reversion fund would correspond with the net book value of the assets to revert. The Company followed the criteria to register the necessary fund so that, as of the maturity of the concessions to revert, it would reach the net book value of the constructions to revert, in agreement with a linear method. As of the financial year 1999/2000 the presentation of the reversion fund was modified as indicated in the Note 4.c.

j) Corporate Income Tax

The expense for Corporate Income Tax for the financial year 2006 is calculated based on the accounting profit, adjusted for permanent differences according to tax criteria.

The fiscal credits for tax losses carried over are recognized as anticipated taxes to the limit of the deferred taxes derived from those temporary differences that are expected to be used before the expiration of the compensation right. Additional amounts are recognized as reduction of the tax expense during the fiscal year in which the compensation takes place.

NOTA 5. START-UP COSTS

The detail and changes in this item during the financial year 2006, are as shown below:

	31/12/05	Change	31/12/06
Costs of capital increase	19.795,68	(9.891,14)	9.904,54
	19.795,68	(9.891,14)	9.904,54

NOTE 6. INTANGIBLE FIXED ASSETS

The detail and changes in this item during the financial year 2006, are as shown below:

	31/12/05	Additions	31/12/06
Cost:			
Administrative concessions	107.335.662,03	-	107.335.662,03
Accumulated Depreciation:			
Administrative concessions	(14.935.895,80)	(2.694.998,27)	(17.630.894,07)
Net Intangible Fixed Assets	92.399.766,23	(2.694.998,27)	89.704.767,96

The administrative concessions correspond to the servitude of supply of electrical energy of the hydroelectric exploitation of "Saltos de Flix" whose cost value amounts to Euro 29.639.430,16, and to the usufruct right of the "Azud de Xerta" whose costs ascend to 77.696.231,87 Euro.

The value of the concession of the "Azud de Xerta", consists of:

The amount of 64.743.981,45 Euro corresponds to the value of the usufruct right of the Irrigation Dam of Xerta. This amount was allocated to concessionary rights in the books of Producción de Energía de Xerta, S.L. and was contributed by this company in the merger carried out in 2005 and previously mentioned in Note 1.

Prior to the merger mentioned in the previous paragraph, the companies Caravasar, S.L. and Comercial Inversora Guanarteme, S.L., each acquired a 50% share in Producción de Energía de Xerta, S.L. from Hidrocentrales Reunidas, S.A., i.e. for the amount that the latter company had registered as investment in Producción de Energía de Xerta, S.L. The goodwill of 12.073.100,42 Euro, resulting from the mentioned purchase was allocated as increase of the value of the usufruct of the concessionary rights for the use of the Irrigation Dam of Xerta.

Additionally, on March 8, 2005, the Company signed an industrial lease agreement with Hidroeléctrica de Xerta, S.L. by which the latter transfers a 7-year-right of use of the Irrigation Dam of Xerta for a value of Euro 879.150,00.

NOTE 7. TANGIBLE FIXED ASSETS

The detail and changes in this item during the financial year 2006, are as shown below:

	31/12/05	Additions	Transfers	31/12/06
Cost:				
Buildings	15.550.566,85	-	(122.489,98)	15.428.076,87
Technical Installations	23.976.089,71	-	-	23.976.089,71
Machinery	20.287,56	-	(20.287,56)	-
Other Installations	106.228,85	-	-	106.228,85
Furniture	2.286,24	-	-	2.286,24
Data Processing Equipment	7.715,61	-	-	7.715,61
Other Tangible Fixed Assets	36.647,06	-	(36.647,06)	-
Constructions in progress	-	275.132,51	179.424,60	454.557,11
	39.699.821,88	275.132,51	-	39.974.954,39
Accumulated Depreciation:				
Buildings	(6.919.262,16)	(526.939,07)	-	(7.446.201,23)
Technical Installations	(8.718.387,30)	(755.295,56)	(39.435,07)	(9.513.117,93)
Other Installations	(73.952,54)	(4.418,73)	39.435,07	(38.936,20)
Furniture	(776,87)	(208,05)	-	(984,92)
Data Processing Equipment	(5.712,20)	(1.927,56)	-	(7.639,76)
	(15.718.091,07)	(1.288.788,97)	-	(17.006.880,04)
Net Tangible Fixed Assets	23.981.730,81	(1.013.656,46)	-	22.968.074,35

At December 31, 2006, the entire tangible fixed assets belonging to the Company are related to the exploitation, being of free disposition, and not subject to any type of encumbrances, obligations or guarantees except for those resulting from the contracts of the bond issuance. The Company has subscribed insurance policies to cover the possible damage that the plants and installations as stated in the tangible fixed asset could suffer.

As indicated in the Note 4.b, in the financial year 1995 the Company registered revaluated assets of its tangible fixed assets, acquired in the merger for absorption of Minicentrales Tres, S.A. and Concesionarias de Obras, S.A. On December 31, 2006 the net value of the accumulated revaluations amounts to Euro 778.342,70.

Likewise, in 1996 the Company proceeded to the update of the values of its tangible fixed assets according to the Real Decree Law 7/1996, of June 7. The amounts affected by this update and its effect as of December 31, 2006, are as follows:

	Cost	Accumulated Depreciation	Net
Lands and buildings	400.022,00	(102.015,50)	298.006,50
Technical installations and machinery	1.554.626,00	(520.222,25)	1.034.403,75
	1.954.648,00	(622.237,75)	1.332.410,25

NOTE 8. DEFERRED EXPENSES

The changes in deferred expenses are as follows:

Expense	31/12/2005	Additions	Imputations To Expenses	31/12/2006
Refinancing costs 2000	7.641.486,20	-	(337.239,29)	7.304.246,91
Refinancing costs 2004	4.719.541,05	85.928,09	(168.045,96)	4.637.423,18
Monoline Fee	1.718.421,12	-	(434.429,11)	1.283.992,01
	14.079.448,37	85.928,09	(939.714,36)	13.225.662,10

Costs of the issuance of bonds and obligations of the exercise 2000

In the operation of refinancing that the Company carried out on April 14, 2000, the loan with BSCH that amounted to Euro 48.554.566,00, was repaid and Bonds for an amount of Euro 72.400.000 were issued with Caja Madrid (Note 13). During the financial year 1999/2000, the Company amortized in advance deferred expenses related to the loan of the BSCH and capitalized the expenses related to the Bond issuance with Caja Madrid. The capitalized amounts are being amortized based on the useful life of the Bonds issuance, whose maturity is scheduled for the year 2028.

Costs of the issuance of bonds and obligations of the exercise 2004

On November 10, 2004 the Company's General Shareholders' Meeting agreed on the issuance of Bonds and Obligations with Caja Madrid for a total amount of Euro 122.000.000 (Note 13). The total value of the expenses incurred in the mentioned operation and of the monoline policy related to it, amounted to Euro 7.962.236,14 and to Euro 4.065.050,67, respectively. Said amounts were assigned to all the Group companies in proportion to the distribution of the funds obtained by the issuance. The amounts capitalized are amortized in function of the useful life of the issuance of the Obligations, whose expiration is scheduled for the year 2034, except for the monoline policy, whose duration is 5 years and which is amortized over this period.

This issuance was carried out in order to refinance the liabilities of the companies newly incorporated into the group, to obtain additional funds for the development of new projects, and to cover all the costs resulting from the operation itself (external advisors, MBIA coverage, etc.) Said refinancing permitted the different group companies to adapt the debt service to their capacity of generating income and to the maturity of the concessions of their operating assets.

NOTE 9. SHORT TERM INVESTMENTS

The detail and changes in this item during the financial year 2006, are as shown below:

	31/12/05	Additions	Disposals	2006
Group companies (Nota 15)				
Loans	8.000,00	11.000,00	-	19.000,00
Interest	2.889.296,28	3.437.299,29	(3.813.478,27)	2.513.117,30
Total Group Companies	2.897.296,28	3.448.299,29	(3.813.478,27)	2.532.117,30
Other Investments:				
Fixed-interest securities	136.811,56	-	(136.811,56)	-
Interest - short-term	40.845,08	233.774,31	(209.497,12)	65.122,27
Deposits	9.418.983,47	48.404.366,83	(48.018.981,30)	9.804.369,00
Guarantees constituted	18.030,36	-	-	18.030,36
Fixed-term deposit	11.254,16	-	(11.254,16)	-
Total Other Investments	9.625.924,63	48.638.141,14	(48.376.544,14)	9.887.521,63
Total Short Term Investments	12.523.220,91	52.086.440,43	(52.190.022,41)	12.419.638,93

Included under the caption of Deposits are some government bonds subscribed with the company UBS Wealth Management that accrue an interest of 3,34%. Said subscription is in line with the contractual obligation of maintaining a Debt Service Reserve Account with a financial institution, as a result of the issuance of Obligations carried out in 2004.

NOTE 10. NET EQUITY

The changes in Net Equity during the financial year 2006 were as follows:

	Subscribed Capital	Legal Reserve	Results from Operations	Results for the Current Year	Total
Balance at 31/12/05	12.020.020,00	-	(590.970,48)	641.592,07	12.070.641,59
Distribution of 2005 result	-	64.159,20	577.432,87	(641.592,07)	-
Result for the year 2006	-	-	-	(307.016,95)	(307.016,95)
Balance at 31/12/06	12.020.020,00	64.159,20	(13.537,61)	(307.016,95)	11.763.624,64

Share Capital

At December 31, 2006, the share capital is represented by 1.202.002 registered shares with a par value of 10 Euro each, fully subscribed and of which 25% are paid in. These shares enjoy equal voting and economic rights.

At December 31, 2006, the uncalled subscribed capital is 9.015.015,00 Euro, which corresponds to 75 % of the whole share capital.

