

REPORT OF THE EDP GENERAL SUPERVISORY BOARD

Biomass is natural resource
of biological origin.
It comes from organic matter
produced in an ecosystem
and can be used to generate
energy by combustion.





ANNUAL REPORT 2007

07

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"Corporate governance should not be mechanical compliance with the rules. It should be critical reflection on the governance practices adopted to ensure that the company's business activity is undertaken in its own interest."



Message from the Chairman

To the Shareholders

In operation for around a year and a half now, the General Supervisory Board has acquired enough maturity for its activity to reveal a certain dynamism, with a focus on actively participating in EDP's value creation strategy and exercising its duties effectively. I see it as my duty, and it gives me great pleasure, to highlight our successful coordination with the Executive Board of Directors. This has contributed to corporate stability, which is essential for the success of any company. The duties of each corporate body are defined by law and by the shareholders, and it is their responsibility to always exercise these duties with the company's best interests in mind.

2007 was an excellent year for EDP and will certainly be remembered with satisfaction by all those involved in the company's activities. It marked the 10th anniversary of the first phase of the re-privatisation of EDP, an event that set the scene for an EDP open to the market and dedicated to effectiveness, efficiency, sustainability and playing an active social role. The end of 2007 would see another phase in this process (the seventh), with an issue of convertible bonds. Its success reveals the appetite of investors for EDP securities, reflected in the rise in the company's share price during the period.

Fundamentally, however, 2007 will be remembered for the dynamism of its international expansion in the area of wind energy, in pursuit of the objectives it outlined in its current Strategic and Business Plans. EDP has now established a presence in two important new markets: the USA, through the acquisition of Horizon, and Poland, through the acquisition of Relax. It is with pride that EDP now ranks 4th in the world in terms of wind energy, with an installed capacity of around 3.6 GW gross.

Another strategic objective has been achieved with the formation of the strategic partnership between EDP and Sonatrach. This is important not only due to its impact on the area of natural gas supplies and sales, and the joint operation of electricity generation assets (CCGTs), but also due to the stake taken by the company in EDP's share capital through a qualifying holding and the election of a representative to the GSB. The nomination of Mr. Mohamed Meziane, the Chairman of Sonatrach, to represent this shareholder on the GSB must be interpreted appropriately.

Although the Institutional Report and Report on Corporate Governance contain detailed information on EDP's business activities during 2007, we cannot fail to mention other important events in the life of the company:

- The end of the Power Purchase Agreements and their substitution by the mechanism of Costs of Maintenance of Contractual Equilibrium, which allowed for the integrated operation of the MIBEL.
- The extension of EDP's concession for the hydroelectric sector and the signing of a sub-concession contract for the operation of the Alqueva Hydroelectric Power Station, thus formalising EDP's historic rights over this important national project.
- The sale of 25% of the share capital of REN held by EDP, to comply with the limits imposed by Decree-Law 29/2006 of 15 February.
- The investment in thermal generation in Brazil, in partnership with MPX, through the construction of a coal-fired power station at Pecém (Ceará).
- The start of building works to construct the Lares CCGT in Figueira da Foz and the completion of the Castejón 3 CCGT in Oviedo.

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Message from the Chairman

2. In terms of the overall picture, 2007 will be marked by innumerable domestic and international events that influenced not only the present, but also the future of the energy sector's industry and services.

The Bali Conference on climate change represented a new stage in the global effort to secure a future based on environmentally sustainable development, through a plan to reduce CO₂ emissions that will have a direct and immediate impact on the production and consumption of energy.

As for the European Union, this year saw the presentation of a proposal by the European Commission for a third legislative package regarding the creation of an Internal Energy Market. This objective is facing difficulties in implementation, but EDP is making preparations in advance. This year also saw the presentation of a report on competition in the electricity and natural gas sector, a process that still has some way to go.

At the European Council in March, important measures were adopted to support renewable energies, in line with the guidelines on sustainable growth established in EDP's current Strategic Plan, which have been implemented with remarkable success.

In the Iberian Peninsula, we should highlight the start of the integrated operation of the daily MIBEL market, based on a market splitting mechanism. This is the culmination of a long process of making the ambitious project to create an Iberian electricity market a reality. While it is certain that there are still a few obstacles to be overcome before this market operates in a fully integrated manner, it is my conviction that EDP is prepared to face these challenges.

2007 was also a very important year domestically, starting with the presentation of a package of measures by the Ministry of the Economy and Innovation. These were adopted through the course of the year and permitted considerable progress in certain dossiers that had been stalled, including:

- The abolition of the Power Purchase Agreements and their substitution by the mechanism of Costs of Maintenance of Contractual Equilibrium. The renewal of concessions in the hydroelectric sector.
- The incentive programme to increase electricity generation from renewable sources, through the exploitation of hydroelectric resources and the launch of the National Dam Plan, which foresees the construction of at least 10 new dams by 2020.
- The approval of the National Plan for the Allocation of CO₂ licenses 2008-2012.

3. As will become evident throughout this report, 2007 was marked by intense activity on the part of the GSB, centred on supervising and monitoring the activity of the EBD, as well as providing advice on dossiers of particular significance. This became possible once this body had completed its adaptation period and integrated its operations into the company's corporate structure, a task that was completed in a very short period of time.

This report is intentionally detailed in nature, guided by the concern to provide information and promote the transparency of GSB activities before shareholders, the market and anyone else who may be interested in EDP's activities. We consider this a fundamental value and see it as the basis of all other good governance practices.

It should not be a mechanical exercise to formally comply with standards, but rather a critical reflection on the governance practices adopted in the company, looking towards being more than just a mere formality. This is how the GSB interprets its mission to promote the adoption of best governance practices by EDP, so as to ensure corporate governance focused exclusively on pursuing the company's interests. In order to achieve this aim, it is essential that the information provided regarding these practices is as complete as possible, while respecting the law and the need to protect business confidentiality.

In all companies, there exist certain cultural factors that need to be overcome so that rigorous and independent supervision can be performed thoroughly, thus reassuring national and international authorities, shareholders, employees and other stakeholders. Contributing to this positive development, which has had clear effects on the capital market, has been a privilege for the Chairman of this Board. I would also like to mention the support I have received from the remaining Members and, finally, from the Chairman of the EDB, to whom I extend my deep recognition and gratitude.

A handwritten signature in white ink, which appears to read 'A Almeida', is positioned above the printed name.

António de Almeida
Chairman

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EDP GENERAL SUPERVISORY BOARD

EDP's Governance Model

2. EDP'S GOVERNANCE MODEL

The current three business models laid down by law for public limited companies, generally speaking, reflect the two classic models, i.e. the one-tier model and the two-tier model of governance. Abstractly speaking, there may be a general opinion that they are similar in terms of their ability to serve as a formal framework for corporate management in accordance with the company's exclusive interests. In practice there are considerable differences.

For reasons that are known to the public and to which the media devoted daily attention, 2007 will be remembered for the discussion of the advantages and disadvantages of the two models. At one time, doubts were raised as to the feasibility of the two-tier governance model in the Portuguese business structure, which naturally conditions its culture and practices.

Although recommendation II.1.1.1. of the CMVM "Corporate Governance Code", published in 2007, applies to the board of directors, it recommends that, in its governance report, the board should assess the model adopted, identify any constraints on its operations and propose suitable measures for overcoming them.

However, as the CMVM was duly informed, given that possible constraints may not affect only executive functions, we feel it is appropriate for the supervisory body to reflect on the same matters. Therefore, as its implementation is still in its infancy, on the basis of its experience, the GSB would like to record in its annual report its main conclusions on the way in which the governance model adopted by EDP's shareholders works.

The two-tier model adopted by EDP demarcates management, supervision and auditing competences very clearly within the company. The model's appropriate, smooth operation is reflected in its flexibility and ability to maximise the synergies resulting from this division. In this way, thanks to its nature and proximity to the most important shareholders, the GSB is the body that supervises, monitors and advises the EBD, which is responsible for the independent day-to-day running of the company. The cooperation between the two bodies is a corollary of the division of supervision and management.

Although the differences between the one-tier and two-tier model are eventually reduced when a board of directors sets up an executive committee entrusted with the everyday running of the company, the fact is that the role played by the non-executive directors is not exactly the same as that of the general supervisory board, as they are still responsible for the

management of the company and jointly liable for the acts of the executive committee.

Indeed, at this level, the board of directors has the legal power to make decisions on matters that it has delegated, including revoking acts performed by the executive committee. In turn, when the general supervisory board has the authority to consent to certain acts performed by the executive board of directors, not only does it not have power of decision but, in case of non-consent, the executive board of directors can appeal to the general meeting to suppress that consent.

As it is not possible to assume the prevalence of any theoretic corporate governance model, the truth is that, in companies of EDP's size and shareholder structure, flexibility, the ability to maximise the synergies resulting from shared competences in management, supervision and auditing within the company is of critical importance to the success of its business activities. This is mainly because they ensure the independence of the executive body's management, with the resulting accountability to an independent supervisory body and with greater legitimacy in relation to the executive board of directors, in that it consists not only of representatives of its most important shareholders but also includes independent members who have the extremely important job of representing the interests of the other, anonymous shareholders.

However, in this case, the fact is that the quality of a company's governance depends much more on the recognised importance of effective supervision, as cases in Portugal and abroad have unfortunately shown, on complete, unequivocal, active acceptance of their independent status on the part of its members, on the flexibility and responsibility granted to the executive body reflected in everyday practices than on the theoretic virtues of any model.

In this framework, a fundamental factor if a supervisory body is to effectively carry out its functions is the existence of appropriate mechanisms for timely access to relevant information on the functioning of the company generated by the activity of the management body. However, just as important as access is the quality and processing of the information provided to the supervisory body, such as when, as happens at EDP, the GSB is called upon to issue a prior opinion on the most important matters regarding the company's functioning and activities.

The experience meanwhile gained during this term of office has shown that the governance model must necessarily be optimised gradually. This is what EDP's GSB and EBD have been doing,

with giant positive steps in 2007, which have made an excellent contribution to the company's overall performance.

The GSB has therefore decided that:

- The governance model adopted by EDP's shareholders is appropriate to the corporate organisation of its activity, above all because it guarantees an appropriate balance between the necessary flexibility and scope of the management powers and effectiveness of the company's general supervision and specific powers in highly sensitive areas.
- The institutional and functional relationship between the two bodies was highly positive and effective in the choice of issues addressed and efficiency in the way in which matters were developed and dealt with.
- The commitment of and articulation between the GSB and EBD promote high quality governance practices, making it possible to optimise the model in terms of:
 - * The mechanisms providing access to information by the GSB, on which no limitations have been placed.
 - * Furthering the GSB's functions in relation to subsidiaries, which has been generally sufficient but still needs to be improved by the GSB in terms of its involvement in specific areas of the selected companies.
 - * Allocating human and technical resources appropriate to the GSB's powers.

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General Supervisory Board

3. GENERAL SUPERVISORY BOARD

3.1. Membership

Under EDP's Articles of Association, the GSB must have no fewer than nine members and always more than the number of directors. It must also consist of a majority of independent members. The Chairman of the Board of the GM is automatically a member of the GSB.

The GSB's current term of office began when EDP's new governance model came into effect on 30 June 2006, following a decision taken by the AGM on 30 March 2006. Its term of office lasts three years and will terminate at the end of 2008.

On 30 March 2006 17 members were elected to the GSB, 10 of whom were independent. After some changes in the meantime, the GSB, currently has 14 members, nine of whom are independent. They are as follows:

- António de Almeida – Chairman
- Alberto João Coraceiro de Castro – Vice-Chairman – Independent
- António Francisco Barroso de Sousa Gomes – Independent
- Diogo Campos Barradas de Lacerda Machado – Independent
- Eduardo de Almeida Catroga – Independent
- José Maria Espírito Santo Silva Ricciardi
- Manuel Fernando de Macedo Alves Monteiro – Independent
- Manuel Menéndez Menéndez
- Mohamed Meziane
- Rui Pena (Chairman of the Board of the GM) – Independent
- Vasco Maria Guimarães José de Mello
- Vital Martins Moreira – Independent
- Vítor Domingos Seabra Franco – Independent
- Vítor Fernando da Conceição Gonçalves – Independent

3.1.1. Rules on Incompatibilities and Independence

The members of the GSB are subject to a vast number of rules on incompatibilities with their position laid down by law and the Articles of Association.

On the other hand, given the quality required of the GSB's members, the majority must be independent.

In accordance with Article 6.2 of the GSB's Internal Regulations, irrespective of the GSB's generic responsibility to check, each member is responsible for permanently checking any possible circumstance that might generate incompatibility with his or her functions and, if there is one, resigning immediately.

Immediately after accepting their election, the members of the GSB signed a statement attesting to the fact that there were no incompatibilities, which was scrutinised at the meeting on 13 July 2006.

Under Article 7 of the GSB's Internal Regulations, the same procedure was followed for independent members. They signed a statement declaring that they were independent and undertook to immediately report any circumstance that might interfere with this status. The independence of its members was discussed at the first meeting of the term of office.

Notwithstanding strict compliance with the law, the internal regulations on independence should be reviewed at least once a year due to new situations that may arise.

3.1.2. Relevant Events Affecting Membership

In 2007, certain events resulted in changes in the membership of the GSB in relation to 31 December 2006:

- On 22 February, Carlos Jorge Feijoo Pereira Ribeiro submitted his letter of resignation as a member of the GSB.
- Several events at the AGM on 12 April, affected the membership of the GSB:
 - * José Manuel Archer Galvão Teles submitted his resignation as Chairman of the Board of the GM and, consequently, as a member of the GSB.
 - * Dr. Rui Pena was elected as new Chairman of the Board of the GM, and hence became a member of the GSB.
 - * Following the Memorandum of Understanding signed between EDP and Sonatrach, the GM decided to elect Sonatrach as a member of the GSB, subject to effective finalisation of the partnership between the two companies, which occurred on 6 November. Sonatrach notified EDP that its representative would be its Chairman, Mr. Mohamed Meziane.
- On 31 August, Paulo Jorge de Assunção Rodrigues Teixeira Pinto submitted his letter of resignation as a member of the GSB, after leaving his role as Chairman of the BCP Executive Board of Directors.
- On 27 December, after leaving his role as Chairman of the GSB, Carlos Jorge Ramalho dos Santos Ferreira submitted his letter of resignation as member of the GSB.

3.2. Duties

The GSB's main mission is to permanently monitor and supervise the management of EDP and cooperate with the EBD and other corporate bodies in pursuing the company's interests as required by law and the company's Articles of Association, in particular Article 22. The following elements of these duties should be highlighted due to their particular importance:

- The duty to supervise the EBD's activities is very comprehensive in reach, the intention being to ensure adequate protection for EDP's shareholders and stakeholders.
- The monitoring of directors' activity is not limited to EDP, but also covers all of its subsidiaries. Given the large number and varied size of these companies, the GSB has decided to pay special attention to the following:
 - * EDP – Gestão da Produção de Energia, S.A.
 - * EDP Distribuição – Energia, S.A.
 - * EDP Comercial – Comercialização de Energia, S.A.
 - * EDP Gás, SGPS, S.A.
 - * EDP Energias do Brasil, S.A.
 - * Hidroeléctrica del Cantábrico, S.A.
 - * Naturgás Energia Grupo, S.A.
 - * Nuevas Energías de Occidente, S.L.
 - * Horizon Wind Energy LLC.
- The right to receive regular information on significant commercial relations between the company or its subsidiaries and shareholders with qualifying holdings, and people related to them, is an important tool in preventing situations of conflicts of interest, an issue that deserves special treatment in this report.
- The GSB has been given the power to propose to the GM the dismissal of any member of the EBD. Rigorous methods of assessment are required for the various factors that could lead to such a proposal. In 2008, work was started on implementing appropriate techniques for this purpose, but the delicate nature of the issue means that it should be given considerable thought.

- One of the GSB's important roles is to be able to propose a replacement for any member of the EBD in the event of absence or temporary impediment. This requires the preparation of succession plans. The GSB is undertaking this task in a wider context, covering EDP's overall structure of governance, and is seeking to advise the EBD regarding the preparation its succession plans.
- One of the most important duties of the GSB at the current time is related to corporate governance and compliance with internal codes of ethics and conduct. The Corporate Governance Manual is nearing completion and we have begun the process of reviewing and harmonising the codes of ethics and conduct withing the EDP Group.
- The GSB systematically scrutinises high-value transactions, whether they be acquisitions, financing arrangements, investments or operations of particular strategic significance. This task is performed in a manner that does not hinder the activity of the EBD, by setting amounts up to which the opinion of the GSB is not required, a method that worked very well during 2007.

3.3. Organisation and Functioning

The GSB is organised as required by law and the Articles of Association. Recommendations on best governance practices for listed companies have also been taken into consideration.

The GSB operates in plenary meetings and through specialised committees.

Under the EDP Articles of Association, ordinary plenary meetings must be held at least once every quarter. In a business group like EDP, with the dynamics that the EBD has imposed, it would be unreasonable to think that the GSB would be able to carry out its duties in a responsible fashion and give the executive body the appropriate advice in only four meetings a year. As has occurred whenever the nature, importance or urgency of a matter so warrants, the GSB holds extraordinary meetings, always with great commitment on the part of its members.

As per their powers under the law and Articles of Association, the Chairman of the GSB is responsible for organising and coordinating the GSB's activities. They are responsible for representing the board and must also ensure that its decisions are correctly implemented. They are also the main link between the GSB's activities and those of the EBD, remaining in direct contact with its Chairman, whom they keep informed of the main events in the company's current management.

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General Supervisory Board

The Articles of Association also oblige the Chairman of the EBD to attend GSB meetings without any voting rights and entitle the Chairman of the GSB to attend EBD meetings when they see fit, also without voting rights.

The Chairman of the EBD has naturally participated in all the GSB meetings. The Chairman of the GSB receives in advance all the documentation to be discussed at the weekly EBD meetings and coordinates with the Chairman of the EBD the approach to any warranting their intervention.

3.4. Specialised Committees

Given its nature and duties, the GSB has set up specialised committees of its members with the appropriate qualifications and experience in matters of particular importance. Their main job is to provide permanent specific monitoring of the matters for which they are responsible so that the GSB can make informed decisions or be kept up to date on certain issues.

The Audit Committee (AC) and Remuneration Committee (RC) were set up as they were required by law and the Articles of Association. On the initiative of the GSB, two further committees were created: The Selection Committee (SC) and the Corporate Governance and Sustainability Committee (CGSC). However, in view of their limitations in terms of membership, on 8 November 2007 the GSB decided to transfer the work of CS to the CGSC.

The GSB, through its Chairman, permanently oversees the work of its committees, which have to report to the GSB regularly on their activities.

3.4.1. Audit Committee

The AC is a specialised committee with responsibility for supervising the company's financial information and permanently overseeing the work of the external auditor, internal auditor and internal control systems. It is responsible for permanently monitoring:

- EDP's financial affairs.
- EDP's internal auditing procedures or accounting practices
- Matters relating to the internal control system for financial information and risk management procedures.
- The work and independence of EDP's certified auditor and external auditor.

- The AC consists exclusively of independent members of the GSB and was set up at the plenary meeting of 13 July 2006.

Following a decision taken by the GSB at its meeting of 8 November 2007, the committee's membership was increased to four members with the appointment of Vítor Domingos Seabra Franco.

The current members of the AC are as follows:

- Vítor Fernando da Conceição Gonçalves (Chairman)
- António Francisco Barroso Sousa Gomes
- Manuel Fernando de Macedo Alves Monteiro
- Vítor Domingos Seabra Franco

3.4.2. Remuneration Committee

The RC is a specialised committee with responsibility for fixing pay policy for the Chairman and other members of the EBD. It must be distinguished from the GM Remuneration Committee which fixes the pay policy for the other corporate bodies.

The RC consists of a majority of independent members of the GSB was set up at the plenary meeting of 13 July 2006.

After the resignation of Paulo Jorge de Assunção Rodrigues Teixeira Pinto, the GSB had to appoint a member to take his place. The GSB decided to appoint Vasco Maria Guimarães José de Mello at its meeting of 8 November 2007.

The current members of the RC are as follows:

- Alberto João Coraceiro de Castro (Chairman)
- Eduardo de Almeida Catroga
- Vasco Maria Guimarães José de Mello

3.4.3. Corporate Governance and Sustainability Committee

The CGSC is a specialised committee with responsibility for the following areas:

- Corporate governance.
- Strategic sustainability.
- Internal codes of ethics and conduct.
- Systems for evaluating and resolving conflicts of interest in relations between EDP and its shareholders.

- The definition of appropriate criteria and responsibilities to be observed in EDP's structures and bodies and their impact on their membership.
- The drafting of plans of succession.

The CGSC consists of a majority of independent members of the GSB and was set up at the plenary meeting of 27 July 2006. As already mentioned, on 8 November 2007 the GSB decided to transfer the duties of the CS to the CGSC and the last two competences mentioned above are those that used to be its responsibility.

During this structural change, in view of the importance of its extended duties, the GSB decided to appoint Diogo Campos Barradas de Lacerda Machado, who was a Selection Committee member, to the CGSC.

The current members of the CGSC are as follows:

- António de Almeida – Chairman
- Alberto João Coraceiro de Castro
- Diogo Campos Barradas de Lacerda Machado
- José Maria Espírito Santo Silva Ricciardi
- Manuel Fernando de Macedo Alves Monteiro
- Vital Martins Moreira
- Vítor Domingos Seabra Franco

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Activities of the General Supervisory Board

4. ACTIVITIES OF THE GENERAL SUPERVISORY BOARD

In 2007, the GSB's activities were based on the annual plan and budget, which was drawn up with no historical basis and the final version of which was approved at the plenary meeting on 8 March 2007.

The most visible part of the GSB's work is its plenary meetings and its specialised committees. However, permanent, complex activities are necessary in order to organise and prepare these meetings. These permanent activities are also related to the extent of the Chairman's representation of the company, not only at an internal level, particularly in the coordination of the EBD's work, but also at an external level in relations with shareholders and the public authorities.

The purpose of the plan was not only to organise and structure the GSB's work, including that of its specialised committees, but also to set goals and priorities.

As a result, both in the plan of activities and the part of the GSB's 2006 annual report on challenges for 2007, attention was focused on the important issue of conflicts of interest in EDP's activity, taking into account Article 22.1j) of EDP's Articles of Association. This demands that a sub-chapter of this report be dedicated to the subject. The subject of conflicts of interest is one of the most important for any supervisory body, as it guarantees to all shareholders that there is no preferential treatment going against the company's interests in relation to shareholders, members of the corporate bodies, senior managers or employees.

Finally, the work and participation of the GSB members is not limited to the plenary meetings of the GSB or the committees to which they belong. They also provide information on EDP's most important activities and active participation in training and discussion forums and visits to EDP Group units.

The report on the GSB's activity is divided as follows:

- Permanent activity.
- Plenary meetings.
- Prior opinions.
- Work of specialised committees.
- GSB activity regarding conflicts of interest.
- Release of information.

4.1. Permanent Activity

As part of its remit under the Articles of Association, the Chairman is responsible for the permanent activity of the GSB. They are assisted in these full-time duties by the GSBO.

The Chairman is responsible for overall coordination of the board, from preparing, calling and presiding over meetings to implementing its decisions. A substantial part of the GSB's permanent activity therefore involves preparing and holding plenary meetings of the GSB and its specialised committees, not to mention the work done by their Chairmen (AC and RC).

The Chairman also represents the GSB in its relations with the EBD and generally monitors its activity through the following action:

- Attending and monitoring the EBD's weekly meetings for which they receive the agenda and supporting documents in advance, plus the minutes.
- Permanent contact between the GSB and EBD Chairmen and between the former and the other EBD members, holding meetings to coordinate the work of the two bodies.
- Requesting written information on matters discussed at meetings of the GSB and specialised committees and others of interest to EDP's activity.
- Active participation in important internal and external events in EDP's corporate life, such as those involving shareholders or public authorities.

Within the GSB, the Chairman coordinates its activities by:

- Attending the meetings held by committees of which they are not a member.
- Processing information from the EBD and other sources and circulating it to the GSB members.
- Managing processes waiving the need for a prior opinions, as described in sub-chapter 4.3.

Also as part of their permanent activity, in articulation with the EBD, the Chairman followed a programme of contacts to keep the GSB in touch with the reality of EDP's business activity:

- They made the following trips on matters of EDP's corporate organisation.

- * To HC with the AC, for contacts with the company's most important corporate bodies.
- * To EDP Brasil, also with the AC, where there were talks with the directors, Audit Committee and Sustainability and Corporate Governance Committee.
- * To Naturgás.
- * To CEM, including a meeting with Mr. Edmund Ho, Chief Executive of the Macao Special Administrative Region.
- The following activities involved entities outside the EDP Group:
 - * A trip to Algeria during the visit by the Prime Minister and Minister of the Economy and Innovation during negotiations on EDP's strategic partnership with Sonatrach.
 - * A visit to the President of the Regional Government of the Principality of Asturias following his visit to Portugal.
 - * Reception of the Secretary-General of the European Energy Charter after EDP was invited to participate in its Industry Advisory Panel.
 - * Participation in the Vilnius Energy Security Conference 2007: Responsible Energy for Responsible Partners.
 - * Participation in the Prague Energy Forum 2007.
 - * Participation in the CERA Executive Conference: Istanbul 2007.
 - * Participation in the FT Global Energy Leaders Summit 2007.

4.2. Plenary Meetings

In 2007, the CGS held eight plenary meetings, which is twice as many as those established in the Articles of Association. Attendance was very high and only sporadic absences were recorded.

On the other hand, there was an emergency situation in which the GSB had to issue a unanimous written decision with a prior opinion on EDP's participation in the REN public offer of sale.

Two meetings were held outside Lisbon to ensure the GSB's decentralised presence at different locations in which EDP operates.

First meeting: Lisbon, 25 January

The purpose of the first meeting of the period was to discuss the EDP 2007 budget. The GSB approved the budget submitted by the EBD, recognising its agreement with the targets and goals in the BP for the year.

2nd meeting: Lisbon, 8 March

In view of the fact that the AGM was going to be held on 12 April, the GSB approved the EDP 2006 Annual Report and Accounts and the EBD's activities in 2006.

During the discussion of the remaining points on the agenda regarding the general activity and management of the company and discussion for the purposes of giving prior opinions on strategic issues, the following matters were approved:

- Early termination of power purchase agreements (PPAs) and the extension of water resources in EDP's favour.
- The submission of a takeover bid for Horizon.
- A Memorandum of Understanding between EDP and Sonatrach.
- Plan of activities of Fundação EDP and the contribution proposed by the EBD.

Finally, the GSB approved its Annual Report and its plan of activities and budget for 2007 (documents already given general approval at the meeting of 25 January).

Third meeting: Oviedo, 3 May

The GSB held its first meeting outside Lisbon at the head office of HC in Oviedo, in order to strengthen EDP's institutional and corporate relations with its subsidiaries.

The meeting discussed and approved the accounts for the first quarter. The GSB also discussed strategic matters such as:

- Monitoring the acquisition of Horizon.
- Analysis of the progress of EDP's partnership with Sonatrach, which was being negotiated after the signing of the Memorandum of Understanding on 11 April.
- The construction of the Lares CGGT.
- The purchase of wind turbines for NEO.

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Along with the plenary meeting, the GSB took the opportunity to travel to Oviedo to strengthen ties with the political and business forces of the Principality of Asturias. The President of the principality held a reception and Cajastur held a cocktail party, which was attended by authorities, entrepreneurs, customers and directors of HC and Cajastur.

Fourth meeting: Lisbon, 14 June

Given the need for the GSB to examine EDP's strategic investments, it was decided to approve the following:

- EDP Brasil's participation in the A-5 energy auction, as well as its formation of a partnership for the construction and operation of two coal-fired power stations.
- Submission of a bid to purchase wind-power assets in the Iberian market.
- The purchase of wind turbines for Horizon.

Fifth meeting: Lisbon, 26 July

The main purpose of this meeting was to discuss the EDP Group's accounts for the first half of 2007, which the GSB approved.

The meeting also discussed several issues regarding the EDP Group's activities and examined certain strategic matters for the purpose of issuing a prior opinion. These included:

- Revision of the 2007-2010 business plan and EDP 2007 budget.
- The issue of bonds in the USA to refinance the debt contracted to purchase Horizon.
- The allocation of a supplementary contribution of EUR 1,050,000 to the EDP Foundation.

At the meeting, the GSB assessed the first year of EDP current governance model and concluded that it had made an important contribution to the results achieved.

Sixth meeting, Lisbon, 23 October

The extraordinary meeting in October was held to monitor certain strategic matters and issue a prior opinion on investment projects submitted by the EBD:

- Acquisition of Relax as part of the plan to expand the renewable energy business in Poland.

- Construction of the Ribeiradio hydroelectric power station in partnership with Martifer.
- The contract to operate the Alqueva and Pedrogão hydroelectric power stations and sub-concession of the associated water resources.

Seventh meeting, Carregado, 8 November

In accordance with its plan of activities, the main purpose of the meeting was to discuss EDP's accounts for the third quarter of 2007, which were approved.

However, this meeting ended up being especially symbolic for two reasons. On the one hand, following the decision taken at the GM on 12 April and the formalisation of the strategic partnership between EDP and Sonatrach, it was marked by the attendance of Mr. Mohamed Meziane, who formally commenced his duties as member of the GSB in representation of this company. On the other hand, it was held at the Ribatejo Thermoelectric Power Station (TER), in Carregado, giving the members of the GSB the opportunity to inspect close-up the first CGGT built by EDP in Portugal.

The meeting also approved the GSB's plan of activities and budget for 2008 and made the following decisions:

- Increase of the number of AC members to four with the election of Vítor Franco.
- Transfer of the duties of the CS to the CGSS, with the election of Diogo Lacerda Machado to the CGSC.
- Election of Vasco de Mello to replace Paulo Teixeira Pinto in the RC.

Eighth meeting, Lisbon, 20 December

The main purpose of the last plenary meeting planned for 2007 was for the EBD to present EDP's budget for 2008, although it was decided that the opinion would only be issued at the first GSB meeting in 2008.

The GSB also presented the strategic options being considered by the EBD to finance and develop partnerships aimed at creating value for EDP, as defined in the current business plan. In addition to other, internal, organisational GSB matters addressed at the meeting, the timeline of activities for the closing and discussion of the 2007 accounts was discussed for the first time.

4.3. Prior Opinions

Article 17.2 of EDP's Articles of Association establishes a number of matters requiring the GSB's prior approval. It also has the powers to fix the parameters of the monetary or strategic value of operations that must be submitted to it for an opinion.

Due to the need to ensure flexible management by the EBD on matters subject to GSB approval and the necessity of setting up an appropriate mechanism for the GSB to exercise the powers invested in it by the Articles of Association, the Chairmen submitted to the GSB plenary meeting of 26 September 2006 a draft decision on the parameters making a prior GSB opinion necessary. It was approved unanimously.

In addition to the mechanism for issuing prior opinions, the decision lays down that, in exceptional circumstances, the EBD can submit a justified request to the Chairman of the GSB for a prior opinion to be waived. In these cases, after consulting at least two members of the CGSC, the Chairman of the GSB can decide not to oppose the request.

At the meeting of 20 December 2007, the GSB approved a revised version of the decision, pointing out that:

- The parameters fixed for a mandatory prior opinion from the GSB were appropriate to the goal of guaranteeing flexible management by the EBD and the effective exercise by the GSB of the powers invested in it by the Articles of Association, and so the scheme underlying the previous decision should be maintained.
- The mechanism for waiving a prior opinion had been used in sporadic, justified situations and contributed considerably to the flexibility of the EBD's activities.
- The changes made were justified by the need to make slight adjustments in the wording in order to delete references to contingencies from the time it was approved and adapt it to relevant events that had occurred in EDP's activities in the meantime.

In 2007, the GSB asked to issue prior opinions 28 times and all the requests were approved:

1. EDP 2007 Budget.
2. Private sale of 5% of REN's share capital.
3. Expansion of the hydroelectric sector.
4. Sale of 20% of Neo-Desa.
5. Acquisition of Horizon.
6. EDP/Sonatrach Memorandum of Understanding.
7. EDP/Gás Natural cooperation agreement.
8. EDP/Galp agreement of principles.
9. Construction of the Lares CCGT.
10. Purchase of Neo/Vestas wind turbines.
11. Setting up of an EDP office in Spain.
12. Sale of 5% of REN share capital in a public offer of sale.
13. Investment in coal-fired thermal generation in Brazil.
14. Purchase of wind-power assets.
15. Purchase of Horizon/GE wind turbines.
16. Revision of 2007-2010 BP and 2007 Budget.
17. Issue of bonds in the USA.
18. EDP/Endesa agreement of principles.
19. EDP/AdP agreement of principles.
20. Investment project in Poland.
21. EDP's participation in Ribeiradio hydroelectric project.
22. Sub-concession of operation of Alqueva Hydroelectric Power Station.
23. Issue of subordinate bonds.
24. Negotiation of partnerships with Martifer and Efacec.
25. Agreement of principles with Martifer.
26. Acquisition of mini-hydroelectric power stations owned by Babcock and Brown.
27. Purchase of GE/Vestas wind turbines for Horizon.
28. Amendment of Articles of Association of EDP Energias do Brasil.

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In 2007, the EBD asked for a prior opinion to be waived on 10 occasions and, after checking their procedures, the GSB Chairman did not oppose any of them:

1. Amendment of the Articles of Association of EDP Energias do Brasil.
2. Withdrawal of EDP ADS from the New York Stock Exchange (NYSE).
3. Purchase of GE wind turbines for NEO.
4. Horizon Portfolio II tax equity operation.
5. EDP Distribuição/EDP Serviço Universal split-merger.
6. EDP Comercial/EDP Produção split-merger and additional contributions of capital by EDP S.A. to EDP Comercial.
7. Merger of EDP Produção EM into EDP Produção.
8. Purchase of two hydroelectric power stations in Brazil.
9. Formalisation of EDP/Sonatrach strategic partnership.
10. Increase in share capital and amendment of NEO Articles of Association.

Finally, there were two requests for confirmation of EBD's understanding of a need for a prior opinion.

In conclusion, in 2007, under the prior-opinion mechanism, the GSB examined 38 matters, on which the EBD provided all information and additional clarifications requested, which shows the excellent interaction between the EBD and GSB.

4.4. Activity of Specialised Committees

4.4.1. Audit Committee

In 2007, the AC held 16 formal meetings with and without the participation of entities and employees from inside and outside the EDP Group. The main purpose of these meetings was to obtain information and analyse matters relevant to its duties, with special focus on the following matters with a significant impact on the reliability of EDP's financial information:

- The EDP Group's quarterly, six-monthly and annual financial statements and opinions on its accounts.

- Examination of monthly scorecards and financial and business information as soon as it becomes available.
- Risks (business, operational, financial and reporting, among others).
- Internal and external audits.
- Regulations and reports made using the whistle-blowing system.
- Organisation, effectiveness and operation of the Audit Committee.
- Relations with the Audit Committees in EDP's other geographical areas.
- Other relevant matters for which it is responsible under the law and the Articles of Association.

In this context, the AC learned the mechanisms and procedures instituted to prevent or detect situations affecting the EDP Group's capacity:

- To produce, analyse and release relevant information giving a true, appropriate picture of EDP's financial situation.
- To minimise the risks of improper use or appropriation of EDP resources.

Prior to the issuance of the annual, quarterly and six-monthly reports on the EDP Group's consolidated IFRS accounts for examination by the GSB plenary meeting, the AC participated in the following meetings:

- The EBD meetings that discussed the annual accounts for 2006 and the quarterly (1st and 3rd quarters) and six-monthly accounts for 2007.
- The meetings attended by the Chief Financial Officer, EDP's internal auditors, management planning and control and consolidation managers, comptrollers and taxation managers, the external auditor and the certified auditor, at which the documentation provided by EDP and the external auditor's reports (KPMG) on auditing matters identified during the work done were analysed in detail.

In 2007, the AC met with the audit committee of HC Energía (Spain) in May and that of Energias do Brasil in December, for

joint reflection on articulation between both committees. Their purposes were basically as follows:

- To gather information on the organisational setting in which each committee operates in its relevant country.
- To gather information on how the audit committees relate to the local management bodies, external auditor and certified auditors.
- To establish policies and procedures for articulation between the Corporate Audit Committee and the local audit committees and define methods for monitoring their activity.

The AC paid special attention to the nature and scope of services provided by the company responsible for external auditing (KPMG), in order to assess its independence and compliance with the principles and best practices governing auditing companies and their representative at the companies they audit. The analysis of the information provided by KPMG to the AC for this purpose gives no indication of conflicts of interest or situations affecting the auditors' independence in providing their services to the EDP Group in 2007.

When considering the matters under analysis, whenever necessary and opportune, the AC requested the attendance at its meetings of representatives of EDP departments with responsibility for the issues in question, the external auditor, certified auditor and director in charge.

In 2007, the AC also analysed the information from reports through the whistle-blowing system. The main conclusion was that none of the nine complaints submitted had any relevant impact on accounting, finance, internal control or auditing.

In 2007, the CA approved a work calendar for 2008, a work tool containing the main activities to be undertaken by the committee in each month, and its self-assessment system. These documents not only contribute to greater efficacy and efficiency of the AC but also place its work in line with internationally accepted best corporate governance practices.

For reasons resulting from the GSB's internal functioning, in the second half of 2007, the AC replaced its assistant, requesting a senior manager from EDP's Internal Audit Department.

4.4.2. Remuneration Committee

In 2007, the RC's activity took three different routes:

- Finalising the draft policy on variable pay to be submitted to the GSB for ratification. Although the main aspects had

already been defined in 2006, it only received final approval in early 2007. As mentioned in the activities report for the previous year, the committee sought to align the EBD's general reward policy with recognised best international practices. They include a variable component of considerable weight in the total salary. A part of this component must be correlated to the company's medium- and long-term performance, preventing any potential opportunistic behaviour that might adversely affect EDP. A battery of indicators was built to reflect the different levels of the EBD's performance. This source of reference must therefore be taken into account by the EBD's members when performing their duties. After ratification by the GSB, the document was summarily submitted to EDP's GM.

- On the basis of the accounts for 2006 approved at the GM, calculating the variable remuneration of the Chairman of the EBD, resulting from the RC's assessment of his performance. As mentioned above, this assessment was conducted with reference to quantitative and qualitative indicators that establish a relationship between the company's performance and sustainability and the work of the Chairman of the EBD. In addition, as set forth in the framework document, the EBD Chairman was asked to evaluate the performance of each of the board's members. This was an important factor in determining the variable component of their remuneration.
- To analyse the results of this first application of the general remuneration policy and compare them with those of previous years and those of national (PSI20) or international (Spanish counterparts and Eurostoxx Utilities) companies of reference. The plan of activities also included fine-tuning some of the indicators, especially those on the qualitative component of performance. The full realisation of this component of the plan of activities was somewhat prejudiced by the resignation of one of the RC's members (Paulo Teixeira Pinto). It was only in late 2007, after the election at a GSB plenary meeting of Vasco de Mello that the RC was brought up to its full strength again. Even so, it was possible to hold a committee meeting to analyse the positioning of the EBD members' remuneration in comparison with the above referenced. It showed balanced results. In addition, the committee began a process that will culminate in the fine-tuning of the qualitative indicators, either by their revision or by the construction of a database on which to base the amounts reached. The RC began discussing the feasibility of building some indicators to reduce the discretionary margin of the qualitative component (company image, work climate, value of brand, etc) of the performance of the company and the EBD.

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4.4.3. Corporate Governance and Sustainability Committee

In view of its collegial nature, the work of the CGSC is based essentially on the meetings of its members. When appropriate and opportune, the committee's work also involves informal action coordinated by its Chairman with the support of the GSBO. As part of the established procedure to waive a prior opinion, the GSB Chairman always consulted at least two members of the committee before deciding on an EBD request.

At the same time, the committee has been carrying out specific duties coordinated by some of its members:

- Participating in the consultation process for the CMVM draft Corporate Governance Code.
- Preparing a Corporate Governance Manual.
- Studying the EDP Group's codes of ethics.

The CGSC held seven formal meetings in 2007. Its members have participated actively in the meetings and only sporadic absences were recorded.

When warranted, the CGSC meetings were attended by the Chairman of the EBD and other members of the executive team, who cooperated actively in the committee's work, particularly in the following matters:

- EDP 2007 Budget.
- Sale of 20% of Neo-Desa share capital to Caja Madrid.
- Acquisition and takeover of Horizon by EDP.
- Examination of the EDP 2006 Annual Report and Accounts.
- Plan of activities for the EDP Foundation.
- Withdrawal of EDP ADS from trading on the NYSE.

The activity of the CGSC can be summarised by area as follows:

a. Economic, financial and social sustainability

In this area, a substantial part of its activity was focused on monitoring the use of management forecast instruments, as well as the processes involved in the approval of EDP's budget for 2007 and the revision of the BP.

The CGSC also examined the annual, quarterly and six-monthly reporting of accounts, and EDP's 2006 Annual Report. This examination took a general approach, looking at adherence to the approved BP and budget and at the operations performed with a view to implementing these, as well as their impact on the company's economic and financial situation.

In addition, the committee looked to present and debate issues of particular importance to the company's economic and financial performance, such as "Risks and provisions" and the OPEX project.

Special attention was also given to analysing the strategic guidelines underlying the abovementioned forecasting instruments and, naturally, the consistency between the two, as well as possible sources of financing for EDP's growth.

In its advisory role, the CGSC had the opportunity to follow closely the processes employed by the EBD in preparing important operations, including:

- The investment project to acquire Horizon.
- The strategic partnership with Sonatrach.
- The processes of tariff revision in Brazil, in particular the revision of Enersul's Regulatory Remuneration Base.
- Financing operations, namely the bond issue in the USA and the plan for a potential subordinate bond issue.

The CGSC was also kept updated on the progress of the company's major investment projects.

Finally, the CGSC examined the EDP Foundation's plan of activities and budget, which were used to calculate the allocation proposal submitted to the 2007 GM by the EBD, as part of the proposal for the appropriation of profits.

b. Corporate governance

In this area, the CGSC's activity was focused mainly on developing the EDP Corporate Governance Manual, with the dual objective of setting standards for the company and providing a framework for an analysis of select issues to be carried out in 2008, with a view to making recommendations to improve EDP's governance model and, as a result, its effectiveness as an essential instrument to ensure the safeguard and proper use of the company's resources.

The committee also discussed the change in the the EDP Foundation's Articles of Association, with a view to ensuring their alignment with the governance model adopted by EDP at the GM of 30 March 2006.

Finally, the CGSC participated in the public consultation held by the CMVM regarding the draft Corporate Governance Code.

c. Rules of conduct and ethics

The CGSC also analysed EDP's position with regard to aligning its practices with the relevant standards of ethics and conduct. In view of the existence of several codes of ethics within the EDP Group, it was concluded that no progress was possible in this area before reflecting on how to merge these codes into a single document, as a preliminary step towards defining ethical provisions for the entire Group.

d. Policy on conflicts of interest

A substantial part of the committee's activity was focused on conflicts of interest, a subject that is dealt with independently in sub-chapter 4.5 of this report.

e. Selection criteria and succession plans

Following the GSB's decision of 8 November to merge the SC into the CGSC, working guidelines were defined so as to enable the committee to reflect on and evaluate EDP's positioning in this area during 2008.

f. Environment and Sustainability Board

The CGSC decided to monitor the work of the Environment and Sustainability Board in its role as a consultative body for the EBD, given that its activities have a bearing on the responsibilities of the CGSC in this area.

g. Organisation and functioning of the CGSC

The CGSC developed a scheme for self-evaluation, putting it into practice through questionnaires completed by its members, with a view to improving the committee's performance and effectiveness.

With the same objectives in mind, the committee worked to define a methodology for analysing and monitoring the activity of the EBD in the area of economic and financial sustainability, namely in what regards the implementation of the BP and budget.

4.5. Activity of the GSB Regarding Conflicts of Interest

A company's activity revolves around an inter-subjective network of internal and external interests, particularly the company's relations with its shareholders and stakeholders. Reconciling these interests is therefore part of business management, aligning them with the company's best interests.

Dealing with the question of conflicts of interest is fundamental to best governance practices to ensure that the company's management is credible not only to those responsible for overseeing it but also and mainly to shareholders and stakeholders.

In view of these considerations and the powers set forth in Article 22.1 of EDP's Articles of Association, the GSB has always been concerned with promoting best practices in the identification, prevention and resolution of relevant corporate conflicts of interest.

In 2006, it therefore delegated to the CGSC the job of "permanently monitoring, assessing and overseeing internal procedures for conflicts of interest and the effectiveness of systems for assessing and solving conflicts of interest" (see Article 4.1g) of the committee's internal regulations).

The GSB's concern with this matter was made very clear in its 2006 Annual Report, which said that special attention would be paid to issues of conflicts of interest, as part of the challenges faced by the GSB in 2007.

In 2007, as part of the committee's permanent activity, the CGSC and the Chairman of the GSB undertook several initiatives in connection with their responsibilities in this area resulting in correspondence with the EBD and discussion of issues at several CGSC meetings, where special attention was paid to joint reflection on the guidelines to be followed in this matter, and analysis of documentation from the EBD and memorandums prepared by the GSBO.

Irrespective of the obligation to report the transactions and operations mentioned in current version of Chapter II.7 of the Annex to CMVM Regulation 7/2001, the CGSC follows broader criteria of action and therefore analysed other cases not covered by the above provision.

Therefore, as the main mechanism for identifying situations requiring analysis, the CGSC recommended to the EBD that, as of 1 January 2007, it should be apprised of operations between EDP (including subsidiaries) and shareholders owning minimum qualifying holdings of 2% in EDP or its subsidiaries (this shareholding being assessed as set forth in the Securities Code).

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With regard to these operations, the CGSC also recommended that the EBD should:

- Characterise operations.
- Summarily describe the process of choosing counterparts.
- Identify its selection criteria.

In 2007, the CGSC analysed five dossiers:

- Participation of CGD, BCP and BES in EDP's commercial paper programme.
- Choice of BCP as the legal representative of EDP's pension fund.
- Selection of BES as a consultant in the bid to acquire Energi2/DONG assets.
- Selection of BCP as a consultant in the Relax project to acquire assets in Poland.
- Participation of CGD, BES and BCP in the issue of subordinate bonds (hybrid).

At its meeting of 6 December, the CGSC concluded that, with regard to the cases analysed, documents provided and clarifications given by the EBD, there was no evidence that the potential conflicts of interest underlying the operations had been resolved in detriment to the company's interests. On the contrary, the procedures governing the operations analysed ensured that EDP's counterpart selection process respected strict principles of transparency and rigour, allowing the company to take full advantage of competitive market conditions.

The CGSC considered that the work done in this field was good for EDP's image and prestige. Given that there is always room to improve methods and procedures in what concerns conflicts of interest, the committee decided that:

- It was worthwhile to make efforts to improve and strengthen corporate policy for dealing with conflicts of interest in articulation with the EBD, particularly to reinforce the preventive component in order to ensure the transparency and equitable treatment of potential conflicts of interest with third parties, especially where interests of shareholders owning qualifying holdings are involved.
- Consideration should be given to hiring a specialised consultant to advise the CGSC and GSB on this matter.

At the same time, the EBD submitted to the CGSC for comment a mechanism for preventing conflicts of interest and the EBD received the comments with a view to introducing some changes. Future developments in this dossier are expected.

4.5.1. Prevention of Conflicts of Interest at GSB Meetings

Due to its nature and type of membership, the GSB has resolved and prevented potential conflicts of interest arising from its activity when called on to give an opinion on issues involving qualifying EDP shareholders with GSB representatives.

In all situations of potential conflicts of interest, it was the actual members involved who took the initiative to mention the situation and abstain from voting. This occurred in three decisions, on the following matters:

- Project to purchase Energi2/DONG assets.
- EDP/Efacec partnership.
- Purchase of mini-hydroelectric power stations from Babcock and Brown.

4.5.2. Prevention of Conflicts of Interest in Transactions between the Company and Members of the GSB and EBD

EDP has no tradition of doing business with members of its corporate bodies or with companies to which they are connected requiring prior permission. Unsurprisingly therefore, in 2007, no requests were made to the GSB for permission to carry out transactions between the company and GSB or EBD members. This characteristic of EDP culture is one that will be maintained.

4.6. Release of Information

4.6.1. Workshops

The complexity and specificity of EDP's activity and changes of a technological nature, national and European legislation, larger markets, regulations and corporate structure justify the dissemination of information on specific matters, especially those aimed at members of the GSB. The 2007 plan of activities included three workshops. Experience and, above all, the number of meetings to which the GSB's members and committees were called upon to attend showed that the goal was unrealistic. It was therefore only possible to hold one of these workshops.

On, 23 October, a workshop entitled EDP in the Internal Energy Market was organised by the Chairman of the GSB.

It was attended by the GSB and EBD members and some EDP management staff. The guest speaker was Paulo Sena Esteves, director of OMIP and OMIClear.

The purpose of the workshop was to further reflect on the challenges of EDP's activity in the internal energy market, with special focus on the MIBEL. Mr Sena Esteves gave a presentation on the "MIBEL: How the markets operate", Joana Simões on "Tariffs and Regulation", João Manso Neto on "Competition in Generation" and Mr Cruz de Moraes on "Competition in Supply".

The main conclusions drawn from the presentations and debate were:

- EDP's strategic orientation is in line with the goals of the creation of the internal energy market in general and the MIBEL in particular, above all in terms of competition.
- The creation of the internal market is highly complex and its construction and operation must be considered at long term.
- Remarkable progress has been made in creating the right conditions for the MIBEL to operate and so, although perfect integrated operation has not yet been achieved, EDP continues to make every effort to overcome the challenges.
- There are regulatory differences between Portugal and Spain, which are a source of inefficiency and demonstrate the different nature of the market agents, especially the definition of prices, the guarantee of power, interruptability and tele metering.
- There are structural reasons that influence the price of energy and stimulate competition, particularly the generation technology mix and different levels of over-capacity, which are higher in Spain, which lead to operation systems below the gas take or pay.
- However, the degree of actual competition in generation is not yet very significant, as there are limitations on cross-border interconnection capacity.
- The existence of costs of maintenance of contractual equilibrium (CBMC's) does not distort competition because it is calculated on the basis of a revisability mechanism ensuring its economic neutrality.
- The costs of general economic interest have repercussions on the price of overall system use, as they also affect all

suppliers, and are not a factor differentiating between the competitiveness of the market agents.

- Over the short term, auctions of interconnection capacity and virtual capacity are effective mechanisms for improving efficiency and levels of competition in the Iberian market.

4.6.2. Information Website

As we have already mentioned, a fundamental aspect of effective performance of its duties by the GSB is timely access to and processing of information on the company's operation.

In a joint initiative probably unprecedented in Portuguese companies, the GSB and EBD decided to set up a shared Information portal providing data essential to the GSB's supervision and monitoring of the company's activity.

The portal, which required a complex organisation process by several EDP departments, went online in mid-July in an experimental phase. The first main concern was to ensure that it had instruments and contents for the preparation of plenary meetings, i.e. supporting documents and stored historical information.

The obvious benefits of this tool are immediate, flexible access to the documentation and the positive effect of reducing the amount of paper-based information as part of EDP's environmental responsibility policy.

After an experimental period of over six months, areas with room for improvement were naturally detected, as they were surplus to requirements or insufficient for the GSB's needs. The GSB's plan of activities for 2008 therefore includes the necessary changes to its structure and management in order to maximise the advantages of this tool and fulfil its main purpose, i.e. timely computerised access to the information necessary in the supervision and monitoring of the company's activity.

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Implementation of the Plan of Activities

5. IMPLEMENTATION OF THE PLAN OF ACTIVITIES

While approving its plan of activities for 2008, the GSB discussed the implementation of the 2007 plan and made a critical assessment of the work done, identifying circumstantial and structural factors affecting it.

It was the first plan to be drawn up in the new governance model and the GSB recognised that the volume of activity scheduled was extremely ambitious both for the GSB and its committees. As a result, certain actions in the plan were not completed and others were not even started.

This recognition, along with the planning of activities for 2008, made it possible to identify the main constraints on these activities and lay down guidelines on how to overcome them:

- GSB contacts with the most important subsidiaries for which a programme was planned, to learn more of their organisation and functioning.
- Activities related to EDP's governance model and articulation in the monitoring of its image with shareholders and other stakeholders.
- Examination and consideration of the company's policy on ethics and codes of conduct.
- Examination and consideration of the suitability of instruments for managing succession plans.

In spite of the less successful aspects of the implementation of the 2007 plan of activities, the GSB was generally satisfied with the programmed activities actually executed and mentioned some highly successful actions:

- The consideration, approval or revision of the main instruments guiding the EBD business activities, i.e. the SP, BP and EDP Budget 2007.
- Monitoring of the main operations associated with the implementation of the BP, such as the acquisition of Horizon, including developments in the gas and renewable energy business.
- Monitoring of the EBD's initiatives taking into account the political and regulatory environment, leading for example to the extension of hydroelectric concessions.

- Monitoring and advising the EBD in setting up strategic partnerships essential to the company's sustained growth, especially the one with Sonatrach.
- Monitoring and advising the EBD in its main decisions on financing investment in expansion of the business.
- A plenary meeting at HC and contacts with social, political and corporate powers in Asturias and another at TER.
- Monitoring and considering the company's quarterly accounts and monitoring by the AC of the external auditor's work.
- The workshop in October on EDP in the Internal Energy Market.

As already mentioned, as part of the GSB plan of activities for 2008, the conclusions on the implementation of the previous plan were decisive in setting goals and defining activities in order to ensure effective, efficient execution of the powers and duties invested in the GSB by law and the Articles of Association.

REPORT OF THE EDP GENERAL SUPERVISORY BOARD

Implementation of the Budget

6. IMPLEMENTATION OF THE BUDGET

As an example of the governance model chosen by the shareholders on 30 March 2006, the GSB adopted strict, transparent rules on its activity right from the start. As a result, the GSB's budget for 2007 was in line with its plan of activities. The general aspects of the budget were approved on 25 January 2007 and the final version was approved at the meeting on 8 March.

Total expenditure for 2007 was estimated at EUR 2.4 million. It is no surprise that most of the expenditure is related to GSB members' remuneration fixed by the General Meeting's Remuneration Committee on 28 December 2006 and GSBO personnel costs.

The costs of operating the GSB and GSBO account for only 12% of total costs.

The following should be taken into account when considering the total amount:

- The costs of the GSB members' remuneration, given that they are not entitled to profit sharing, are lower than the costs borne in the previous governance model.
- Almost all the GSBO personnel were already on the company payroll and their transfer to the GSB meant no new admissions.

The GSB carefully managed the resources allocated to it in the budget and its total expenditure was EUR 2.8 million. The deviation of around 20% was almost entirely the result of an increase of around 54% in personnel costs, which was due mainly to:

- The retroactive processing of the GSB members' remuneration and social contributions for the second half of 2006 in the first quarter of 2007, which alone accounted for around EUR 776,000.
- The fact that costs of GSB members' directorship remuneration were not budgeted, though EDP bore around EUR 72,000 of some of them.

Excluding the above-mentioned EUR 776,000, which is an expense for 2006, personnel costs in 2007 were as planned.

The amount disbursed to external suppliers was EUR 398,000 lower, representing a saving of around 54%. The fact that

management remained within the budget limits was due basically to the fact that:

- The budget was drafted for an ambitious plan of activities that was not fully realised in practice.
- Some costs of management services and centralised billing such as computer services and fuel were not imputed to the GSBO.
- Less intense use than expected was made of amounts for training, transports and travel.

Finally, the investment provided for to bear the cost of decorating, furnishing and equipping the premises assigned to the GSB to the amount of EUR 350,000 was not made, though it may be in 2008.

REPORT OF THE EDP GENERAL SUPERVISORY BOARD

Assessment of Activities of the General Supervisory Board

7. ASSESSMENT OF ACTIVITIES OF THE GENERAL SUPERVISORY BOARD

As its internal regulations determine a need to evaluate its activities, the GSB has made an overall positive evaluation of its work, especially at the plenary meetings, which bring together the results of all the board's activities and to which the commitment and ability of all its members contribute.

This does not mean that, as mentioned with reference to the implementation of the GSB's plan of activities, that there were not some shortfalls and deficiencies, although efforts will naturally be made to overcome these in 2008. In fact, the GSB will devote special attention to planning its work, making documentation available in due time to allow a proper analysis by members, allocating a suitable amount of time for dealing with matters at each meeting and improving each member's contribution to the board's activities, as means of increasing productivity. It was also found that it was advisable to commit to the training and qualification of employees to assist the work of the GSB, committees and their members and possibly to hire external consultants.

It is, however, important to remember the clearly positive aspects of the GSB's work:

- The attendance, availability and participation of its members not only at meetings but also in their preparation.
- The interaction with the EBD meaning that the plenary meetings afford an opportunity for open, frank discussion, especially for the purpose of issuing prior opinions on operations of strategic importance to the EDP Group.
- The unanimity achieved by the GSB members on all fundamental matters of strategic importance to EDP and its sustainable development for the creation of value.
- Its decision-making processes that are solid but still flexible in the means used, such as the ability to waive the need for a prior opinion.
- The improvement in its timely distribution of information, especially after the creation of the information portal.

Consideration of the goals fully and partially achieved made it possible to take a pragmatic, structured approach to the planning of the GSB's activities, which was reflected in the scheduling of the plenary meetings and the selection of priority issues to be addressed at them. The GSB is sure that, in the implementation

of its plan of activities in 2008, it will be possible to achieve a higher level of quality, which certainly constitutes a guarantee for all EDP shareholders that its duties under the Articles of Association will be performed not only with the maximum dedication and diligence but also efficiently, meticulously and transparently.

7.1. Specilised Committees

7.1.1. Audit Committee

As set forth in its internal regulations, which determine the need to assess the company's activity, the AC considers that, although there were some difficulties in fulfilling its duties in full, its work in 2007 was highly positive and that it performed its allocated duties:

- Examining the EDP Group's quarterly, six-monthly and annual financial statements and issuing an opinion on its accounts.
- Remaining in contact with EDP audit committees in other geographical locations.
- Monitoring relations with the internal and external auditors.
- Monitoring risks (business, operational, financial and reporting), and dealing with other relevant matters in the plan of activities.

7.1.2. Remuneration Committee

The functioning of the RC was affected in the second half of 2007 by the resignation of one its members. Nevertheless, the goals set in the plan of activities were achieved, although the in-depth analysis of pay policy did not go as far as originally expected.

7.1.3. Corporate Governance and Sustainability Committee

As set forth in its internal regulations, which determine the need to assess activity, the CGSC would like to record the following aspects:

- Overall the results of its work are positive.
- The areas requiring greater commitment in 2008 are as follows:
 - * Corporate governance, which is being developed with the preparation of the Corporate Governance Manual.

- * Conflicts of interests, an issue that is being enriched with more accurate definitions of areas of action and assessment criteria.
- * Relations with subsidiaries through the analysis of more detailed documentation.
- * Rules of conduct and ethics for which draft regulations are being prepared.
- In terms of internal operation, unanimous approval was given to the membership, identification of information required for dealing with matters, the appropriateness of decision-making processes and the committee's contribution to the quality of the EBD's work.

The committee is of the opinion that, in terms of planning of activities, the following guidelines should be adopted:

- Selecting priority areas of action.
- Dividing tasks among the members to ensure that they are involved in the matters addressed by the committee outside the context of meetings.
- Providing the back office with sufficient resources to assist the committee in its work.

REPORT OF THE EDP GENERAL SUPERVISORY BOARD

Challenges Facing the General Supervisory Board in 2008

8. CHALLENGES FACING THE GENERAL SUPERVISORY BOARD IN 2008

The beginning of 2008 confirmed the concern being felt in the financial markets and the rise in prices of some essential goods, especially fuel and agricultural foodstuffs, with inevitable effects on access to sources of finance and the economic growth rate.

As set forth in the GSB plan of activities, 2008 will be devoted to four main concerns:

- Even more systematic monitoring of adjustments in strategic vectors, such as the dual aim of growth and financial equilibrium and monitoring of the preparation of management forecasts, in which the GSB will be taking initiatives.
- Continued approach to operational issues, plus the need to consolidate some organisational and operational aspects, but above all:
 - * Improving the monitoring and advising of the EBD.
 - * Investing in areas related to the former Selection Committee where it was not possible to make advances.
 - * Providing the back office with absolutely necessary human resources so that it can operate properly.
- Greater involvement of the main subsidiaries in terms of information, analysis and monitoring.
- Selective treatment of the composition and management of some more substantial expenditure.

The successes achieved in demanding independent, harmonious, transparent, efficient supervision in a group of the size and complexity of EDP since July 2006, represents an asset to the company, peace of mind for its shareholders, a comfort for its managers and may lead to the adoption of the two-tier model of corporate governance by other Portuguese groups.

The end of 2008 coincides with the end of the GSB's term of office. It will endeavour to endow the board's organisation and functioning with the solidity it needs to face the next mandate with calm and stability in the conviction that the shareholders will maintain the current corporate governance model.



REPORT OF THE EDP GENERAL SUPERVISORY BOARD

Acknowledgements

9. ACKNOWLEDGEMENTS

The GSB has decided unanimously to express their thanks to:

- The shareholders for their constant support of the GSB.
- The government for its impartial, transparent analysis and solution of issues regarding EDP.
- The Chairman of the EBD who has made every effort to keep the GSB informed of the most important issues.
- The members of the EBD for their excellent work and results achieved.
- All EDP Group employees, without the anonymous dedication and hard work of whom it would not have been possible to take pride in EDP's leadership.
- To the personnel in the GSBO, for their dedication in ensuring that everything went as smoothly as possible as the board went into operation.

The GSB would like to say a special word of thanks and appreciation to Carlos Jorge Pereira Ribeiro, José Manuel Archer Galvão Teles, Paulo Jorge de Assunção Rodrigues Teixeira Pinto and Carlos Jorge Ramalho dos Santos Ferreira for their excellent work and participation in this body, especially through the difficult and demanding initial phase of activity, and we wish them the greatest personal and professional success.



REPORT OF THE EDP GENERAL SUPERVISORY BOARD

Opinion of the General Supervisory Board on EDP's 2007 Annual Report

1. In 2007, the General Supervisory Board fulfilled its legal and statutory duties to monitor, advise and supervise the company's management and the Group's executive decisions, through ordinary and extraordinary plenary and specialised committee meetings and direct contacts with the executive directors, in particular the Chairman of the Executive Board of Directors, and the boards of directors and other corporate bodies of certain subsidiaries.

2. This report presents a full account of the meetings held, both in plenary and by the specialised committees. In this Opinion, we limit ourselves to highlighting those most closely related to monitoring and advice on matters linked to management forecasts and the annual accounts.

2.1. The GSB met in plenary meetings eight times in 2007, in order to discuss the following:

- * Proposals for EDP's Plan of Activities and Budget.
- * The quarterly accounts and budget compliance of EDP and its major subsidiaries.
- * Transactions of over EUR 75 million.

Following these meetings, the GSB issued a total of 28 favourable prior opinions and granted 10 exemptions for operations of the type described above.

2.2. The Audit Committee met seventeen times, to discuss the following:

- * The quarterly, six-monthly and annual financial statements of EDP and its subsidiaries.
- * The risk management system, the internal control system for financial reporting and the activity of the internal and external auditors.
- * The nature and scope of the services provided to EDP and its holdings by the External Auditor, as well as the terms of their contractual relationship.
- * In each quarter, it issued a positive opinion to the plenary meeting regarding its examination of the quarterly accounts presented by the Executive Board of Directors to the General Supervisory Board, and found no indication of any situations that could compromise the autonomy and independence of the external auditors.

2.3. The Corporate Governance and Sustainability Committee met seven times. In what concerns the quarterly, six-monthly and annual accounts and the management forecasts, the committee focused on the company's economic performance by examining the management forecasts and monitoring their execution.

2.4. Through direct contact with the executive directors, and especially the Chairman of the Executive Board of Directors, the Chairman of the General Supervisory Board ensured the permanent monitoring of the Executive Board of Directors' activity by analysing the agendas and support documentation provided in advance of its weekly meetings.

2.5. The General Supervisory Board was informed in a regular and timely manner of all matters related to the strategic guidelines, the energy policy and regulations governing the company's different geographical areas of operation, the most important transactions and projects, and the initiatives carried out to improve internal efficiency, match human resources to the company's needs and ensure the profitability of investments.

2.6. The Chairman of the General Supervisory Board was kept constantly updated on developments regarding significant transactions and of studies and projects in progress that were likely to require examination by the General Supervisory Board.

2.7. The General Supervisory Board, either directly or through its specialised committees, was involved in all materially important decisions for the EDP Group, in particular those requiring a prior opinion, and its work was supported by oral and written reports from the Executive Board of Directors.

2.8. In terms of contacts with the boards of directors and other corporate bodies of Group holdings, the Chairman of the General Supervisory Board, together with the Audit Committee and other members of the General Supervisory Board, as well as members of the Executive Board of Directors, communicated with Hidrocanábriço and EDP Energias do Brasil.

3. The individual and consolidated financial statements, which were prepared in accordance with the International Financial Reporting Standards (IFRS) and submitted by the Executive Board of Directors to the General Supervisory Board, were

audited by the External Auditor (KPMG) and the Certified Auditor, who did not report any situations that were likely to lead to misstatements in the financial information reported, and whose opinion was free of qualification or bias.

The Audit Committee analysed the audit reports and opinions of the External and Certified Auditors with regard to the individual and consolidated accounts, including the consolidation of the most significant inter-company transactions and compliance with the applicable accounting standards. To their knowledge, there were no facts that could cause reason to doubt the opinions issued by the External and Certified Auditors on EDP's individual and consolidated financial statements.

At its meeting on 6 March 2008, the General Supervisory Board heard a detailed presentation by the Executive Board of Directors on EDP's 2007 Annual Report and Accounts, and were informed of the conclusions of the Audit Committee, the External Auditor and the Certified Auditor, described in the items above.

4. EDP's 2007 Annual Report and Accounts, including the proposal for appropriation of profits and the conclusions of the Auditing Committee on the financial statements, as well as those of the Corporate Governance and Sustainability Committee, were made available to all the members of the General Supervisory Board.

From the analysis of these documents possible within the timeframe provided, it should further be highlighted that the Executive Board of Directors addresses the issue of corporate governance in a dedicated chapter in the Institutional Report of the Annual Report (chapter VIII), under the terms of CMVM Regulation no. 7/2001, where it describes and evaluates:

- Compliance with CMVM requirements regarding governance and disclosure of information, and
- The principles adopted in setting the remuneration of the members of the Executive Board of Directors,

and issues the corresponding declaration of compliance.

5. Taking into account the results of the work described in the items above, the General Supervisory Board:

- 5.1. Considers that EDP's 2007 Annual Report and Accounts appropriately demonstrate:

- * The consistency of the company's activities with its approved strategy.
- * The validity of EDP's expansion into new geographical areas.
- * The Group's organisation and the model of governance adopted.
- * The success of efforts to rationalise costs and investments.
- * The year's activities and results.
- * The company's financial and economic situation.

- 5.2. It is of the opinion that EDP's 2007 Annual Report and Individual and Consolidated Accounts presented by the Executive Board of Directors, as well as the proposal for the appropriation of profits, should be approved by this Meeting.

- 5.3. It would like to congratulate the Executive Board of Directors on the dynamism they have injected into the EDP Group, the results achieved due to their hard work and the quality of the information they have provided.

The Chairman of the General Supervisory Board



António de Almeida

Lisbon, 6 March 2008

REPORT OF THE EDP GENERAL SUPERVISORY BOARD

Extract of the Opinion of the Audit Committee of the General Supervisory Board on the 2007 Annual Report and Accounts

1. The Audit Committee hereby submits its opinion on the consolidated accounts of the EDP Group, in IFRS format for the period ended on 31 December 2007.

As part of its duties under the Articles of Association and regulations, the Audit Committee formed its opinion on the basis of the information it obtained on the business, financial situation, risks inherent in the EDP Group's activities and an analysis and discussion of the documents mentioned below with the company's departments at different levels of responsibility, the external auditors (KPMG) and the statutory auditor.

2. The Audit Committee held the following meetings, among others:

- * 21 February 2008 with Azucena Viñuela, head of the Internal Audit Department (DAI), at which the DAI's activities were described and discussed and the work of the Internal Financial Reporting Control System (SCIRF) was examined, including the results achieved in reviewing and optimising the SCIRF and in monitoring and dealing with recommendation from internal and external audits
- * on 21 and 29 February 2008, with the external auditors (KPMG), represented by Sikander Sattar, Inês Filipe and José Portugal, and the statutory auditor Jean-Eric Gaign, to examine the preliminary and final conclusions resulting from the audit of the EDP Group's consolidated financial statements as at 31 December 2007
- * on 29 February 2008 with Nuno Chung and Miguel Ribeiro Ferreira, heads of the Planning and Management Control Department (DCG) and Consolidation, Accounting Control and Taxation Department (DCF), where the 2007 accounting and management information and profits of the EDP Group were submitted and discussed in detail.

3. On 4 March 2008, the Audit Committee participated in the meeting of the Executive Board of Directors, where the IFRS consolidated financial statements were discussed, along with

other EDP Group financial and management information for the period ended on 31 December 2007.

4. On 4 March 2008, the Audit Committee received from the Hidroantâbrico Group Audit Committee an opinion in favour of approving the accounts for the 2007 period. According to available information, the Audit Committee of Energias do Brasil issued an opinion in favour of approving the Group's accounts at a meeting held on 5 March.
5. Regarding the opinion of the external auditors (KPMG) and the statutory auditor, issues that due to their nature or materiality were of great importance to the work done were discussed at the above meetings.(...)
6. The Audit Committee considers that, on the basis of its analysis of the documents provided and their subsequent discussion with heads of the EDP Group at different levels, and in particular with:
 - a. the Group's Executive Board of Directors;
 - b. the directors of the Internal Audit (DAI), Planning and Management Control (DCG) and Consolidation, Accounting Control and Taxation (DCF) departments;
 - c. the external auditors and the statutory auditor,

we received all necessary clarifications on questions regarding the contents of the Annual Report and Consolidated Accounts for the period ended on 31 December 2007.

7. Considering its monitoring of the main aspects of the EDP Group's activities through meetings with its directors and information and clarifications on the main operations and future prospects for the Group's business provided by the Executive Board of Directors, the opinion of the external auditors and statutory auditor, with no reservations or remarks on the EDP Group's consolidated accounts, and not being aware of any circumstances compromising the compliance of procedures adopted with current accounting policies and good practices or any situations affecting the

appraisal of quality or independence of the work done by the external auditors or the statutory auditor, the Audit Committee is of the opinion that the financial statements appropriately portray the financial situation and profits from operations of the EDP Group as at 31 December 2007 in all materially relevant aspects.

Lisboa, 06 de Março de 2008

Vitor Fernando da Conceição Gonçalves

António Sousa Gomes

Manuel Fernando de Macedo Alves Monteiro

Victor Domingos Seabra Franco

O Secretário da Sociedade

Maria Teresa Isabel Pereira

REPORT OF THE EDP GENERAL SUPERVISORY BOARD

Acronyms and Abbreviations

The following acronyms and abbreviations are used in this report for ease of expression, though the full names that they represent may also be used occasionally:

AD – Audit Committee

CGSC – Corporate Governance and Sustainability Committee

EBD – Executive Board of Directors

GM – General Meeting

GSB – General Supervisory Board

RC – GSB Remuneration Committee

SC – Selection Committee

ADS – American Depository Shares

BCP – Banco Comercial Português, S.A.

BES – Banco Espírito Santo, S.A.

BP – EDP's Business Plan 2007–2010

CC – Company Code

Caja Madrid – Caja de Ahorros y Monte de Piedad de Madrid

Cajastur – Caja de Ahorros de Asturias

CEM – Companhia de Electricidade de Macau, S.A.

CGD – Caixa Geral de Depósitos, S.A.

CMVM – Portuguese Securities Market Commission

EDP (or the Company) – EDP – Energias de Portugal, SA

EDP Brasil – EDP Energias do Brasil, S.A.

Enersul – Empresa Energética de Mato Grosso do Sul, S.A.

GSBO – GSB Office

HC – Hidroeléctrica del Cantábrico, S.A.

Horizon – Horizon Wind Energy, LP

Martifer – Martifer, S.A.

Naturgás – Naturgás Energia, S.A.

NEO – Nuevas Energias de Occidente, S.L.

NEO-DESA – NEO DESA, S.L.

Relax – Relax Wind Parks

REN – Redes Energéticas Nacionais, SGPS, S.A.

SC – Securities Code

Sonatrach – Société Nationale pour la Recherche, la Production, le Transport, La Transformation et la Commercialisation des Hydrocarbures

SP – EDP's Strategic Plan 2006–2008

Subsidiaries – Companies owned by or in the same group as EDP Under Article 21 of the SC

N.B. References to corporate bodies with no other mention should be regarded as referring to EDP's corporate bodies.

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