

ANNUAL REPORT 2007

INSTITUTIONAL REPORT AND REPORT ON CORPORATE GOVERNANCE

The wind is air in motion.
It is a force of nature caused
by the movement of masses
of air resulting from differences
in atmospheric pressure
from one region to another.
It is one of the most promising
energy sources.

07

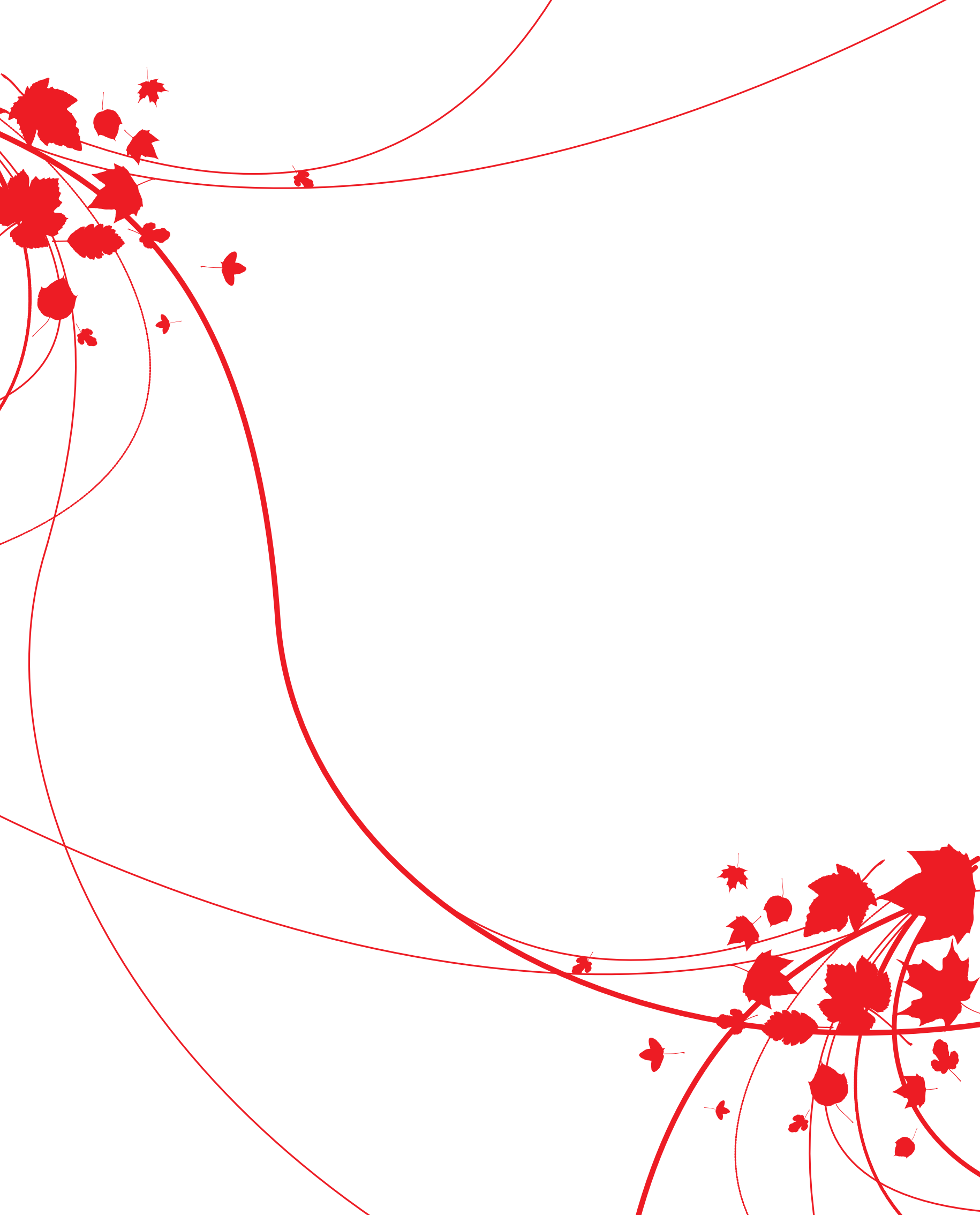
A decorative graphic featuring several red maple leaves of various sizes and shapes, some overlapping. These leaves are positioned around and partially obscuring the large red number '07'. From the center of the leaves, several thin, curved red lines extend outwards across the page, creating a sense of movement and flow. The lines are of varying lengths and curves, some ending in small red dots.

07

The force of nature

is our energy.

The force of waves and watercourses, sunlight and waste from an ecosystem are renewable natural resources. They are nature's energy. They are our energy.

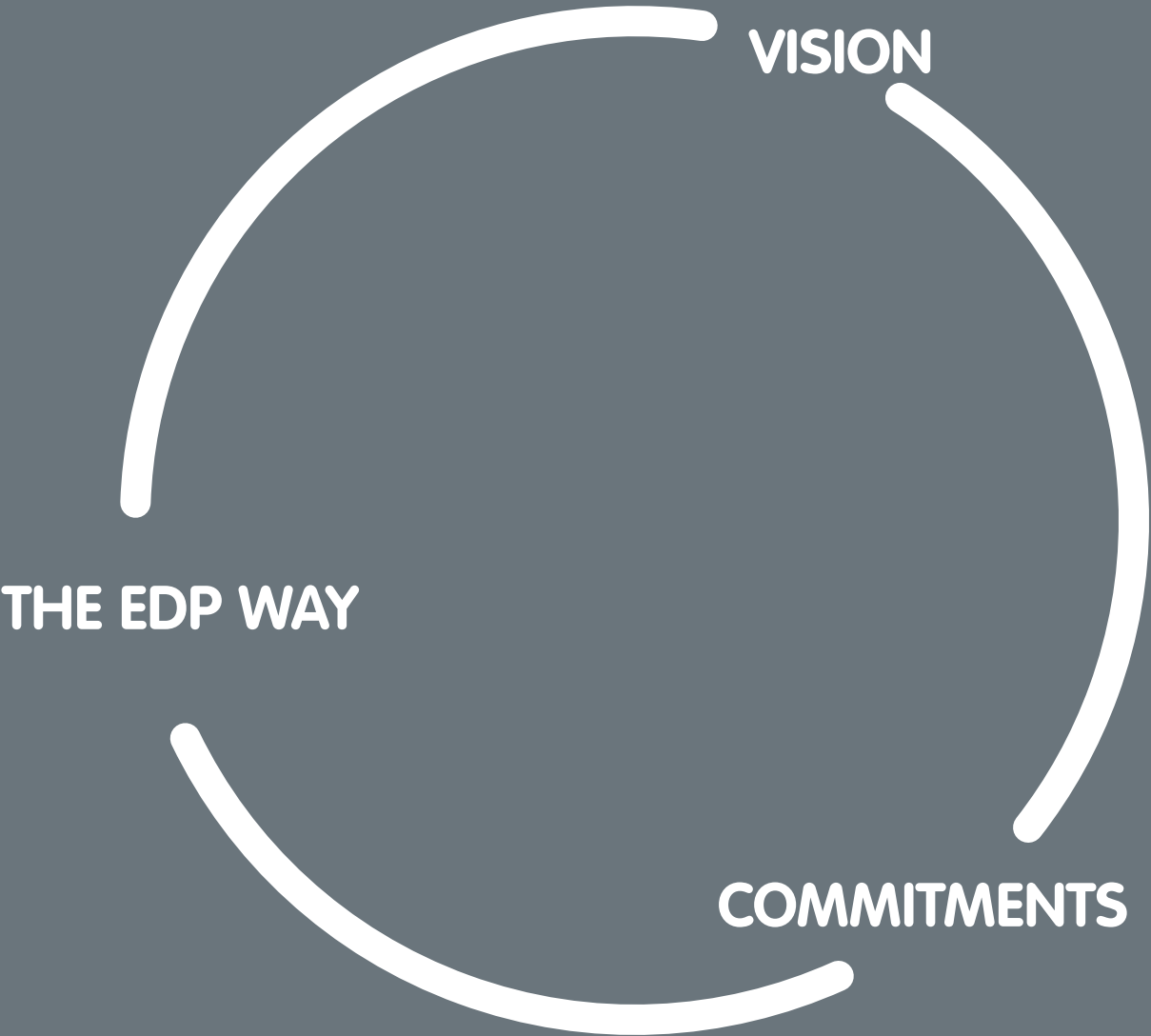


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Vision, Commitments and Values

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Vision

An integrated energy company, a leader in value creation in the markets where we can make a difference.

Commitments

Customers:

- We put the customer first whenever we make a decision.
- We endeavour to anticipate the needs of our customers and fully meet them with our service.
- We know how to listen to our customers and never let their queries go unanswered, communicating with clarity and simplicity.
- We provide the best and most innovative solutions on the market.

People:

- Our people and our teams are our main competitive advantage.
- We work enthusiastically and energetically to move the world.
- We attract, develop and reward our best employees through a merit-based system.
- We delegate responsibilities and provide autonomy whilst demanding ethics, integrity and professionalism.

Life and the environment:

- We recognise the social responsibilities which result from a company of our size. We want to help build a fairer society.
- We have a passion for living and a deep respect for nature.
- Our world is facing intense climatic challenges. We want to help restore the environmental balance and ensure its sustainability.
- We help our customers make rational use of energy as a way of assisting them and improving the environment.

Results:

- We respect the trust that our shareholders and investors place in us and we reward them with our results.
- We always seek to improve our performance and achieve excellence, working in partnership with our providers.
- We lead the energy markets in which we operate with top-level results in customer satisfaction, operational performance and efficiency indicators.
- We always seek success in everything that we do.

EDP Values – The EDP Way

Efficient and Excellent

Natural and Sustainable

Enthusiastic and All-encompassing

Responsible and Trustworthy

Global and Fair

Innovative and Enterprising

Ambitious and Receptive

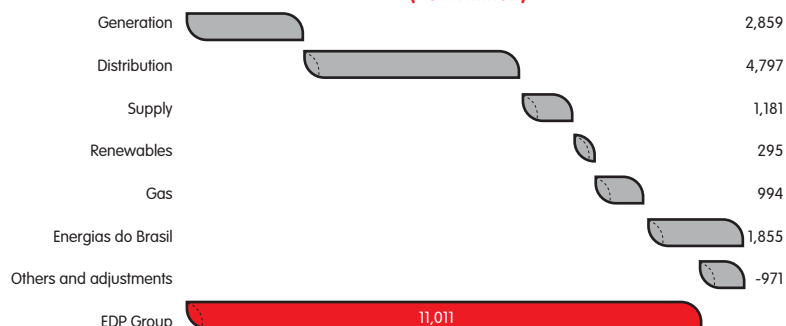
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Financial Highligths

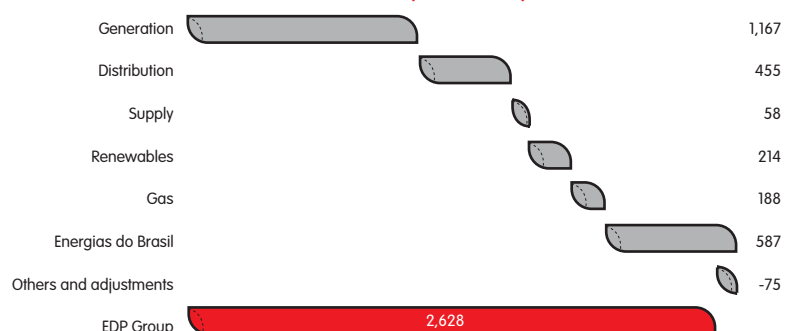
Financial Indicators

EUR thousand	2007	2006	Var.
EDP Group Consolidated			
Turnover	11,010,778	10,349,826	6.4%
Gross operating profit	2,628,275	2,305,450	14.0%
Operating profit	1,560,329	1,253,036	24.5%
Net profit	907,252	940,823	-3.6%
Operating cash flow	2,270,151	2,017,523	12.5%
Net operating investment	2,700,166	1,456,537	85.4%
Financial investment	-1,866,940	-96,940	-1,825.9%
Net assets	31,483,807	25,468,911	23.6%
Equity	6,264,146	5,589,235	12.1%
Financial liabilities	12,605,992	10,153,050	24.2%
Return on equity	15.1%	18.5%	-3.4 p.p.
Return on assets	3.2%	3.8%	-0.6 p.p.
Financial liabilities/equity	201.2%	181.7%	19.6 p.p.
Net assets/liabilities	124.8%	128.1%	-3.3 p.p.
Profit per share (EUR)	0.25	0.26	-3.8%
Dividend Yield	2.8%	2.9%	-0.1 p.p.
Market appreciation	16,344,724	14,041,105	16.4%
Electricity Generation – Iberian Peninsula (excluding Renewables)			
Turnover	2,859,052	2,654,122	7.7%
Gross operating profit	1,167,374	1,211,468	-3.6%
Operating profit	783,467	868,657	-9.8%
Net profit	540,564	612,900	-11.8%
Operating investment	739,940	389,540	90.0%
Electricity Distribution – Iberian Peninsula			
Turnover	4,797,443	4,416,468	8.6%
Gross operating profit	455,482	571,846	-20.3%
Operating profit	183,796	236,093	-22.2%
Net profit	108,773	138,725	-21.6%
Operating investment	253,741	306,591	-17.2%
Electricity Supply – Iberian Peninsula			
Turnover	1,181,280	865,043	36.6%
Gross operating profit	58,397	-140,670	-
Operating profit	37,294	-141,624	-
Net profit	2,580	-110,727	-
Operating investment	3,536	571	519.4%
Renewables			
Turnover	294,820	249,058	18.4%
Gross operating profit	214,096	146,858	45.8%
Operating profit	102,625	57,652	78.0%
Net profit	5,258	20,070	-73.8%
Operating investment	1,388,603	386,035	259.7%
Gas – Iberian Peninsula			
Turnover	994,200	1,128,425	-11.9%
Gross operating profit	188,472	144,759	30.2%
Operating profit	145,050	110,222	31.6%
Net profit	103,353	169,302	-39.0%
Operating investment	72,301	51,756	39.7%
Energias do Brasil			
Turnover	1,854,977	1,726,298	7.5%
Gross operating profit	586,540	433,907	35.2%
Operating profit	456,865	332,111	37.6%
Net profit	253,058	162,641	55.6%
Operating investment	209,303	295,138	-29.1%

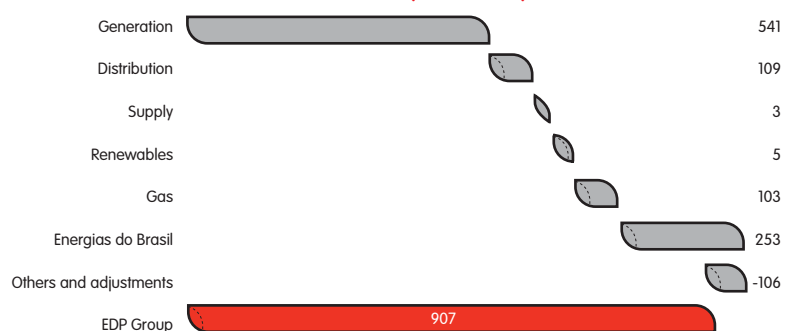
EDP Group Turnover (EUR million)



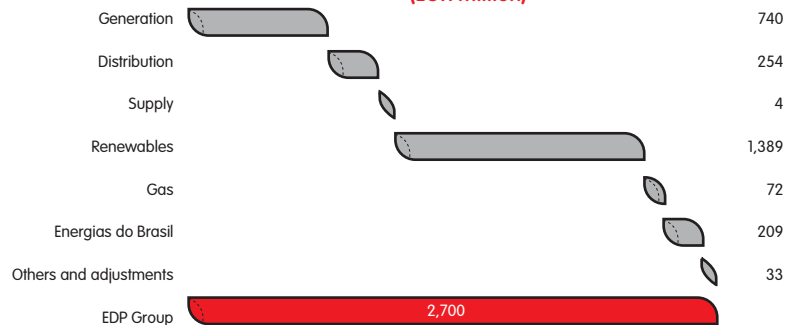
EDP Group Gross Operating Profit (EUR million)



EDP Group Net Profit (EUR million)



EDP Group Net Operating Investment (EUR million)



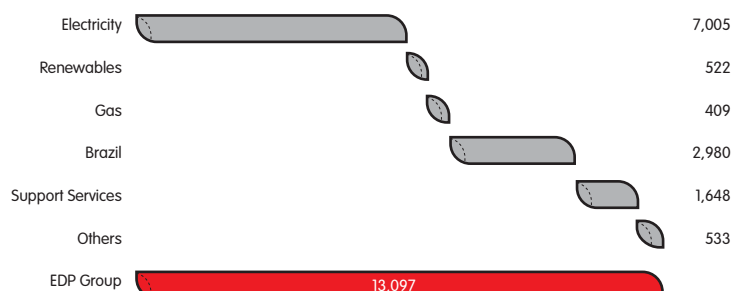
Note: For operating investment, 100% of the amounts is considered (net of co-payments).

Operating Indicators

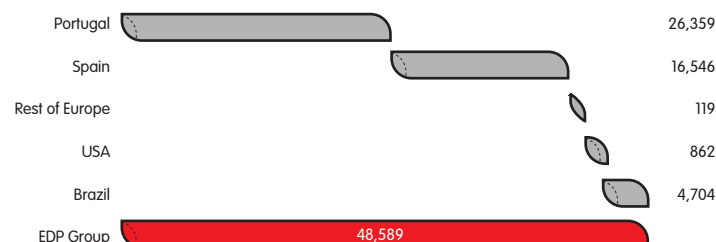
	2007	2006	Var.
Number of Employees	13,097	13,575	-3.5%
Electricity business (excluding Brazil)	7,527	7,482	0.6%
Electricity generation (excluding renewables)	2,249	2,187	2.8%
Electricity distribution	4,592	4,869	-5.7%
Electricity supply	164	180	-8.9%
Renewables	522	246	112.2%
Gas business	409	407	0.5%
Electricity business in Brazil	2,980	3,076	-3.1%
Generation	231	242	-4.5%
Distribution	2,734	2,818	-3.0%
Supply	15	16	-6.3%
Support services	1,648	1,627	1.3%
Telecommunications	0	395	-
Others	533	588	-9.4%
Electricity Generation – Iberian Peninsula (excluding Renewables)			
Maximum capacity (MW)	11,577	11,385	1.7%
Portugal	9,015	8,765	2.9%
Spain	2,562	2,620	-2.2%
Net electricity generation (GWh)	40,111	41,643	-4.6%
Portugal	25,623	28,059	-8.7%
Spain	14,488	13,584	2.9%
Renewables			
Maximum capacity (MW)	3,033	1,183	156.3%
Portugal	424	313	35.5%
Spain	1,268	842	50.6%
Rest of Europe	87	29	204.9%
USA	1,254	0	-
Net electricity generation (GWh)	3,775	1,904	98.2%
Portugal	735	483	52.2%
Spain	2,058	1,421	44.9%
Rest of Europe	119	0	-
USA	862	0	-
Electricity Distribution – Iberian Peninsula			
Number of customers	6,670,452	6,591,077	1.2%
Portugal	6,053,875	5,987,896	1.1%
Spain	616,577	603,181	2.2%
Electricity sales (GWh)	56,542	55,015	2.8%
Portugal	46,919	45,465	3.2%
Spain	9,623	9,550	0.8%
Electricity Supply – Iberian Peninsula			
Number of customers	196,299	84,759	131.6%
Portugal	148,319	22,586	556.7%
Spain	47,980	62,173	-22.8%
Electricity sales (GWh)	13,741	10,708	28.3%
Portugal	3,010	4,037	-25.4%
Spain	10,731	6,671	60.9%
Gas Business			
Gas distribution – Portugal			
Number of customers	179,802	163,391	10.0%
Gas sales (GWh)	2,554	2,293	11.4%
Gas distribution – Spain			
Points of distribution	665,092	641,336	3.7%
Gas sales (GWh)	20,237	19,713	2.7%
Gas supply – Spain			
Number of customers	415,291	248,160	67.3%
Gas sales (GWh)	18,203	13,755	32.3%
Electricity Business in Brazil			
Maximum capacity (MW)	1,044	1,018	2.5%
Electricity sales (GWh)			
Generation	4,704	3,980	18.2%
Distribution	25,029	23,948	4.5%
Supply	7,188	6,702	7.2%
Number of customers	3,207,024	3,113,604	3.0%

Note: 100% of the amounts for all the companies are considered, regardless of the EDP Group's shareholding. The number of employees includes corporate bodies,

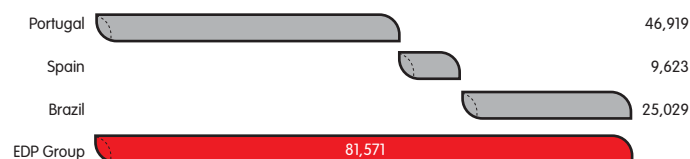
EDP Group Employees



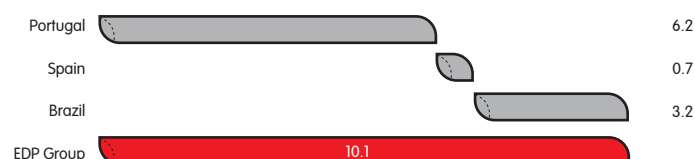
Electricity Generated – EDP Group (GWh)



Electricity Distributed – EDP Group (GWh)



Electricity Customers – EDP Group (millions)



INSTITUTIONAL REPORT AND REPORT ON CORPORATE GOVERNANCE

Important Events

22 JAN – Presentation of the 2007-10 Business Plan: As a result of the favourable opinion previously issued by the GSB (General Supervisory Board), EDP presents its 2007/2010 business plan at the Museum of Electricity in Lisbon based on the strategic guidelines presented to the market in July 2006.

6 MAR – EDP sells a 5% stake in REN: EDP signs a purchase-and-sale agreement to sell a 5% stake in the share capital of REN to Red Eléctrica de España, S.A., the Spanish electricity transmission grid operator.

16 MAR – “Best of European Business” Award: EDP receives the “Best of European Business” award in the “Cross-Border M&A” category, a distinction conferred by Roland Berger Strategy Consultants.

20 MAR – Construction begins, to increase capacity at the Picote dam: EDP signs the general construction contract with the consortium formed by the companies OPCA and MSF to increase capacity at the Picote dam at a value of around EUR 46 million.

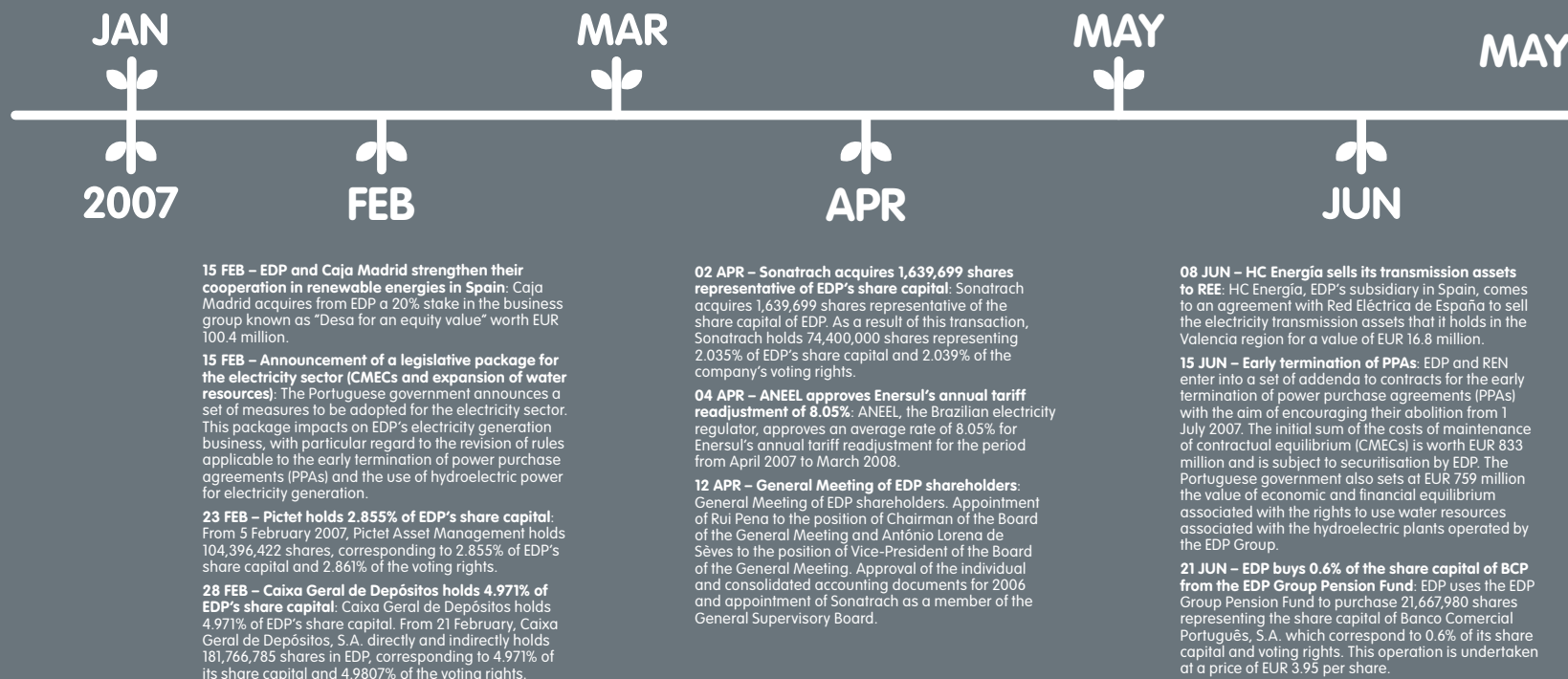
27 MAR – Acquisition of Horizon Wind Energy: EDP enters into a purchase-and-sale agreement with Goldman Sachs Group, Inc. for 100% of the share capital of Horizon Wind Energy LLC, a leading company in the development, management and operation of wind farms in the United States.

04 MAY – Dividend payment: Gross dividend payment at a value of EUR 0.11 per share (2006 financial year).

18 MAY – Acquisition of 9.39% of the share capital of Naturgas: Through its Spanish subsidiary HC Energía, EDP signs an agreement with Gás Natural SDG to buy 9.39% of the share capital of Naturgas. This purchase represents an investment of EUR 122 million.

18 MAY – EDP withdraws its American Depositary Shares from trading on the NYSE: The EDP Executive Board of Directors approves the withdrawal of its American Depositary Shares (ADSs) from trading on the New York Stock Exchange (NYSE). Each share represents 10 of the company's ordinary shares.

31 MAY – EDP awards construction of the Lares CCGT power station: Through the signing of a turn-key contract with the GE/Cobra/CME consortium, EDP awards the construction of a new natural gas combined cycle power station (CCGT) in Lares, in the municipality of Figueira da Foz.



03 JUL – Completion of the purchase of Horizon Wind Energy: EDP completes its acquisition of 100% of Horizon's share capital. This transaction set the value of Horizon's assets at USD 2.74 billion on this date.

03 JUL – Fitch lowers EDP's rating to 'A': The credit rating agency Fitch Ratings lowers its rating of EDP by one notch. The long-term issuer default rating (IDR) is lowered to A, the senior unsecured rating to A and the short-term IDR to F2. The revision is announced following EDP's acquisition of Horizon.

10 JUL – Horizon agrees to indicative terms for a deal with institutional investors: Horizon agrees to indicative terms for a share in a group of wind power projects with a consortium of institutional investors. This deal includes a portfolio of projects with a net installed capacity of 722 MW and the amount contributed by investors totals around USD 700 million.

18 JUL – Standard & Poor's lowers its rating of EDP to 'A-': The rating agency Standard & Poor's lowered its long-term and short-term ratings from 'A' to 'A-' and from 'A1' to 'A2', respectively. This revision comes after the acquisition of Horizon Wind Energy LLC is finalised.

02 JAN – Horizon agrees to a deal worth USD 600 million with institutional investors: On 31 December 2007, Horizon Wind Energy LLC enters into a deal with a consortium of institutional investors for a stake in a portfolio of four wind farms scheduled to begin operation in 2007 and early 2008. These will have a total installed capacity of 600 MW.

18 FEB – EDP acquires 1,050 MW of generation capacity to be installed in the United States: Horizon acquires a portfolio from Hydra Energy, LLC (Hydra) comprised of six wind farms with a total installed capacity of 1,050 MW. These are located in the states of Illinois, Indiana and Ohio, USA and covered by MISO (Midwest Independent Transmission System Operator) and by PJM (a transmission operator covering the states of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia).

26 FEB – EDP exercises the option to sell a 40% stake in Edinfor: EDP notifies LogicaCMG Corporate Holdings Limited (LogicaCMG) that it intends to exercise its option to sell a 40% stake that it holds in the share capital of Edinfor, – Sistema Informáticos, S.A. The transaction amount (EUR 55 million) represents the minimum pre-agreed value and is subject to the conditions and obligations of the shareholder agreement signed in 2005 by EDP and LogicaCMG.

JUL
✿

SEP
✿

NOV
✿

2008
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AUG
✿

OCT
✿

DEC
✿

07 AUG – ANEEL approves a tariff review of Escelsa: ANEEL, the Brazilian electricity regulator, approves an average tariff adjustment rate of -2.16% for Escelsa from August 2007 for a period of three years.

17 OCT – Energias do Brasil agrees to purchase power agreements for the construction of coal-fired power stations in Brazil: In an auction sponsored by the Brazilian regulatory authorities, Energias do Brasil and MPX Mineração e Energia, in a 50/50 partnership, agree to the long-term sale of electricity under a PPA regime for the future coal-fired power station to be built in Pecém, in the state of Ceará (700 MW).

19 OCT – Moody's maintains its rating of EDP at 'A2': Moody's confirms its long-term rating of EDP – Energias de Portugal, S.A. at 'A2' and short-term rating of 'P1'. Moody's assigns the company a negative outlook following the conclusion of its purchase of Horizon Wind Energy LLC.

24 OCT – ANEEL approves a tariff review of Bandeirante: ANEEL, the Brazilian electricity regulator, approves an average tariff adjustment rate of 12.47% for Bandeirante for the period following 23 October 2007.

24 OCT – EDP enters into an agreement to operate the hydroelectric power stations at Alqueva and Pedrógão: EDP Produção enters into an agreement with EDIA that gives EDP Produção the right to operate the hydroelectric power stations at Alqueva (240 MW) under market conditions and at Pedrógão (10 MW) under special regime conditions for a 35-year period. It also awards the rights to private use of water resources.

26 OCT – EDP issues bonds in the amount of USD 2 billion: EDP Finance BV establishes the price of 144 A/ Reg S bonds, issued in two tranches, at a value of USD 2 billion: USD 1 billion, maturing in November 2012 with a renewal certificate of 5.375%, and USD 1 billion, maturing in February 2018 and a renewal certificate of 6.0%.

31 OCT – EDP enters into a strategic partnership with Sonatrach: Together with the company Argelina Sonatrach, the second largest exporter of LNG worldwide, EDP entered into a set of agreements aimed at establishing the initial terms of a strategic partnership in natural gas.

4 DEC – ANEEL orders a reduction in Enersul's regulatory remuneration base: Energias do Brasil announces ANEEL's decision to review Enersul's tariffs, previously approved during the April 2003 tariff review, as a consequence of the findings from the assessment of the regulatory remuneration base.

13 DEC – Parpública concludes the issue of bonds which can be exchanged for EDP shares as part of its seventh phase of reprivatization: Parpública informs EDP of its offer of bonds that can be exchanged for shares representing EDP's share capital, with maturity in 2014. This is issued in accordance with the provisions of Decree-Law 382/2007 of 15 November, which approves the seventh phase of EDP's reprivatization process.

19 DEC – NEO acquires 1,022 MW of wind farm projects to be developed in Poland: NEO acquires Relax Wind Parks, a set of projects to develop wind farms in Poland, for EUR 54 million, plus an average "success fee" of EUR 40,000/MW.

21 DEC – EDP acquires mini-hydroelectric power stations in Portugal: EDP and Banco Espírito Santo de Investimento enter into an purchase-and-sale agreement with Babcock & Brown Hydro Holdings S.A.R.L. to acquire 100% of the quotas of Pebble Hydro, which has 11 mini-hydroelectric power stations with a 89.1 MW capacity operating under special regime conditions with operating licences that expire between 2025 and 2040.

27 DEC – Caixa Geral de Depósitos holds 5.24% of EDP's share capital: Caixa Geral de Depósitos, S.A. announces that it directly and indirectly holds 191,596,574 shares of EDP, which corresponds to 5.24% of the company's share capital.

"We believe that we have the vision, timing, resources and the right team to continue to make a difference in the sector – more growth and lower risk."



Message to Shareholders

Dear Shareholders

2007 – The capacity to anticipate and execute

I believe that anticipation and execution are the features shared by the various events that defined 2007 for EDP. The ability to anticipate change and execute our Strategic Plan in its three aspects: controlled risk, greater efficiency and focused growth. These allow EDP to establish itself as a company with a risk profile that is lower than the sector average yet with greater growth.

Climate change, sustainable growth, reduction in CO₂ emissions, an overall increase in fossil fuel prices, energy efficiency, renewable energies, decentralised generation, intelligent distribution networks. Today, the energy sector is strongly marked by changes to the framework, limitations and rules for its current operation and future development.

Aware of the impact that humankind has on its environment and the responsibility to build a better world for generations to come, a new element is added to this — the need to act, which should be represented by a true revolution in technology as well as behaviour.

EDP is aware that the capacity to anticipate and lead in this context of considerable change is an essential requirement to ensure its profitable growth and also fulfil its corporate responsibilities in the determined quest to satisfy its shareholders, employees, customers and the communities in which we operate.

EDP continues to grow. In 2007, the EBITDA increased by 14% over 2006, a rate that is twice that of the 2002-2005 average, and without non-recurring items the growth rate equals 20%, one of the highest in the European sector.

EDP has created more opportunities. Investment reached EUR 2.7 billion, an increase of 85% over 2006. This has created conditions for sustained growth in the coming years, supported by the development of new opportunities. Today we have a presence in Portugal, Spain, France, Belgium, Poland, Brazil and the United States. For the first time, more than half of the EBITDA was generated outside Portugal.

EDP is greener. Hydroelectric and wind energy now represents 59% of the installed electricity generation capacity. CO₂ emissions/MWh decreased by 4% from 2006 and by 29% from 2002.

EDP is more efficient. Our growth has been simultaneously accompanied by a clear improvement in efficiency ratios. The ratio of operating costs to gross profit reached 29.7% in 2007, compared to 38% in 2005 and 34.2% in 2006.

EDP has improved the quality of its service. Service quality has also undergone extremely positive developments. Record figures were achieved for equivalent interruption time (TIE) in Portugal and Spain, with decreases of 45% and 44%, respectively.

EDP has increased in value. This strategy has earned market-wide recognition. In 2007, EDP shares rose in value by 16.4%, once again above the PSI-20 index average and ensuring a total gross return of 19.3% for shareholders.

A year full of initiatives

2007 was a landmark year for hydroelectric generation in Portugal. This was the first year in the sector's entire history that more hydroelectric capacity was released with the start-up of 880 MW. The conclusion of the agreement to use and expand Alqueva, the resumption of the Baixo Sabor project (suspended for more than ten years), the beginning of Picote II and Bemposta II, along with the launch of the new National Plan for Dams were fundamental steps in ensuring our growth, leveraging on the areas of competence where EDP has always known how to do better.

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Message to Shareholders

07 The agreement to the terms to extend water usage for another 27 years on average was another decisive contribution not only to preserve a right that has been in place since 1995, but also to formalise it, specifically allowing the launch of important projects to increase capacity at the current dams.

The year 2007 shall be marked by the fact that EDP has become the fourth largest wind energy company worldwide, with 3.6 GW installed at the end of the year, having strengthening its position with the purchase of the American company Horizon Wind Energy and its entry into new markets such as Poland.

Our ability to deliver was equally apparent in other areas.

The early termination of the PPAs (purchase power agreements) and their replacement by CMECs (costs for the maintenance of contractual equilibrium) maintained EDP's low-risk profile. This was also a fundamental step in the total liberalisation and effective start-up of the Iberian electricity market (MIBEL) on 1 July 2007.

Being the latest to receive two of the eight licences awarded in Portugal to build natural gas combined cycle power stations, EDP is the only company to have begun construction in Lares, where the station is expected to begin operating in July 2009. In Spain, the work undertaken will allow operations to begin in 2008 for two new groups of combined cycle power stations with more than 800 MW. It should be noted that effective regulatory management has taken place within a scenario that was initially very difficult.

One of the largest contributions to our growth came from the gas business in a year when the position of EDP Gás was consolidated as the second largest operator of natural gas distribution in the Iberian Peninsula, with a market share of 11% and a 5% increase in its number of customers. The agreement with Sonatrach, which is now a point of reference in the consumer-producer relationship, allows greater flexibility and competitiveness in increasingly demanding markets such as gas and generation using combined cycle power stations. This agreement also contributed to ensuring, at this time, EDP's gas requirements until late 2009.

The emphasis on a business policy of hedging throughout the chain from generation to supply allowed EDP to present, in relative terms, the best results in the Iberian market within a very difficult price situation.

As regards free supply in Portugal, we were able to consolidate our unique presence in a completely liberalised residential market through EDP 5D. With more than 143,000 customers, we demonstrated that we are where they need us to be. In just one year in Spain, the HC Energía brand achieved a recognition rate of more than 85% in its area of influence. The amount of electricity sold increased by 60% and thus reached a market share of 15% in the liberalised market.

For distribution in Portugal, 2007 was a year of restructuring, with a new organisation that was better prepared to face challenges, and new solutions and systems to be developed for improved activity in the field. There was a clear improvement in the grid and in quality of service with the TIE reaching historic lows in Portugal and Spain. This was the result of investments made in recent years in the grid as well as in the human and technological resources for our teams in the field.

Furthermore, the respective suppliers of last resort were separated as part of the liberalisation of the Portuguese electricity and natural gas markets. EDP Distribuição created and registered the company EDP Serviço Universal and Portgás Serviço Universal was created for the gas business.

In Brazil, the recovery from the tariff deviations of previous years allowed us to ease a difficult year marked by the unexpected regulations resulting from changes to that which had been defined and recognised by the regulator in late 2002. This enabled us to reach an agreement that defended the interests of all parties involved. A clear emphasis was also placed on intensifying several hydroelectric investment opportunities and the launch of an important investment in a new thermal power station to meet the needs of this market.

At EDP Inovação, created in 2006, projects were begun in new areas which accompanied the development of new technologies, namely wave energy, smartgrids and urban wind farms. Preparations were also made to launch an innovation fund that will support the development of new projects.

A prepared organisation

To withstand and support the growth of the Group, we need to have an efficient organisation based on continuous improvement of processes, a stronger customer-focused philosophy, problem-solving and the ability to act, transforming competences into competitiveness.

Several projects were completed which involved the entire Group and had a significant impact on our accounts and our way of working.

I would like to highlight the OPEX project, which has already allowed us to generate a total saving of EUR 124 million in the Iberian Peninsula and Brazil and which anticipates our expected targets for 2008. Furthermore, the Lean project was expanded to new areas, which encouraged tremendous involvement and contributions from our people in the search to optimise the processes in which they participate.

Special attention should also be drawn to our purchase system supported by the IT application Sinergie, whose excellence was recognised with the "Procurecon for Innovation 2007" award.

In real estate, emphasis was placed on finding the right size for our needs, minimising costs and placing value on our heritage. Construction began at our new head office in Lisbon and teams in Oporto were merged together.

The importance of managing human capital and strengthening the company's philosophy

Increasingly, it is the people who make the difference in companies. At EDP, we continually seek to attract, assess, develop skills, compensate, and manage careers and talents.

This year, we reviewed our organisational model. "strategic thinking" was centralised whilst operational management underwent further decentralisation. The Talento Project, which will allow us to develop the Strategic Plan for Human Asset Management, began to be implemented throughout the entire Group. It is supported by the eneRHgia system, an essential tool in centralising and processing all the information that will reinforce this management model.

The internal mobilisation programme, "Sou EDP" ("I am EDP"), was designed to share the values, challenges and strategic objectives of the EDP Group. Implemented first in Portugal, the programme will now be extended to the Group's remaining countries.

The Conciliar Project shows our concern for balance in its most diverse aspects: among the family, personal and professional lives of our employees. That is why EDP is proud to have received the 2007 award for the Most Family-Friendly Company in Portugal.

Lastly, I would like to mention the Corporate TV project, which is broadcast in Portugal, Spain, Brazil and the United States and allows the entire organisation to learn about the activities, businesses and individuals that create the EDP philosophy.

Sustainability and energy efficiency

Sustainable growth is a priority for EDP.

In 2007, we developed a wide range of activities for internal and external responsibility. In Portugal, this included the "o mundo nas suas mãos" ("World in Your Hands") campaign and the efficiency campaign, which allowed opinion levels regarding EDP's reputation and the service it provides to rise drastically (79% of our Portuguese customers indicated they were satisfied or very

INSTITUTIONAL REPORT AND REPORT ON CORPORATE GOVERNANCE

Message to Shareholders

07 satisfied with their electricity and 71% with the service provided). This also allowed us to demonstrate that we are honouring our commitment to promoting sustainability and energy efficiency. We invested over EUR 10 million to promote sustainability and energy efficiency through the ECO programme. On an internal level, we developed a range of initiatives as part of the Econnosco project that allowed energy and water consumption in our buildings to be reduced substantially while promoting environmentally responsible behaviour among our staff.

In Spain, in addition to the internal initiatives that have been implemented for some time now to rationalise energy use, namely in generation and distribution, HC Energía has been developing a set of activities aimed at its customers. These include the distribution of energy-efficient light bulbs, carrying out energy audits and promoting products and services (such as "Funciona") that help customers to rationalise their energy consumption. The "Aula de la Energía" (Energy Classroom) initiative was launched in partnership with the Castejón city council and will create a space that provides information and raises awareness about the rational use of energy.

In Brazil, I would like to highlight the creation of the Instituto Energias do Brasil. This is a non-profit institution that will promote the relationship between the company and the local community and harmonise the socio-environmental, educational, cultural and volunteering activities among Energias do Brasil's various companies. Attention should also be drawn to the implementation of the sustainability policy, the preparation of the programme to reduce water and electricity consumption and promote their rational use, and the start of internal sustainability training through the Chronos project, which should include everyone by late 2008.

2008 – A year of new challenges and a consolidated strategy

The year 2008 shall be a very demanding one in a context which is, at this point in time, expected to be much more difficult.

We must continue to implement our growth plan by meeting targets for installed capacity and the effective application of funds.

We must deliver the "pipeline" in wind energy and maintain our plan to implement the hydroelectric and combined cycle power station projects.

We must continue to improve the quality of service that we provide in the wake of 2007, a year in which we were able to present the best indicators ever.

As an increasingly global company, we must ensure the integration of cultures in an environment of growing geographic dispersion, while at the same time respecting their local characteristics.

These challenges place greater pressure on the organisation, its individuals and its financial resources.

A range of decisions must be made. We must make choices, continuing to work in areas where we know how to make a difference.

2007 demonstrated that EDP is prepared and has fulfilled its responsibilities. The activities undertaken and the results achieved are consequences of the company's ability to lead, implement, involve, explain and manage the expectations of our teams.

Today, EDP is a company prepared to attain ambitious goals and respond to the changes that lie ahead. We believe that we have the right vision and the right strategy. We believe firmly in our timing and our resources, bringing together the right people to achieve our planned objectives.

However, this would not have been possible without the involvement of everyone: customers, suppliers, government bodies and regulatory authorities.

I would like to thank our 13,097 people, who are spread across the globe, for their efforts, dedication and motivation that allow them to turn objectives into results.

Lastly, I would like to thank our shareholders for the confidence that they have shown in the company and its strategy. We want to continue to be worthy of that confidence, making EDP a company that continues to improve, be more responsible and become a stronger leader.



António Mexia
Chairman of the Executive Board of Directors

Lisbon, 6 March 2008

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EDP Governing Bodies

BOARD OF THE GENERAL MEETING

Rui Eduardo Ferreira Rodrigues Pena, Chairman

António Bernardo de Menezes e Lorena de Sêves, Vice-Chairman

Maria Teresa Isabel Pereira, Company Secretary

STATUTORY AUDITOR

KPMG & Associados, SROC, S.A., represented by Jean-Éric Gaign, Certified Auditor, Permanent Statutory Auditor

Vítor Manuel da Cunha Ribeiro, Certified Auditor, Deputy Statutory Auditor

GENERAL SUPERVISORY BOARD

António de Almeida, Chairman

70 years old. In 1961, he received a degree in Economics from the Faculty of Economics at Universidade do Porto. In Mozambique, he was the Supervisor of Planning Services for Mozambique (1963-1965). Financial Director and Secretary General of Maragra – Marracuene Agrícola Açucareira (1966-1971) and the Director and Vice-Chairman of the Instituto de Crédito de Moçambique from 1971 to 1974. In Portugal, he was the Governor and President of Banco de Angola (1974-1978). Secretary of State of the Treasury (1978-1980 and 1983-1985). Chairman of the União de Bancos Portugueses until 1991. consultant to Banco de Portugal until 1992. consultant to Associação Industrial Portuense from 1991 to 1996. Chairman of the EDP Board of Directors (1996-1998). Director of the European Bank for Reconstruction and Development (1998-2004). Chairman of the EDP Audit Committee (2003-2004) and Chairman of OMIP (2004-2006).

Alberto Coraceiro de Castro, Vice-Chairman

55 years old. He received a degree in Economics from the Porto Faculty of Economics and a doctorate in Economics from the University of South Carolina. His areas of expertise include industrial economics, business economics and strategy, labour economics and internationalisation. He has published numerous academic and promotional texts. He lectures at Universidade Católica Portuguesa, where he is head of the Economics and Management Faculty. He is also a general board member of Associação Empresarial de Portugal and a board member of Associação Comercial do Porto [Porto Trade Association], Vice-Chairman of the Board of Directors of Associação para o Museu dos Transportes e Comunicações [Transport and Communication Museum Association] and a member of the Advisory Board. He serves as Chairman of the Board of Directors of CIENCIVEST – Valorização Económica da Ciência, Non-Executive Director of Douro Azul, Chairman of the Supervisory Boards of Mota-Engil and Unicer and is a consultant to the Portuguese Footwear Industrialists Association (APICCAPS).

António Sousa Gomes

71 years old. Mechanical Engineering graduate from Instituto Superior Técnico (Lisbon) and graduated from the Stanford Executive Program of Stanford University's Graduate School of Business. He was a Director at Siderurgia Nacional (1968-1974). Director of RTP, S.A. (1974-1975). he was General Secretary of SEDES from 1972 to 1973 and Chairman from 1973 to 1974. He also served as Secretary of State of Public Investments (1975-1976) and was a member of the Portuguese Parliament (1976-1980). He has served as Minister of Planning and Economic Coordination (1976-1978). Minister of Industry (1977). Minister of Public Works and Housing (1978-1979) and Vice-President of the Parliamentary Commission of European Integration (1981). From 1958 to 1960 he was Chairman of JUC, Chairman of the Board of Directors of IPE from 1983 to 1991, Director of EGF from 1987 to 1991 and Director of EFACEC from 1988 to 1992. He also served as a member of the Board of Directors for the Serralves Foundation in 1998, Chairman of the Board of CIMPOR, S.A. from 1992 to 2001 and is currently Non-Executive Chairman of Corporation Noroeste.

Diogo Lacerda Machado

46 years old. He holds a degree in Law. He taught Civil Procedural Law at Universidade de Lisboa (1985), worked as a management trainee at FIMA-LEVER-IGLO (1986) and was a legal consultant for the Tourism Fund and the Academic Association of the Universidade de Lisboa Faculty of Law (1986-1988). He was also an advisor to the Government of Macau's Deputy Secretary for Administration and Justice (1988-1990), a senior legal consultant of the Tourism Fund (1990-1992) and Director of Interfina and several of its shareholding companies (1992-1995). From 1995 to 1999 he was a lawyer and partner of the law firm Sampaio Caramelo, Fonseca Santos & Lacerda Machado and a member of the Superior Judicial Council from 1997 to 1999. He served as Legal Director for the Parque Expo'98 Group and as Director of Associated Companies (1999), Secretary of State for Justice of the Portuguese Government (1999-2002) and lawyer for the firm J.A. Pinto Ribeiro and Associados (2002-2004). He currently practises with the law firm of Barrocas, Sarmento and Neves Sociedade de Advogados and is a member of the Committee for Access to Government Documents (CADA).

Eduardo Catroga

65 years old. He received a degree in Finance from ISEG (Universidade Técnica de Lisboa) and a post-graduate degree from Harvard Business School. He served as Minister of Finance for the Portuguese Government from 1994 to 1995. He is a guest lecturer in Business

Strategy for the MBA programme. His career has centred primarily around company management and administration, namely at CUF, where he was Financial Director, and at the Belgian SAPEC Group, in the capacity of Empowered Director. He is currently the Chairman of the SAPEC Group, director of Nutrinveste, director of Banco Finantia and a member of the Securities' Market National Body.

José Maria Espírito Santo Silva Ricciardi

53 years old. He received his degree in Applied Economic Sciences from the Administration and Management Institute of the Faculty of Economic, Political and Social Sciences of Université Catholique de Louvain (Belgium). He served as Financial Controller at the European headquarters of the Espírito Santo Group (GES) from 1981 to 1983, assisting the group's General Financial Controller on an international level. From June 1983, he was Assistant Director of Banco Espírito Santo Internacional Ltd. and in 1987 he was named Director of the Merchant Banking Directorate of Banco Internacional de Crédito (BIC). In 1990, he worked at BIC, as Deputy Director-General of the Corporate General Directorate and Director of the Capital Markets Directorate. He was appointed Director of Espírito Santo Sociedade de Investimentos in 1992 and Vice-Chairman of the Board of Directors of Banco Espírito Santo de Investimento in 1995. Since 1999 he has served as Director of the Executive Board of Banco Espírito Santo and Chairman of the Executive Board of Banco Espírito Santo de Investimento.

Manuel Alves Monteiro

50 years old. He has a degree in Law and is Director of the companies CIN, Novabase, Douro Azul and AICEP (Agency for Portuguese Investment and Foreign Trade). He is a member of the Advisory Board of the Faculty of Economics in Oporto and of the Faculty of Economics and Management at Universidade Católica, Oporto. He is a member of the Coordinating Board of SEDES and the Advisory Board of Banco Privado Português. He was Non-Executive Director of Jerónimo Martins, Chairman of Euronext Lisbon and a member of the Board of Directors of the Paris, Brussels and Amsterdam stock exchanges and Euronext NV. He was also Chairman of the Porto Stock Exchange and CEO of the Lisbon and Porto stock exchanges and Interbolsa. He was Director of the Portuguese Corporate Governance Institute, Chairman of the Portuguese Association of Financial Analysts, a voting member of the CMVM Advisory Board and Chairman of Casa da Música/ Porto 2001, S.A. He has also held posts in executive bodies of international organisations linked to the capital market: Executive Board of the Ibero-American Stock Exchange Federation (FIABV), the European Committee of Futures and Options Exchanges (ECOFEX), the International Finance and Commodities Institute (IFCI) and the European Capital Markets Institute, (ECMI). He was awarded the Chevalier de L'Ordre Nationale de la Legion d'Honneur by order of the President of the French Republic.

Manuel Menéndez Menéndez

48 years old. He received a degree in Economics and Business Administration in 1982 and a doctorate in Economic Sciences from Universidad de Oviedo in 1985. He was also a lecturer at the Department of Business Administration and Accounting at Universidad de Oviedo in 1990. He was a voting member of the Board of Directors and member of the Executive Board of Cajastur and Hidrocarbónico, a member of the Board of Directors, Executive Board and the Audit and Control Committee of AIRTEL, a voting member of the Board of Directors of Ahorro Corporación, LICO Corporación and ENCE. Vice-Chairman of the Board of Directors of SEDES, S.A. and Executive Chairman of Sociedad de Garantías Recíprocas de Asturias. He is Chairman of Cajastur, Hidrocarbónico and Naturgas Energía, a voting member of the Boards of Directors of Nuevas Energías de Occidente and CECA (Spanish Confederation of Savings Banks), a voting member of the Directive Council of UNESA (Spanish Association for Electricity Industry) and a member of the Official Register of Account Auditors in Spain. He also represents Peña Rueda, S.L (a 100%-owned subsidiary of CajAstur) on the Enagas Board of Directors.

Mohamed Meziane

63 years old. Mr Meziane received degrees in Chemical Engineering from the École Polytechnique in Algiers and in Petrochemical Engineering from the Algerian Institute of Oil. He joined Sonatrach in 1967, where he began his career working in the company's ammonia plant and later at the refinery in Arzew. He was Director of the Algiers refinery in 1973 and in 1978 he was appointed Director of the Refining Sector. In 1980 he was named Vice-Chairman of Sonatrach and was head of the refining and liquefied natural gas sectors. In 1984 he was invited to work at the Office of the Minister of Energy. In 1986, he was appointed Director of Industrial Safety and in 1988, Director for International Exchanges. From 1991 to 1996, he served as head of the Office of Oil. He was also appointed Director-General at the Ministry of Energy, a post which he held until he was appointed Chairman and CEO of Sonatrach in 2003.

Rui Pena

68 years old. He received a degree in Law from the Faculty of Law at Universidade de Lisboa. He works as a lawyer and his professional activity has centred around the areas of administrative, trade, financial and business law, with a particular emphasis on the so-called regulated markets. He is a senior partner at the law firm of Rui Pena, Arnaut & Associados, which he founded. From 1973 to 2007, he was Chairman of the Board of Directors, Executive Director and Non-Executive Director of various Portuguese and international companies. He served as Minister of National Defence from 2001 to 2002 and was a member of the General Council of the Portuguese Bar Association from 1987 to 1989. He was a lecturer in Administrative Law at Universidade Autónoma de Lisboa from 1983 to 1987 and a member of

INSTITUTIONAL REPORT AND REPORT ON CORPORATE GOVERNANCE

EDP Governing Bodies

the Lisbon Municipal Assembly in 1986. He is a part of the arbitration and reconciliation body of the International Centre for Settlement of Investment Disputes (ICSID). He served as President of the Inter-Parliamentary Union's Portuguese group from 1980 to 1982. He was an assistant at the Faculty of Law at Universidade de Lisboa from 1977 to 1980, a lecturer in Administrative Law at Universidade Livre de Lisboa from 1978 to 1981 and a member of the governing board in the same subject at the Universidade de Lisboa Faculty of Law from 1977 to 1980. In 1978 he served as Minister of Administrative Reform and as a member of the Portuguese Parliament from 1976 to 1983. From 1964 to 1975 he was a legal consultant and director of various companies in the SACOR Group.

Vasco José de Mello

51 years old. He received a Bachelor of Science in Business Management from the American College of Switzerland in 1978 and attended the Citigroup Training Programme in New York from 1978 to 1979. He was adviser to the Board of Directors of the Industrial Textile and Chemical Union (1980-1982), where he went on to become a voting member of the Board (1982-1999). He was a voting member of the Board of Directors of the Independent Communications Society (1992-1994) and of Transitec-Lausanne (1982-1987). He served as Empowered Director of CUF Finance from 1985 until 2002. He was a voting member of the Board of Directors of Companhia de Seguros Império from 1992 to 1996 and Chairman from 1996 to 2000. He was also Chairman of the Board of Banco Mello, S.A. (1995-2000), Banco Mello de Investimentos (1991-2000) and Vice-Chairman of the Board of Directors of José de Mello, SGPS, (1994-2004). He was a voting member of the Board of Directors at ONI, SGPS (2000-2002) and Chairman of União Internacional Financeira, SGPS (2001-2004). He was Vice-Chairman of the Executive Board at Banco Comercial Português (2000-2007), a voting member of the Supervisory Board of Bank Millennium, Poland, (2005-2007) and a voting member of the Board of Directors of Abertis, Barcelona (2003-2007). He has served as Chairman of the Board of Directors and the Executive Board of Brisa-Autoestradas de Portugal, S.A. since 2002 and as Chairman of the Board of Directors of José de Mello, SGPS, S.A., since 2004.

Victor Seabra Franco

57 years old. He received a degree in Finance from the Instituto Superior de Economia in Lisbon and in Law (with a special mention in Legal Sciences) from the Faculty of Law of Universidade Clássica de Lisboa. He was awarded a doctorate in Economic and Business Sciences from Universidad Autónoma de Madrid. He is a full professor at Instituto Superior de Ciências do Trabalho e da Empresa (ISCTE), President of the Accounting Department, and lectures in the subjects of Management Accounting and Management Control. He is a partner at Grant Thornton & Associados, SROC. He was an inspector for the Inspectorate-General of Finances and was Chairman of the General Assembly of the Association of Statutory Auditors.

Vital Moreira

63 years old. He received his degree in Law from the Faculty of Law of Universidade de Coimbra (FDUC), where he also received his master's and doctorate degrees in Public Law. He currently lectures at FDUC. He is also a lecturer in the European Studies programme at the Faculty of Humanities at Universidade de Coimbra and in the master's degree programme in Public Policy at ISCTE in Lisbon. He is President of the Centre for Public Law and Regulatory Studies (CEIDPRE) at FDUC and Director of the postgraduate programme in Public Regulation and Competition organised by CEDIPRE. He is also Vice-Chairman of the "Services of General Economic Interest" committee of the European Centre of Publicly-Owned Enterprises (CEEP), based in Brussels. He was a member of the Portuguese Parliament during the first democratic parliament (1975-1976) and during several subsequent parliamentary mandates. He served as a Justice of the Portuguese Constitutional Court. (1982-1989), a member of the National Council for the Assessment of Higher Education (1998-2002) and Chairman of the Projects Committee to commemorate 100 years of the Portuguese Republic (2006-2007).

Vítor Fernando da Conceição Gonçalves

52 years old. He received his degree in Business Organisation and Management from ISEG in 1978. In 1987 he received his doctorate in Business Sciences from FCEE at Universidad de Sevilla. He received a degree in Management from Universidade Técnica de Lisboa in 1993. Full professor in Management at ISEG since 1994. Vice-Chancellor at Universidade Técnica de Lisboa since 2007. Member of the Economic and Social Council since 2007. Member of the Panel of Experts on World Competitiveness at the IMD World Competitiveness Centre since 2005. He served as Chairman of the ISEG Directive Council (2003-2006), Chairman of the ISEG Management Department (1992-2000). He has led several postgraduate and advanced training programmes for executives. Guest lecturer at several universities in Portugal and abroad. Member of the Assessment Committee for doctoral, post-doctoral and research candidates invited by the Fundação para a Ciência e Tecnologia (Science and Technology Foundation) since 1997. Chairman of the Management and Administration Undergraduate Degree Evaluation Committee for Portuguese Universities (2001/2002). Member of the Executive Council of Economics and Business Management Specialisation of the Portuguese Economists' Association (1999-2001) and member of the Professional Council. Director of PT Multimédia (now Zon Multimédia) and Chairman of its Audit Committee (2007 to present). Chairman of Gaptec/UTL (2007 to present). Director of Promindústria – Sociedade de Investimento SA (1994-1996). President of the Institute for Development and Studies in Financial and Business Economics (IDEFE) from 2003 to 2007. From 2001 to 2002, he was the president of the group of "high-level experts" at the European

Commission that evaluated the programme on European competitiveness, the European Research Area. He is the author of dozens of articles on management which have been published in magazines and other national and international publications.

Carlos Jorge Ribeiro*

53 years old. He received a degree in Law from Universidade Clássica de Lisboa and from Universidade Gama Filho in Rio de Janeiro, Brazil. Together with investors such as Stanley Ho and other Chinese economic groups, he has made financial investments in Portugal and Macau through various holdings and joint ventures in the areas of media, property development, infrastructure development in banking, engineering and aerospace engineering, hospital management, telecommunications, insurance and tourism. In Macau, he and Stanley Ho established the company Geocapital, Investimentos Estratégicos, where he currently occupies the positions of Vice-Chairman of the Board of Directors and Chairman of the Executive Board. He is also the Director of Energy Finance.

*On 22.02.07 he announced his resignation from the EDP General Supervisory Board.

Carlos dos Santos Ferreira*

58 years old. He received his degree in Law in 1971 from the Faculty of Law of Universidade Clássica de Lisboa. He was a member of the Tax Reform Commission (1984-1988), a member of the Portuguese Parliament, Vice-Chairman of the Parliamentary Commission for Health and Social Security (1976), a voting member of the Management Board of ANA (1977-1987), Chairman of the Board of Fundação de Oeiras (1987-1989) and Chairman of the Companhia do Aeroporto de Macau (1989-1991). He was a director of the Champalimaud Group (1992-1999) and was Chairman of the Board of Mundial Confiança and of the General Meeting of Banco Pinto & Sotto Mayor. Between 1999 and 2003 as part of the BCP Group, he served as Director of Servibanca, Vice-Chairman and a voting member of the Board of Directors of Seguros e Pensões Gere. He also acted as Director and Chairman of the Board of Directors of Império Bonança, the insurance companies Ocidental and Ocidental Vida, Seguro Directo, Império Comércio e Indústria (ICI), Companhia Portuguesa de Seguros de Saúde, Autogere and Corretoresgest, and he was Director of Eureka B.V. He was also Vice-Chairman of Estoril Sol and Finansol, Non-Executive Chairman of Willis Portugal-Corretores de Seguros (2003-2005) and Director of Seng Heng Bank. From 2005 until December 2007 he was Chairman of the Board of Caixa Geral de Depósitos. He is currently Chairman of the Board of Banco Comercial Português.

*On 27.12.07 he announced his resignation from the EDP General Supervisory Board.

Paulo Teixeira Pinto*

47 years old. He received a degree in Law with a specialisation in Legal-Political Sciences from Universidade de Lisboa and a specialised degree in Juridical Sciences from Universidade Livre. He received his doctorate in History of Law at Universidad Complutense of Madrid and completed the Corporate Strategy Programme at INSEAD, Fontainebleau as well as the Senior Corporate Management Programme at AESE. He was the Under Secretary of State for the Presidency of the Council of Ministers, Secretary of State for the Presidency of the Council of Ministers, a spokesperson for the Portuguese government and representative of the Portuguese government at the OECD's "Public Management" Programme. In 1995 he served as head of the Legal Department of the Corporate Centre for the Banco Comercial Português (BCP). In 2000, he was named as the bank's General Manager and Secretary General. He coordinated the Millennium Programme in 2003. From March 2005 until August 2007 he served as Chairman of the Executive Board of Directors of BCP and as Chairman of several of the Group's subsidiaries.

*On 31.08.07 he announced his resignation from the EDP General Supervisory Board.

José Galvão Teles*

70 years old. He received a degree in Law and since 1961 he has practised law full-time and is currently senior partner of the law firm Morais Leitão, Galvão Teles, Soares da Silva & Associados. He served as Ambassador to the United Nations (1975-1976), where he represented Portugal in the UN General Assembly and the Security Council during negotiations over the decolonisation process, particularly those of Angola and East Timor. In 1996, he was named by the President of Portugal as a member of the Portuguese Council of State, where he served until 2006. Currently, in addition to serving as Chairman of the General Meeting, he is the non-executive director of Banco Santander Totta, Chairman of the General Meeting of several companies and director of several prestigious associations and socio-cultural foundations.

*On 12 April 2007 he announced his resignation as Chairman of the Board of the General Meeting and, consequently, as a member of the EDP General Supervisory Board.

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EDP Governing Bodies

EXECUTIVE BOARD OF DIRECTORS

António Mexia, Chairman

50 years old. He received a degree in Economics from Université de Genève (Switzerland) in 1980, where he was also Assistant Lecturer in the Department of Economics. He was a postgraduate lecturer in European Studies at Universidade Católica. He was also a member of the governing boards of Universidade Nova de Lisboa and of Universidade Católica, where he was Director from 1982 to 1995. He served as Assistant to the Secretary of State for Foreign Trade from 1986 until 1988. From 1988 to 1990 he served as Vice-Chairman of the Board of Directors of ICEP (Portuguese Institute for Foreign Trade). From 1990 to 1998 he was Director of Banco Espírito Santo de Investimentos and in 1998 he was appointed Chairman of the Board of Directors of Gás de Portugal and Transgás. In 2000 he joined Galp Energia as Vice-Chairman of the Board of Directors. From 2001 to 2004, he was the Executive Chairman of Galp Energia and Chairman of the Board of Directors of Petrolgal, Gás de Portugal, Transgás and Transgás-Atlântico. In 2004, he was appointed Minister of Public Works, Transport and Communication for Portugal's 16th Constitutional Government. He also served as Chairman of the Portuguese Energy Association (APE) from 1999 to 2002, member of the Trilateral Commission from 1992 to 1998, Vice-Chairman of the Portuguese Industrial Association (AIP) and Chairman of the General Supervisory Board of Ambelis. He was also a government representative to the EU working group for trans-European network development.

Ana Maria Fernandes

45 years old. She graduated in Economics from the Faculty of Economics at Oporto (1986). She received a postgraduate degree in Finance from the Faculty of Economics of Universidade do Porto and an MBA from the Escola de Gestão do Porto (1989). She lectured at the Faculty of Economics of Universidade do Porto from 1989 until 1991. She began her professional career in 1986 at Conselho – Gestão e Investimentos, a company of the Banco Português do Atlântico Group, in the capital markets, investments and business restructuring field. In 1989 she began working at Efisa, Sociedade de Investimentos, in the area of corporate finance, and was later made a director of Banco Efisa. In 1992 she joined the Grupo Banco de Fomento e Exterior as director in the area of investment banking and was Head "Corporate Finance" at BPI between 1996 and 1998. In 1998 she joined Gás de Portugal as Director of Strategic Planning and M&A and in 2000 became Director of Strategy and Portfolio Management of Galp Business. She later became president of Galp Power and Director of Transgás. In 2004 she was appointed a director of the Board of Galp Energia.

António Martins da Costa

53 years old. He holds a degree in Civil Engineering (1976) and a MBA from Escola de Gestão do Porto (1989). He also received additional executive training at INSEAD (Fontainebleau, France, 1995), AESE (Lisbon, 2000) and the Wharton School (Philadelphia, USA, 2003). His professional career began in 1976 as a university lecturer in Engineering. He later joined EDP in 1981 in the Hydraulic Generation Sector. In 1989 he began working in the financial sector, where he served as Director-General of Banco Millennium BCP and as Executive Business Director for insurance, pensions (S&P) and funds and asset management (AF Investimentos) companies belonging to the Millennium BCP Group. He was also Director of Eureka BV (the Netherlands), Chairman of Eureka Polska and Executive Vice-Chairman of PZU (Poland), the largest insurer and manager of assets and pension funds in Central and Eastern Europe.

António Pita de Abreu

57 years old. He received his degree in Electrotechnical Engineering from Instituto Superior Técnico (Lisbon) in 1972, where he worked as an assistant lecturer and guest lecturer in the Department of Electrotechnical Engineering and Computers. Since 1977 he has worked in the electricity sector, where until 2006 he occupied the following positions: executive member of the EDP Board of Directors. Chairman of the Board of Directors of REN (Portuguese National Electricity Grid), EDP Produção, CPPE (Portuguese Electricity Generation Company), EDP Cogeração and of Termoelétrica do Ribatejo. Vice-Chairman of the Board of Directors of EDP Distribuição – Energia, member of the Board of Directors of EDP Energia and of EDP Brasil. executive member of the Board of Directors of REN. Chairman of the Board of OniTelecom and Edinfor. Vice-Chairman of the Board of Turbogás and a voting member of the Board of Directors of EDA (Electricidade dos Açores). Currently, he is the Vice-Chairman of APE (Portuguese Energy Association), Chairman of the ELECPOR Directive Council and a member of the Board of Directors of EURELECTRIC.

João Manso Neto

49 years old. He graduated in Economics from Instituto Superior de Economia (1981) and received a post-graduate degree in European Economics from Universidade Católica Portuguesa (1982). He also completed a professional education course through the American Bankers Association (1982), the academic component of the master's degree programme in Economics at the Faculty of Economics, Universidade Nova de Lisboa and, in 1985, the "Advanced Management Program for Overseas Bankers" at the Wharton School in Philadelphia. From 1988 to 1995 he worked at Banco Português do Atlântico, occupying the positions of Supervisor for the International Credit Division, Head of the International Credit Division, Department Director, Deputy Central Director for International Management and Central Director of Financial Management and Retail Commerce South. From 1995 to 2002 he worked at the Banco Comercial Português, where he held the posts of

General Director of Financial Management, General Manager of Large Institutional Businesses, General Manager of the Treasury, member of the Board of Directors of BCP Banco de Investimento and Vice-Chairman of BIG Bank Gdansk. From 2002 to 2003, in Banco Português de Negócios, he was the Chairman of BPN Serviços ACE, Director of BPN SGPS, Director of Sociedade Lusa de Negócios and a member of the Board of Banco Efisa. He is still a voting Member of the OMEL Board of Directors. From 2003 to 2005 he worked at EDP as Director-General and Administrator of EDP Produção. In 2005 he was named Appointed Adviser at HC Energía, Chairman of Genesa and Director of Naturgas Energia and OMEL.

Jorge Cruz Morais

50 years old. He was awarded a degree in Electrotechnical Engineering from Instituto Superior Técnico in 1980 and an MBA from Universidade Nova de Lisboa in 1989. He began his career at EDP in 1983 in transport network planning. From 1991 to 1994 he served as Adviser to the EDP Board of Directors, coordinating the restructuring process that culminated in the creation of the EDP Group in 1994. He was then appointed Director of Strategic Planning and was responsible for coordinating the Group's privatisation (first and second phases of the IPO process). He was also a non-executive member of the Turbogás Board of Directors (1998-2000), non-executive member of the Board of Electricidade dos Açores (1999-2000) and Director of the Centro para a Conservação de Energia (1993-1996). From 2000 to 2004 he was the Executive Director of Oni SGPS and other Oni Group companies, acting as CFO from 2002 to 2004. From 2005 until March 2006 he served as Executive Director, fulfilling the roles of CEO of HC Energía and Naturgas Energia, the Spanish companies of the EDP Group.

Nuno Alves

49 years old. He received an undergraduate degree in Engineering and Naval Construction (1980) and an MBA (1985) from the University of Michigan. He began his professional career in 1988 as Supervisor in the Studies and Planning Directorate at Banco Comercial Português, where he took on the role of Sub-Director of Financial Investment in 1990. In 1991, he became Director of Investor Relations. In 1994 he became the Director of Private Retail Coordination. In 1996 he served as Director of Capital Markets for Banco CISF, Banco de Investimento do Banco Comercial Português, and was promoted to Director of Investment Banking in 1997. In 1999, he became Chairman of the Board of Directors of CISF Dealer, where he remained until 2000 when he became Director of Milleniumbcp Investimento (formerly Banco CISF), responsible for Capital Markets and Treasury of the BCP Group. He has served as Director-General of BCP since 2000.

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EDP Group Business

1. BRAND



"It is in our hands. The planet, life, the future of generations.
In the hands of each person, each government, each community

and each company". This was the challenge presented by EDP
through the publicity campaign for 2007.



This was a campaign whose first phase was aimed at strengthening the values of solidity, credibility and corporate responsibility that surround the brand in order to then adopt a proactive and dynamic attitude and propose concrete solutions to the Portuguese society, such as exchanging traditional light bulbs for energy-saving ones.

Under the motto of “sustainability”, the EDP brand was able to position itself along two complementary areas: aspirations and relationships. In addition to inspiring dreams, EDP discovered how to go further. It presented itself as a brand that shows the way and interacts with the public domain, helping people to take an active role in protecting the world that surrounds them. A brand that accepts its commitment while wanting to involve others so that they may contribute their share, working together as a true team. Educating others about energy efficiency was one of the major targets outlined by the Group.

The EDP brand is an ambassador for the planet Earth, in perfect harmony with the Group’s business strategy throughout 2007: the unconditional focus on renewable energies. Indeed, this was the year in which EDP became the fourth largest wind energy generator worldwide, the year in which the company faced a much broader horizon in terms of hydroelectric generation. And all the while constantly smiling, reflecting all of these victories.

The infectious EDP smile also wants to extend itself even more to the culture and heritage of Portugal. It strengthened its position in placing value on these elements, one of the strategic pillars of

its patronage policy. In this regard, and following its sponsorship of the New Seven Wonders of the World and the Seven Wonders of Portugal, EDP decided to enshrine the latter by inviting seven photographers, seven artists and seven musicians to express their creative energy at each one of the chosen national monuments until June 2008. The “7 Wonders of EDP” marketing campaign is, in truth, an invitation to the Portuguese people to appreciate and talk about their own collective identity. In this way, EDP aims to be a brand that supports national creativity.



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2. CUSTOMER

A Year of Honouring Commitments

EDP established five priority commitments as part of the process to liberalise the electricity market, which was concluded in September 2006 with the opening of the standard low voltage segment: lead the market, secure customer loyalty, provide excellence in service, be innovative in what we have to offer and respect our competitors.

As part of those commitments, EDP chose the following as broad guidelines for positioning and action in 2007: Sustainability and Energy Efficiency, Innovation in Products and Services and Efficiency in Marketing and Customer Relations.

Promoting Sustainability and Energy Efficiency

The institutional campaign **"The world is in our hands"**, which promoted a comprehensive commitment of responsibility for the future, acted as a framework for all the other sustainability and energy efficiency campaigns and initiatives.

The total investment for the promotion of sustainability and energy efficiency (the ECO Programme) exceeded EUR 10.1 million. Of this amount, EUR 8.1 million came from the Plan to Promote Efficiency in Consumption (PPEC) promoted by the Energy Services Regulatory Authority, which EDP joined in 2006.

The EUR 4.9 million channelled to the residential market took the form of campaigns aimed at the general public and specific target audiences, including among others, children and households. The remaining EUR 5.2 million were directed towards the corporate market and various agricultural, industrial, trade and service sectors.

Campaigns aimed at the general public included the following:

- **Distribution of energy-efficient light bulbs:** Through partnerships, door-to-door activities and EDP shops and agents, 650,000 energy-efficient light bulbs were distributed. These bulbs will create significant savings in energy consumption and CO₂ emissions;
- **ECO Website:** Launched in late May 2007, this website fulfilled EDP's commitment to provide, at all times and for every segment of the market, the greatest possible savings for its residential and corporate customers. In addition to publicising all the ongoing activities of the energy efficiency campaign, the site allows visitors to register for specific programmes and

offers an "ECO Simulator". More than 400,000 pages were visited by the end of the year.

- **Energy Bus:** The Energy Bus takes visitors on a unique and interactive ride that features experiences, questions and answers, useful advice and technical information. It is travelling throughout mainland Portugal until late 2008, visiting schools, municipalities, events, beaches and other public venues, inviting teachers, students, families and the general public to promote more sustainable energy usage in Portugal.

Campaigns aimed at specific audiences include:

- **The Environment Belongs to Everyone:** This programme for students in the fifth and sixth years of schooling is designed to raise awareness about the issues of climate change and energy efficiency. It also encourages the adoption of positive measures in their schools and homes. The programme reached approximately 700 schools, over 300,000 students and 40,000 teachers. Partners who carried out the programme include the Ministry of Education, the Directorate-General of Geology and Energy, the European Commission and UNESCO;
- **The EcoFamílias Programme:** This initiative, which was carried out in partnership with Quercus, a nature conservation association, monitored the energy consumption habits of 225 households throughout mainland Portugal in 2007. In addition to giving case-by-case advice, this initiative is designed to evaluate the consumption of Portuguese households and their potential for reducing consumption by changing their appliance usage habits and, possibly, by replacing non-energy-efficient appliances with energy-efficient ones.

Actions aimed at companies included the installation of products to improve energy efficiency, specifically capacitor banks, electronic variable speed drives, electronic ballasts and energy-efficient light bulbs.



Research carried out in 2007 indicated a positive opinion about the advice given concerning rational energy usage. This opinion was shared by over 65% of residential customers.

Innovation in Products and Services

The highlight of the residential market in 2007 went to the effort made to promote solutions for distributed generation with the launch of the MYENERGY brand and its Solar Power Solution. As part of the launch campaign, 138 systems were supplied.



The liberalised segment of the residential market saw an increase in the value offered by edp5D with the launch of **Sentidos**, a programme that represents the brand through the five senses of sight, taste, smell, touch and hearing. The scheme reinforces the brand's innovative and distinctive character, bringing it closer to customers and enhancing its appeal. This multi-sensory representation will be featured in its most relevant forms at each one of the brand's many points of contact.

In 2007, around 70% of residential customers shared the opinion that EDP is a company that creates innovative solutions.

Efficiency in Marketing and Customer Relations

Nowadays, the Internet plays an increasingly important role in commercial relations. A project to redesign the EDP website was launched in 2007. This redesign centres around making information understandable and placing importance on functionality and effective interactivity so that this channel of communication becomes a true alternative for customers in their relationship with the company.

At the end of the year, the EDP Electronic Bill was introduced. This service allows customers to receive and manage their bills through the Internet in a more comfortable and convenient way, thus avoiding the distribution of paper invoices.

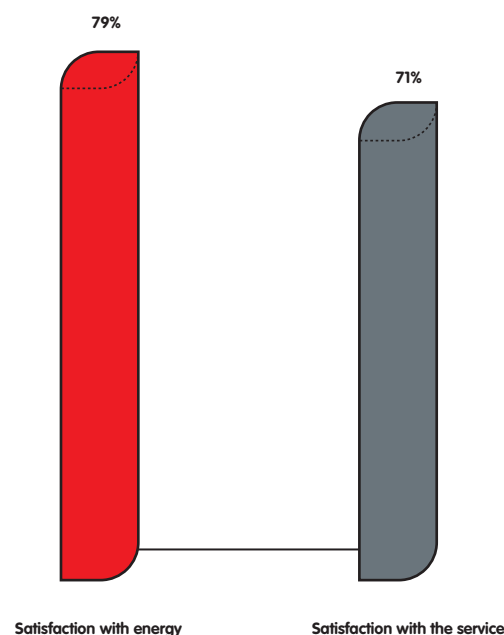
Efficient channels of communication and operations alone do not create relationships of trust. Service – which takes the form of attention, availability, a quick and clear response to queries or requests for information and the ability to solve problems – is a key factor in building sustained, long-term relationships.

A company-wide training programme, EDP Customer Service, was launched in 2007. Based on satisfaction surveys and designed to encourage participants to share their experiences, this scheme provides opportunities for reflection and training which have a bearing on behavioural changes that can transform service into a truly distinguishing factor. The programme, guaranteed by internal facilitators, will continue in 2008.

The Voice of the Customer

In 2007, we began an intensive programme to listen to our customers. We monitored the performance of the EDP brand, product and service satisfaction levels and the impact of measures and initiatives, specifically in the areas of energy efficiency and customer service.

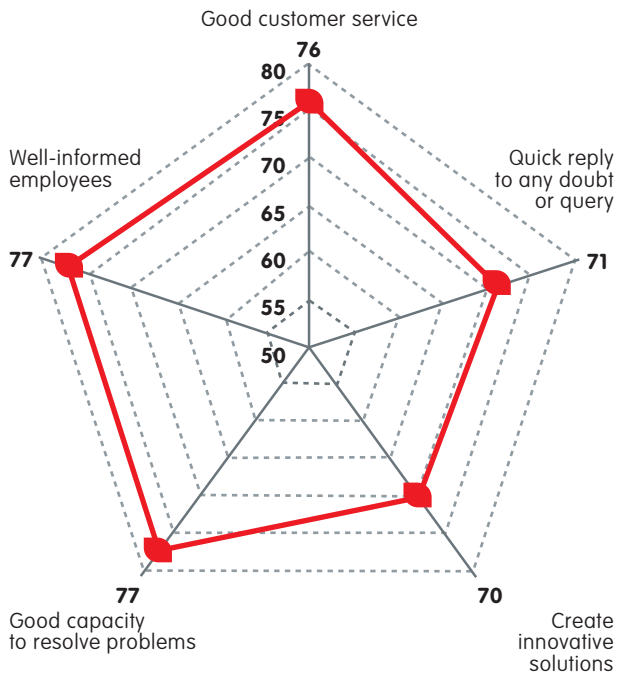
Throughout the year (on average and based on a five-point scale), 79% of customers said they were satisfied or very satisfied with the electricity, while 71% said they were satisfied or very satisfied with the service provided.



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Certain indicators measuring overall satisfaction were also monitored throughout the year.



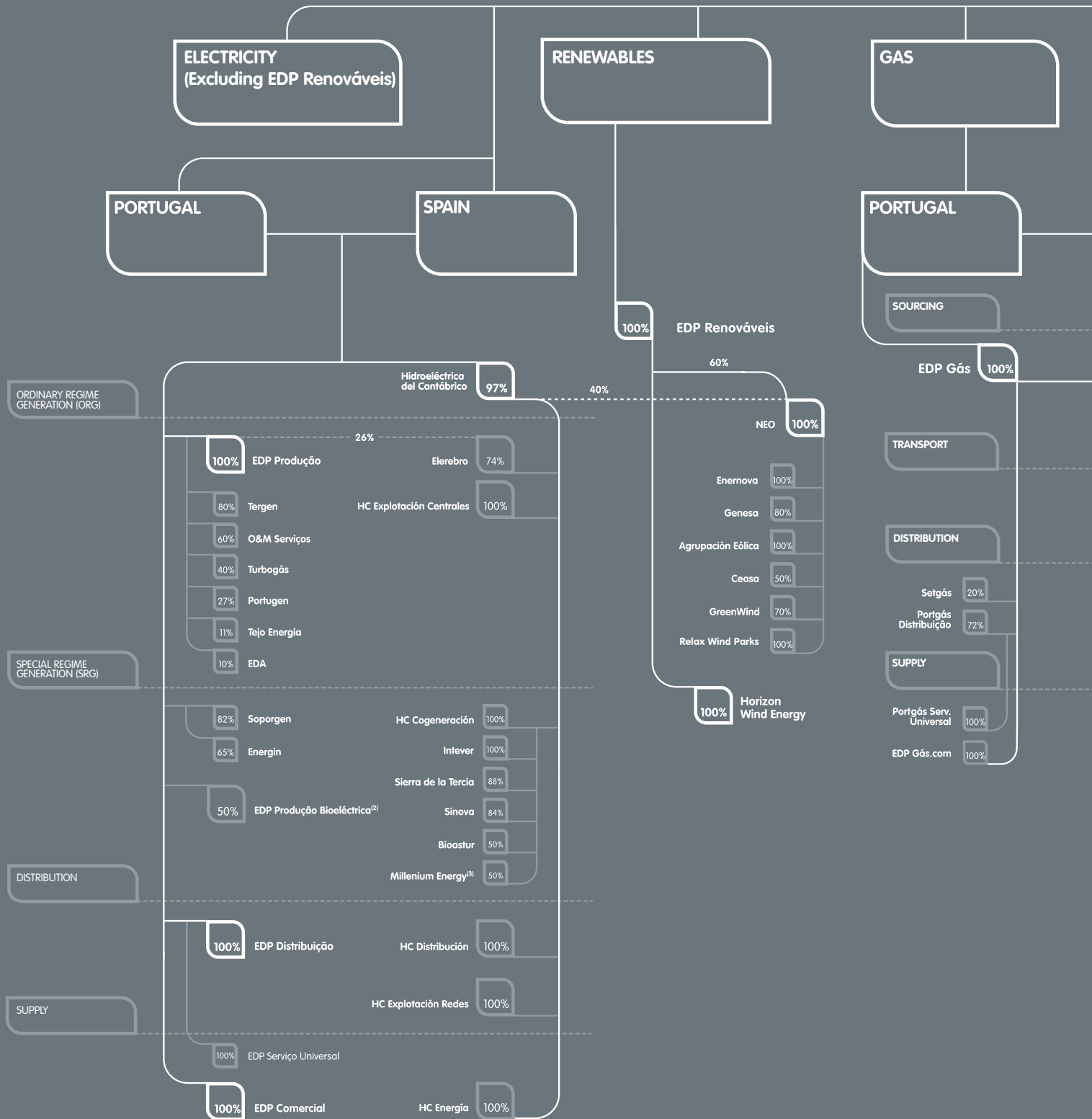
Increasing awareness of customer opinions and developing the aspects they value most in their relationship with the company will help define a programme to manage the EDP customer experience.

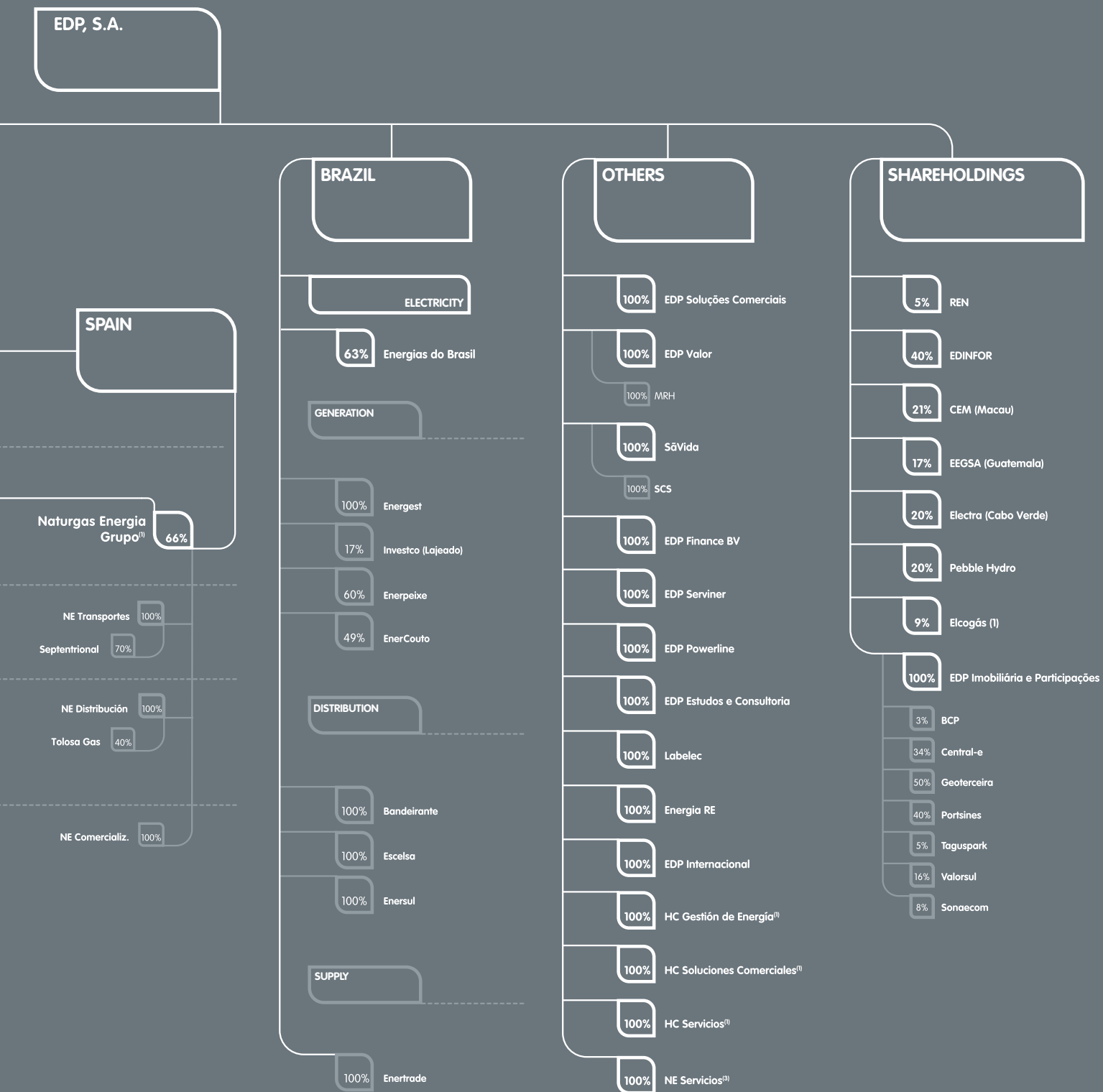


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3. ORGANISATIONAL STRUCTURE





Note: Incomplete organisational chart. Some of the percentages shown correspond to indirect shareholdings.

(1) Companies held by Hidroelétrica del Cantábrico

(2) Company held 40% by EDP SA, 5% by EDP Gestão da Produção and 5% by Enernova

(3) Companies held, directly or indirectly, by Naturgas Energia Grupo

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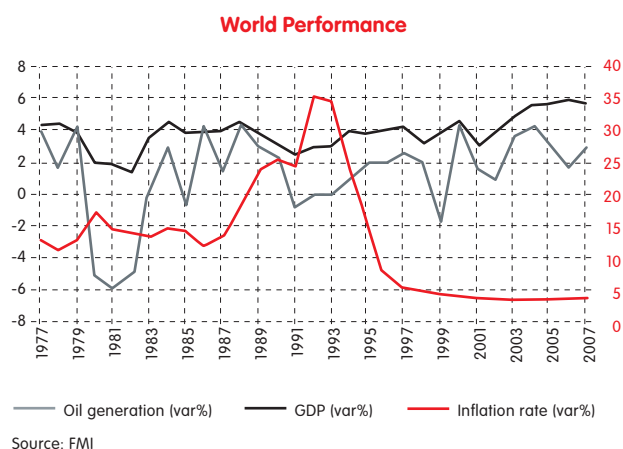
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4. MACROECONOMIC FRAMEWORK

4.1. GLOBAL ECONOMY

4.1.1. Economic Activity

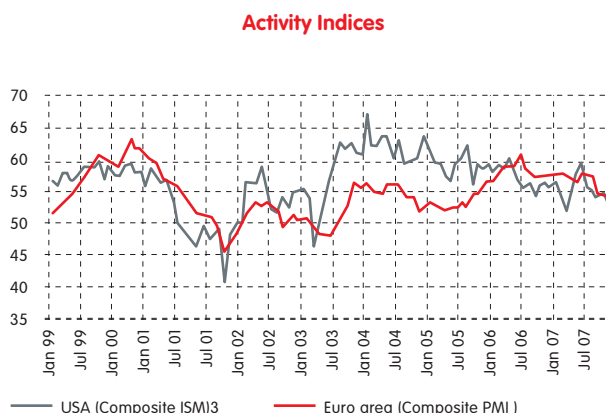
2007 was a year of transition, one that showed strong economic growth but also an increase in the risks to future developments in the business. IMF estimates point to growth in the global economy higher than the historical average thanks to the increasing contribution of the emerging economies. The reduction in productive slack and the rise in fuel and foodstuff prices were reflected by an increase in inflationary pressure during the year. The effect on the developed economies of the crisis in the high-risk mortgage market in the USA, after a highly dynamic first six months, led to a substantial increase in instability in the world's financial markets. It took the form of high volatility and considerable rises in interest rates on financing in the capital and interbank markets. Fears that worsening financial conditions would later help cement this negative climate and severely prejudice the course of business activity led to the adoption of extraordinary measures by governments, central banks and the financial industry itself to break the vicious circle of aversion to risk and restore normal operation of the capital markets.



Economic activity in the United States slowed considerably in 2007. Estimates point to a real GDP growth rate of approximately 2.2%, which is around 0.7 p.p. lower than in 2006. After several years of high dynamism buoyed up by attractive finance terms and less discipline in approving loans, residential investment was severely penalised by a rise in stocks of homes for sale, a fall in their prices and a material change in loan terms. The serious collateral effects of the downturn in the mortgage market on banks' balance sheets strengthened previous trends in the form of a substantial increase in spreads and aggressive depreciation

of some financial assets. This damaged the climate of confidence and therefore private consumer behaviour and investment. The foreign contribution to growth was more positive and led to a reduction in the high US foreign deficit. The economic situation is still highly uncertain and current estimates range from a simple slowdown to a risk of recession in 2008. In these circumstances, the Federal Reserve has been lowering key interest rates and tax policy should become more expansionist, which will tend to revive forward activity.

The slowdown in the euro zone was much less dramatic than in the United States, with an estimated real growth in GDP for 2007 of 2.6%, i.e. still higher than potential growth. Improvement in companies' return, growth in exports and attractive financing conditions resulted in a rise in investment, which had highly favourable repercussions on the employment market. In fact, the euro zone unemployment rate went down in 2007 to its lowest since the early 1990s. In spite of the recovery in household income, private spending grew only moderately. This behaviour reflects some concern for the need to set up long-term savings on the part of households but also makes a favourable contribution to sustaining spending in more adverse conditions in the credit market in general and the mortgage market in particular. In spite of the appreciation of the euro, exports continued to make a substantial contribution to growth, thanks to an increase in demand in Asia and the Middle East. The increase in inflation to substantially higher levels than the ECB's target, the high dynamism in monetary aggregates and the risk of contamination of inflation expectations prevented the ECB from taking the same decision as the Federal Reserve. The forecast for 2008 is a slowdown in activity to just below 2% in the euro zone. This deceleration may result in a return of the inflation rate to the ECB's target (2%).



4.1.2. Fuel Prices

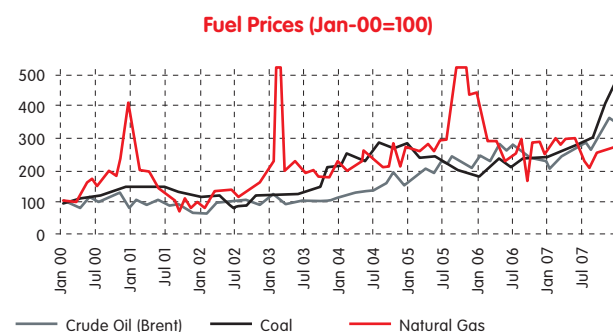
Most of the raw materials markets were well supported throughout 2007, benefiting from the dynamism of the global economy in general, the rapid development of the emerging economies in particular, and the lower elasticity of short-term supply. Vague strategic energy policies, combining alternative generation resources, supply security, environmental restrictions, increased generation costs and technological difficulties in some industries continued to limit the expansion of generation capacity. The weakness of the dollar, as some of the benchmark prices are quoted in US dollars, and investors' growing interest in this type of asset to diversify their portfolios tended to compound the previous effects. Rises in fossil fuel costs, reductions in greenhouse gas emissions and the defence of geostrategic interests favour a growing use of renewable energy. As a result, the prices of some fuels are gaining importance as decisive factors in the price of some raw food materials such as sugarcane, palm oil and maize.

Oil prices reached a new record high in 2007, rising to nearly USD 100 a barrel. Temporary restrictions on supply, due to operating difficulties and the delayed effect of the reduction in production by the OPEC countries in late 2006 and early 2007, and political instability in some oil exporting countries, resulted in an inability to meet demand, while requirements from China, India and the Middle East rose. Prices in the futures market are lower than those in the spot market in response to the expectation of a slowdown in oil prices over the next few months due to more persistent signs of deceleration in the global economy. Nonetheless, average prices are still extremely high by historical standards or even when adjusted to inflation. Contrary to expectations, OPEC has not changed its production quotas and, despite fears of a possible recession in the USA and oil price increases, American demand is still very dynamic.

Prices in the natural gas market showed different behaviours in different geographical areas in 2007. While prices went up in Asia and Europe, they fell in the USA due to a substantial increase in stocks and capacity. In aggregate terms, we can still expect a relative balance between short-term global supply and demand for natural gas. Supply (difficulties in distribution by long-distance pipeline and regasification and storage capacity) and demand for natural gas have differed in the western economies (growing use and construction of gas power stations and a regulatory framework unfavourable to technologies emitting more greenhouse gases), and so gas prices are unlikely to go down in the near future. The increase in the number of regasification complexes will only have an effect on production in mid-2009. Scheduled production has often had to be postponed due to technological, political, environmental and labour problems.

Long-term contracts with mechanisms for indexing gas prices to the price of oil encourage arbitrage strategies in alternating the use of the two fuels, thereby contributing to a high correlation between their prices.

In spite of a fall in demand for coal from European companies due to increased restrictions and the costs associated with greenhouse gas emissions, developing economies like China and India still show a high demand for coal (China was a net coal importer in 2007), which affected prices. The prices of coal and gas continue to be among the main factors determining energy prices on the European exchange (EEX), although their importance may decrease in the next few years as their use is gradually discouraged.



4.1.3. Financial Markets

After several years of growth and stability, attractive financial conditions and a high propensity for risk on the part of investors, the increase in incidence of credit on the US high-risk market resulted in a substantial change in context. Although this segment represents only a small portion of the United States real estate market, the shockwaves were considerable due to extensive recourse to this market as a point of origin for issuing structured, high-income securities, which are in high demand from institutional investors. The complexity of the underlying financial structures proved to be a problem, however, in an adverse market environment and helped accentuate price corrections, which had a considerable impact on the financial solidity of some financial institutions.

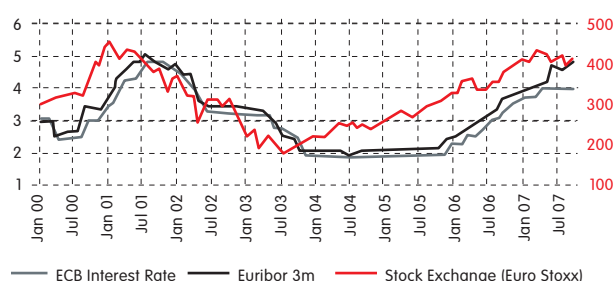
This put an abrupt end to a long cycle of falling credit risk and began another of risk aversion, avoiding more complex, high-income financial assets and favouring safe investments such as government bonds in developed economies, thus resulting in a sharp reduction in "risk-free" long-term interest rates. Within this framework, the resilience of the emerging economies is increasingly important as they continued to prefer the capital markets, in contrast to the negative behaviour of the markets

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in the developed economies. This is a sign of investor confidence in these countries based on a favourable raw material cycle and economic policies of consolidating public finance, reducing foreign debt, attracting foreign capital and stabilising prices.

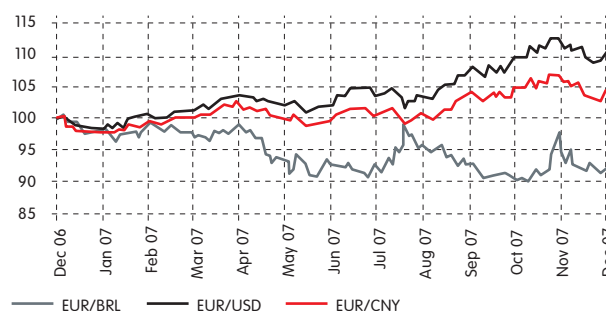
Euro Area Markets



The instability in the capital market — higher volatility, increased spreads and lack of liquidity — triggered extraordinary measures by several central banks, which reduced key interest rates and transferred abnormally large amounts of funds in order to bring the interbank markets back to normal. The US Federal Reserve lowered interest rates from 5.25% to 4.25%, while the ECB stopped its interest rate increases at 4%. The last rise was in June. In accordance with forward market figures, operators anticipate new reductions in interest rates to between 2.5% and 3% in the USA in the first half of the year. There is, however, greater uncertainty as to the ECB's position in view of its explicit remit to defend price stability in a setting where inflation is high and monetary aggregate growth rates are much higher than the central bank's targets.

A reduction in the interest rate differential between the euro zone and the USA and the perception of greater vulnerability in the adjustment of the real estate market were reflected by considerable depreciation of the dollar in the last quarter of 2007. The euro reached its highest level in its brief history against the dollar, at nearly USD 1.50 per euro. The weakness of the dollar was fairly widespread and there were substantial recoveries on the part of currencies from emerging markets such as the Brazilian real, which gained considerable ground against the euro in 2007. China's economic policy has favoured a stronger currency with mild but constant appreciation of the yuan against the dollar.

Exchange Rate Graph (Dez-06=100)

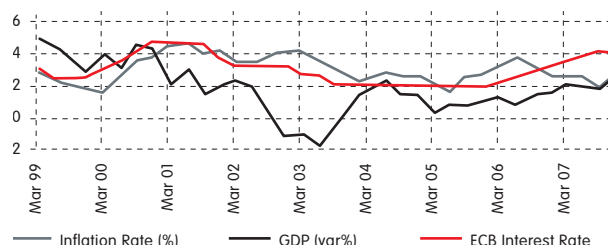


4.2. The Portuguese Economy

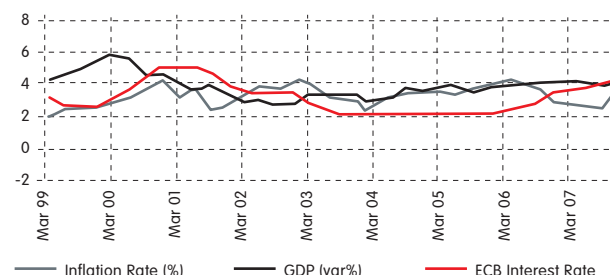
The Portuguese economy made substantial progress in several areas throughout 2007. These were economic growth, disinflation and the consolidation of public finances. The real growth rate of the economy should be approximately 2%, which is one of the best growth performances in recent years, though still not enough to prevent another rise in the unemployment rate to close to 8% of the labour force. Gains in employment remain negligible, thanks to the initial phase of economic revival characterised by an increase in productivity, while debt servicing costs have been increasing, limiting households' disposable funds for consumer spending. The performance of investment has been better, sustained by recovery of expenditure on machinery and equipment and a change in the contribution made by spending on construction, which was positive for the first time since 2001. Growth in exports slowed down in 2007, though there were gains in share in the export markets, showing some capacity for the competitiveness of Portuguese products and services to bounce back. This improvement is confirmed by the relative growth in inflation in 2007. The inflation rate in Portugal at the close of the year was lower than that of the euro zone (2.7% against 3.1%, respectively).

For a small economy such as that of Portugal, which is open in commercial and financial terms and has high levels of debt, the current foreign framework means that it faces greater difficulties in consolidating the progress achieved and converging with the European Union. Current expectations of another real growth of around 2% in GDP are uncertain, in view of the economic slowdown in its main trading partners, deterioration in financial conditions and/or persistently high prices of energy and foodstuffs. The improvement in public accounts is a positive factor, as it creates room for manoeuvre in 2008 and subsequent years for more discretionary spending like public investment to help mitigate previous effects, with positive results on confidence in sustaining the revival of the Portuguese economy.

Portuguese Economy



Spanish Economy



4.3. The Spanish Economy

Economic activity in Spain has been slowing down gradually since the end of the first quarter of 2007, though it is still highly dynamic. The annual GDP growth rate was close to 4% in 2007, sparking considerable expansion in employment (up around 2%). This cooling down in activity is expected to continue in 2008, with real GDP growth just under 3%, due to moderation in private spending, the ongoing adjustment in the construction sector and a less favourable foreign and financial framework. The solidity of the financial sector and public finances (budgetary surplus of around 1% of GDP in 2007 and public debt at 35% of GDP) should help reduce these impacts. Available indicators at the close of 2007 suggest a reversal of the downward trend in unemployment, particularly in construction, which in itself indicates a turn for the better in the sector.

A reduction in household access to housing (higher interest rates and home prices) and an increase in the housing supply in recent years have led to an unintentional accumulation of homes for sale. This has driven prices down, albeit moderately. As a result, the supply of housing is beginning to adjust accordingly, as demonstrated by a fall in the number of building permits. This correction should continue in 2008, along with more restrained growth in expenditure on machinery and equipment, private spending and exports. The economy's comfortable position in budgetary terms gives the Spanish government leeway in using taxation as a tool for stimulating activity with no significant impact on public debt. As the Spanish economy continues to operate above potential and considering specific shocks on energy and food prices, the inflation rate was over 4% at the close of 2007, one of the highest in recent years. As expected for the rest of the euro zone, in Portugal inflation will remain under pressure in the first quarter of 2008 and behave more moderately in the second half of the year.

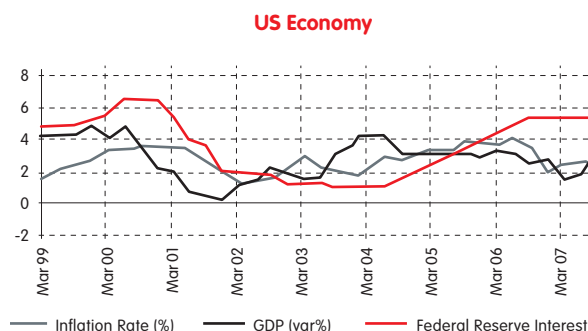
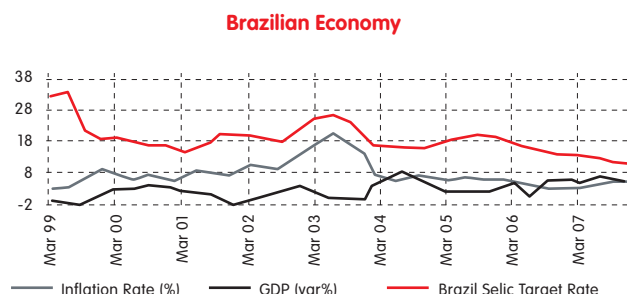
4.4. The Brazilian Economy

Brazil's economic growth accelerated in 2007 thanks to the delayed effect of a reduction in interest rates and high demand for Brazilian products. Real GDP growth rate went from an average of 3% in 2005-2006 to an average of 4.5% for 2007 and 2008 (consensus). Private spending and investment have been very strong in a climate of high confidence on the part of economic agents, households and entrepreneurs, high dynamism of credit to the economy and substantial direct foreign investment, resulting in a highly significant accumulation of official reserves and therefore of a reduction in the Brazilian economy's vulnerability to shifts in market sentiment. On the other hand, in a climate of strong development of domestic demand, the balance of trade surplus has been shrinking due to a considerable rise in imports, even when adjusted to the evolution of terms of trade. On the supply side, the product expansion rate is relatively common to all sectors, though two stand out in particular: agriculture and stockbreeding, which has benefited from the favourable raw materials cycle, and the financial intermediation sector, thanks to the downward trend in interest rates and the reassessment of the Brazilian economy's risk premium. The employment market's performance has been excellent, as measured by consistently low unemployment rates (9.1% in October 2007, the lowest in recent history), although the strong downward trend felt since 2004 is giving way to a period of greater stability.

The trend towards disinflation in recent years is more moderate and the strong dynamism of domestic demand and the labour market poses an increased risk to the stability of forward prices. The Brazilian authorities reduced key interest rates in 2007 by a total of 2 p.p. to 11.25% in September. Since then they have remained the same. Inflation forecasts for 2008 and 2009 are between 4% and 5% and have been rising in the last few months, which should contribute to the stability of key interest rates in the first months of 2008. The dissipation of temporary effects on prices such as those of foodstuffs, steady exchange rates and a slowdown in the global economy may help return to the cycle of interest rate reductions, though conditioned by domestic pressure on prices.

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4.5. The US economy

Economic activity in the United States slowed down considerably in 2007 as a result of the correction of imbalances in the financial and real estate markets. GDP grew by an annual average of about 2.2%, though it practically stood still in the last quarter 2007. There are still serious risks of a drop in early 2008. The reversal of the upward trend in house prices, the difficulties felt by the financial system and rising fuel prices seriously shook the confidence of households and entrepreneurs with delayed repercussions involving a slowdown in consumer spending and investment intentions and the creation of jobs, as shown by an increase in unemployment to around 5% of the labour force at the close of the year. The effect of automatic financial stabilisers such as accentuated depreciation of the dollar and reduction of long-term interest rates, has helped to mitigate the intensity of the current adjustment, compensating partially for the increase in credit market risk premium and making products and services denominated in dollars more attractive. At the same time, the inflation rate accelerated during the year, mainly due to the rise in fuel prices.

The significant increase in the risk of recession in the United States resulting from the adverse wealth effect and the poor performance of the real estate and capital markets resulted in exceptional measures on the part of the authorities. These included a tax incentive package to the amount of around 1.2% of GDP in the form of financial subsidies to households and incentives to companies, a highly aggressive reduction in interest rates by the central bank along with an expansion of the range of instruments for granting liquidity on the interbank market and other regulatory measures affecting the financial industry, especially the renegotiation of mortgage terms. Although these measures should result in an improvement in forward business, the climate of uncertainty is still exceptionally high and is affecting the behaviour of financial markets and corporate decisions. The consensus favours expectations of a virtual stagnation of business in the first half of the year but a gradual improvement in the second half and in 2009.

5. SUMMARY OF ACTIVITY

5.1. ELECTRICITY BUSINESS (OUTSIDE OF BRAZIL)

5.1.1. Regulatory Framework

The Iberian Electricity Market (MIBEL)

The Iberian Electricity Market (MIBEL) is the result of a joint initiative by the Spanish and Portuguese governments. Its next objective is to create a regional electricity market, which constitutes a transitional step in the creation of an internal electricity market within the European Union.

With the implementation of the MIBEL, every consumer in the Iberian Peninsula can obtain electricity from any generator or supplier in a context of free competition.

The legal framework under which the MIBEL operates is based on the memorandum of agreement signed in Madrid by the Portuguese and Spanish governments in 1998. Following this agreement, new agreements were signed which look at certain key aspects of the Iberian electricity market in greater detail. Of particular importance are the memorandum of understanding signed on November 2003 at the Luso-Spanish Summit in Figueira da Foz, the international agreement signed in Lisbon on 20 January 2004, the agreement between the Portuguese Republic and the Kingdom of Spain to create an Iberian Electricity Market, signed in Santiago de Compostela on 1 October 2004 and ratified by the Portuguese Parliament in March 2006 (Resolution 23/2006) and by the Spanish Parliament (the international agreement was published in the Spanish Official State Gazette on 22 May 2006), the conclusions of the Luso-Spanish Summit held in November 2005 in Évora, the Santiago de Compostela Agreement and the decisions of the 22nd Luso-Spanish Summit in Badajoz in November 2006.

So that the MIBEL may be expanded, and in accordance with the Santiago de Compostela Agreement and the decisions of the Badajoz summit, the Portuguese and Spanish governments agreed in March 2007 to a Plan for Regulatory Compatibility which is based on six key areas:

1. **Definition of general principles for the organisation and management of the Iberian Market Operator (OMI)**, based on two shareholder "holdings" with head offices in Portugal and Spain. Each one will have a 50% share in the markets' holding companies, which are in turn managed by a common Board of Directors;

2. **Stronger links between system operators**, by means of exchanging shareholdings between REN and REE and accelerating the plan to strengthen these links;

3. **Definition of common rules to increase competition within the MIBEL and reduce market power**, by introducing the concept of a dominant Iberian operator with limitations and restrictions coordinated between both countries, holding auctions of virtual capacity for the entry of new agents and by terminating power purchase agreements;

4. **Incentives for liberalisation and definition of a tariff convergence plan** by means of an interconnected policy of last-resort tariffs, harmonisation and convergence of interruptibility mechanisms and access tariffs, creation of a consistent mechanism to obtain energy through suppliers of last resort or distributors, approximation and convergence of the actions of logistical operators for changing suppliers and a harmonised meter replacement plan;

5. **Implementation of an interconnection management system** that is based on market splitting and explicit auctions and which optimises the use of interconnections and competition in the Iberian Peninsula;

6. **Harmonisation of systems to guarantee power supply**, while taking into consideration the characteristics of each system.

In order to implement the operational and organisational model for the MIBEL management authorities, both governments decided that the structure of the Iberian market operator's shareholding model should be based on two shareholder holdings: OMI – Portuguese pole and OMI – Spanish pole, with cross-shareholdings of 10%, though neither individual shareholder may have more than 5% of either OMI holding.

Entities which operate in the electricity and natural gas sectors may not have an aggregate shareholding of more than 40% in each one of these holdings.

It was also established that the future OMI shall be responsible for auctions to supply energy to distributors or suppliers of last resort and OMIClear shall be responsible for their settlement.

Bearing in mind the time period established for the creation of OMI, it was agreed that the first auctions at OMI should be held by 20 June 2008 to begin the respective period of operation on 1 July 2008.

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As regards regulatory harmonisation, the necessary conditions are being created to take yet another step towards the creation of OMI, which will include the required merger of OMIE and OMIP and strengthened interconnections.

The plan to reduce congestion and build the reinforcements needed for interconnections between Portugal and Spain will be presented by July 2008 by REN and REE.

In accordance with this plan, the first of the virtual capacity (VPP) auctions in the Iberian Peninsula took place on 26 June 2007. These were repeated in accordance with the requirements for capacity to be put into place and for power to be made available within the periods established for this purpose. On 30 June 2007, the first spot market session was held at OMEL in Madrid. Buyers and sellers from Portugal and Spain participated in this event, which took place within the models defined for the operational phase of the MIBEL, one year after the start of the forward market managed by the Portuguese pole, OMIP, in Lisbon.

The EDP Group's contribution to the success of the MIBEL and the ongoing market liberalisation process was also represented by the signature of addenda to contracts on 15 June 2007 with REN, Redes Energéticas Nacionais, for the early termination of power purchase agreements (PPAs). This brought about their effective termination, which allowed the electricity produced by the EDP Group's major electricity generation power stations to be placed on the market as of 1 July 2007.

As part of the regulatory review promoted by ERSE, the necessary standards were established to implement the compensation scheme for electricity generation station shareholders. This was achieved by means of a system to identify, invoice and charge the costs of maintenance of contractual equilibrium (CMECs) as laid down in Decree-Law 240/2004 of 27 December.

In accordance with applicable laws, the initial sum for the CMECs was set at EUR 833 million. This amount maintains a neutral economic situation for EDP and is subject to securitisation in light of the termination of PPAs that took place on 30 June 2007.

The early termination of PPAs led to the purchase of electricity on the market being transferred from the concession holder RNT to the supplier of last resort, EDP Serviço Universal, S.A. Consequently, and in parallel with the regulatory review, ERSE drew up the proposal for an extraordinary review of electricity tariffs, in force between September and December 2007.

Portugal therefore completed the process to liberalise the electricity sector under the terms of European Parliament and

Council Directive 2003/54/EC of 26 June 2003 and Decree-Laws 29/2006 of 15 February and 172/2006 of 23 August, which transpose that directive and establish the general principles for the organisation and operation of the national electricity system and develop the legal framework to perform those activities.

In order to implement this phase in the operation of the MIBEL, it was also necessary to adapt the main regulations for the electricity sector to the aforementioned EC Directive and the Decree-Laws, as well as to Decree-Law 240/2004 of 27 December (CMECs) and other laws published in the meantime, specifically Decree-Laws 237-B/2006 of 18 December and 199/2007 of 18 May.

The Ministerial Orders of the ERSE, which contained revised and updated regulations, specifically those addressing trade relations, tariffs, access to networks and interconnections and network operations, were published in the second series of the Official Gazette of the Portuguese Republic of 13 March and 18 August 2007. They also contained a procedural manual for the calculation of accounts, manuals for the system manager and sales agent and a guide to metering, reading and providing data.

With the aim of perfecting and expanding the MIBEL and making OMI fully operational, it is expected that certain acts will be implemented and various laws and regulations published which address the legal aspects of the electricity market.

Competition framework

On 10 January 2007, as part of its presentation of the European Energy Policy, the European Commission confirmed the findings of the sector inquiry examining energy sector players in order to assess conditions for competition in the electricity and gas markets.

Based on a diagnosis which revealed the existence of obstacles to the competitive operation of European electricity and gas markets (high market concentration, excessive vertical integration, no market integration and a lack of transparency and confidence in price formation mechanisms), the Commission identified a set of measures intended to build a "complete internal energy market with open competition and effective regulation in place" by January 2009.

Thus, on 19 September 2007, the Commission presented a third package of legislative proposals which included two new directives, one for the electricity sector and another for gas, which respectively amend and complement Directives 2003/54 and 2003/55 of 26 June, which are in force.

The following are included in the set of measures proposed by the Commission and as part of the rules directly inspired by concerns over competition:

- Separation and complete independence of generation and supply from operation of the transmission networks. Alternatively, in order to allow existing vertically integrated companies to maintain ownership of the networks, the Commission envisions the adoption of an independent system operator scheme in which the network assets are operated by a company or entity that is entirely independent from their owner;
- Creation of conditions that encourage collaboration among European transmission network operators and cross-border investments in order to facilitate international trade and create conditions for more equal competition among operators;
- Promoting transparency in the operation of energy markets, in particular with regard to pricing, thus inspiring greater confidence in their results and avoiding situations in which those same markets are manipulated.

Although the third package of legislative measures is still being discussed by the European authorities, it should be pointed out that Portuguese legislation for the energy sector already addresses the legal separation of management and ownership between generation and supply activities and the operation of transmission grids. Approval of these proposed directives will therefore have a minimal impact at the national level.

Likewise, and bearing in mind the developments that have taken place in the Iberian electricity market, provisions for collaboration among transmission grid operators and the promotion of transparency in market operation are already being practised in Portugal to a large extent.

No significant changes were made to the institutional and legal framework for competition in Portugal during 2007.

On 14 June 2007, the Spanish Senate approved the new Law for the Protection of Competition, which created the National Competition Commission and abolished the Court for the Protection of Competition and the Directorate-General for the Protection of Competition.

Regulatory framework in Portugal

Important steps to drive forward the process of regulatory harmonisation between Portugal and Spain include the approval, through Council of Ministers Resolution 50/2007 of 28 March,

of measures to implement and promote the National Energy Strategy (approved by Council of Ministers Resolution 169/2005 of 24 October); a review of the legislative and regulatory framework; early termination of EDP power purchase agreements (PPAs); entry into operation of the Iberian Peninsula spot market; stronger interconnections; implementation of virtual capacity auctions and more electricity generated from renewable energy sources. New measures to implement and promote the National Energy Strategy were approved by Council of Ministers Resolution 169/2005 of 24 October.

The new National Energy Strategy seeks to increase market competition by expanding the Iberian Electricity Market (MIBEL) and provide consumer protection for electricity tariffs in accordance with established guidelines. To guarantee the implementation of these measures and achieve the regulatory compatibility needed to fully establish the MIBEL, certain mechanisms were developed with the aim of ensuring the desired harmonisation, namely the abolition of PPAs and the creation of a company designed to act as a supplier of last resort.

As a strategic guideline for the energy sector, the Portuguese government effectively abolished the PPAs and their compensation for costs of maintenance of contractual equilibrium (CMECs), amending Decree-Law 240/2004 of 27 December in accordance with the provisions of Decree-Law 172/2006 of 23 August. The government also allowed the use of the state hydroelectric sector by the RNT concession holder and companies holding shares in electricity generation power stations. These companies are required to pay a value of economic and financial equilibrium for the transfer of those usage rights.

Strategic guidelines for the energy sector also include a principle introduced by Decree-Law 226-A/2007 of 31 May. Under the terms of this principle, the value of economic and financial equilibrium of each electricity generation power station should consider the difference between the market value of its operation from the term established in the respective PPA until the end of the concession period for use of the state hydroelectric sector, which corresponds to the end of the working life of the construction of each power station. The appropriate discount rates for the respective financial flows should be used for this purpose.

In order to implement this strategy, it was necessary to adopt several incentive measures and take new steps toward the expansion of the MIBEL. These include the creation of conditions for the abolition of PPAs, which require all electricity generated to be sold by producers to REN and their compensation through the CMECs. This decision was later embodied in Decree-Law 199/2007 of 18 May, which defines the conditions for the early termination

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of those agreements, adjusts the market reference price and some of the expected reference costs to the reality of the current market and creates compensatory measures with respect to the position of each contracting party in the PPAs.

In compliance with the provisions of European Parliament and Council Directive 2003/54/EC of 26 June and as established in Decree-Laws 29/2006 of 15 February and 172/2006 of 23 August, EDP Serviço Universal, S.A. was created in January 2007 so that distribution could be made independent from other non-related businesses. Owned entirely by EDP Distribuição – Energia, S.A., it operates as a supplier of last resort (CUR) whose activity is subject to regulation and has the role of ensuring the supply of electricity to customers who do not have a supply contract with a market seller. This new company, with obligations of universal public service, shall act as a supplier of last resort, taking on a considerable role whilst the liberalised market does not operate with total effectiveness and efficiency.

Without prejudice to the fulfilment of the applicable legal requirements and obligations as a supplier of last resort, and as part of the implementation of a new phase in the operation of the MIBEL (which is the object of the dispositions contained in the March 2007 Plan for Regulatory Compatibility), attention should be drawn to the measure stipulating that suppliers of last resort in both countries should obtain the necessary energy for supply at the tariff for final customers through three complementary modalities to be traded on the OMIP platforms.

In this regard, Order 782/2007 of 19 July establishes the obligation of the supplier of last resort to participate in energy purchase auctions, thereby harmonising the activity of sellers in both countries. Order 782/2007 also establishes that suppliers of last resort are required to purchase energy according to the quantities, rules and conditions defined in the decision given by the Director-General of Energy and Geology. It must be acquired on the forward market managed by OMIP, with respect to electricity futures contracts listed on this market platform, and in auctions for bilateral contracts in the Iberian Peninsula.

The scheduling and quantities of energy that EDP Serviço Universal, S.A. must buy in eligible auctions in 2007 was approved through Ministerial Order 780/2007 of 16 January by the Directorate-General of Energy and Geology (DGEG).

With the aim of encouraging development in special regime generation, Decree-Law 225/2007 of 31 May implemented a set of measures linked to renewable energies, as anticipated in the National Energy Strategy. It also reviewed the factors used in calculating the remuneration for supplying energy

generated at renewable energy power stations and delivered to the Portuguese Electricity System (SEP) grid. Lastly, it defined procedures to assign available power in this grid and the time periods to obtain an establishment licence for renewable energy power stations.

Renewable energies also saw Decree-Law 363/2007 of 2 November establish a legal framework applicable to electricity generation by micro-generation units that use renewable resources as a primary energy source or simultaneously generate electricity and heat. Electricity generators that have a low-voltage electricity purchase contract may take part in this activity.

As regards the environment, a law is in the final stages that will define the National Plan for the Awarding of Emission Licences (PNALE II) for the 2008-2012 period, new 2007 targets for policies and measures applicable to the energy supply and transport sectors of the National Programme for Climate Change (PNAC2006) and, lastly, new rules of access for the awarding of emission licences to new facilities.

Regulatory framework in Spain

Several important legislative initiatives and regulatory measures were developed for the energy sector in 2007, designed to promote market liberalisation, improve the security of supply and increase competitiveness:

- Law 17/2007 of 4 July (Portugal) amends the electricity sector law (Law 54/1997 in Spain) in order to adapt it to European Parliament Directive 2003/54/EC on common standards for the internal electricity market. It establishes a greater separation of regulated and liberalised activities, creates a schedule for the abolition of current tariffs and confirms the appearance of the supplier of last resort and the logistics operator for switching suppliers, which will supervise all changes of electricity suppliers;
- New markets were added to the pool generation daily market, such as auctions for primary energy emissions and forward contracts for electricity through distributors:
- * Auctions for primary energy emissions (VPP) are purchase options for energy on a partial or full basis. In these auctions, the two dominant operators (Endesa and Iberdrola at 50%) participate as sellers. HC Energía is not allowed to act as a buyer because the EDP Group is considered to be a dominant operator in Spain, given its size within the Iberian market.

- Ministerial Order ITC/400/2007 of 26 February regulates the bilateral contracts signed by distribution companies to supply energy in the Peninsula at tariff rates. Three auctions were held to buy energy destined for last-resort supply, the CESUR auctions, which took place in June, September and December 2007. HC Energía participated as a buyer (with an approximate quota of 4%) and as a seller, with positive economic results;
- On 24 August, the Council of Ministers approved the unified regulation of points to measure the Spanish electricity system. This involves the introduction of electronic meters that allow hourly itemisation and telemetering. This Royal Decree aims to regulate the operating conditions and characteristics that should be fulfilled by the new measuring equipment. Since 1 July 2007, electronic meters have been compulsory for new supply points with contracted power of up to 15 kW (domestic consumers and small enterprises), thus totalling around 25 million supply points;
- As regards special regime generation, Royal Decree-Law 661/2007 of 25 May, which regulates generation and electricity, calls for the promotion of renewable energies, providing guarantees and stability for this regime. This law was supplemented by other measures such as the development of cogeneration and the regulation of guarantees of electricity originating from renewable resources and high-efficiency cogeneration;
- On 17 November 2007, Order ITC/3315/2007 entered into force containing developments made in relation to Royal Decree-Law 3/2006. This law regulates, for 2006, the reduction of compensation for electricity generation by the sum equal to the value of the greenhouse gas emission rights freely assigned in the "Plan Nacional de Asignación" ("National Assignment Plan" – PNA) for 2005-2007;
- In the wake of these guidelines, Royal Decree-Law 11/2007 of 7 December was published which aimed to reduce the sum equal to the greenhouse gas emission rights freely assigned through the application of the new 2008-2012 PNA. This Royal Decree calls for new government intervention in establishing prices for liberalised businesses;
- A new proposal to compensate distribution and the demand management service (interruptibility) for large consumers is currently under development.
- Royal Decree 1402/2007 of 29 October, which approved the PNA for CO₂ emission rights for the 2008-2012 period. This plan recognises that if additional steps are not taken, the level of emissions forecast for the emission licence period will be up to 50% higher than that of the base year (1990). The Spanish government plans to reduce CO₂ emissions by up to 37% over the base year through measures established in the Spanish Strategy for Climate Change and Clean Energy, approved by the Council of Ministers on 20 July 2007. The necessary reduction of up to 15% over the base year, as demanded by the Kyoto Protocol, will only be achieved with the use of flexible mechanisms (some 20%) and carbon dioxide sinks (some 2%);
- The final awarding of emission rights to sectors subject to trade totalled 152 million tonnes of CO₂/year, including a reserve of 6 million tonnes for new power stations. This involves a reduction of more than 36% over the previous plan. On 2 November, an agreement was approved for the individual awarding of rights through facilities in which 4.75 million tonnes of CO₂/year correspond directly to HC Energía;
- The new National Plan to Reduce Emissions from Existing Major Combustion Facilities (PNRE-GIC), approved by the Council of Ministers on 7 December 2007, establishes the value for limits on emissions from electricity generation stations with the aim of fulfilling commitments to the national maximum limits on emissions;
- Law 26/2007 of 23 October on environmental responsibility, which transposes Directive 2004/35/CE, regulates the responsibility of operators to prevent, avoid and repair damages to the environment in accordance with the principles of prevention and that "those who pollute must pay". This law will require the creation of financial guarantees to cover these responsibilities starting from 2010 (pending regulatory development);
- Law 34/2007 of 15 November on air quality and atmospheric protection aims to establish the foundations for prevention, monitoring and reduction of atmospheric contamination. It also determines that the Spanish government, in conjunction with the autonomous communities, may define the emission limits for polluters and specific obligations for certain activities, including combustion in energy generation.

The opening up of markets

Legislative measures relating to the environment include the following:

In accordance with Directive 2003/54/EC on the internal electricity market, Member States should ensure from 1 July 2007 that their

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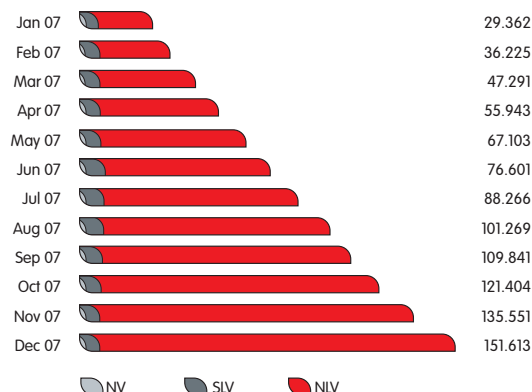
markets are open to all customers, allowing them to freely choose their electricity supplier.

In Portugal, as in most European countries, liberalisation has developed gradually, starting with the consumers who consume more energy at higher voltages and progressively extending to all electricity consumers.

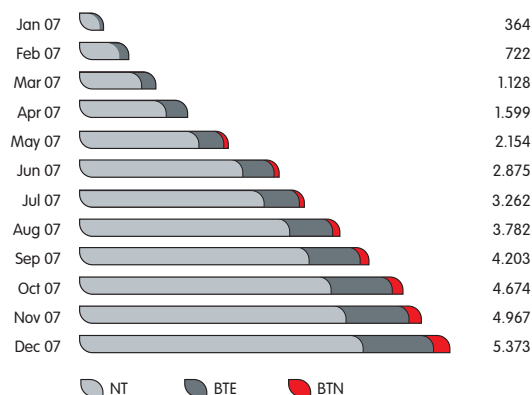
The final phase in this process was approved by Decree-Law 192/2004 of 17 August, which stipulated that the market should be completely opened up. For standard low-voltage customers, the ability to choose a provider was made possible on 4 September 2006, which significantly increased the number of customers in the free market in 2007.

In December 2007, there were 151,613 customers in the free market, which corresponds to approximately 5,373 GWh of consumption and represents about 12% of the total market.

Customers in the Free Market by Voltage Group



Consumption in the Free Market by Voltage Group in GWh

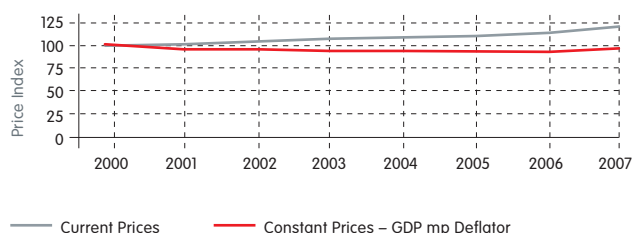


Of these 151,613 customers present at the end of December, 143,668 were standard low-voltage customers, which represents 95% of the total number of free market customers. Medium-voltage customers have the greatest share of total consumption, representing around 76% of the total free market consumption in 2007.

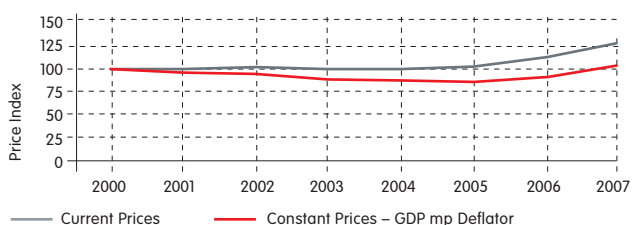
Tariff changes over time

In the last seven years, average electricity sale prices in Portugal have shown a mean annual decrease in real terms of around 0.6% in low-voltage and a mean annual increase of 0.6% for the remaining voltage levels.

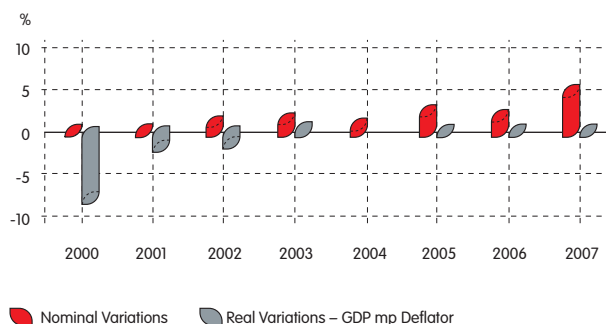
Change in Average Price of Low Voltage Electricity in Portugal



Change in Average Price of Very High, High and Medium Voltage Electricity in Portugal



Real and Nominal Variation of Average Electricity Prices – Portugal

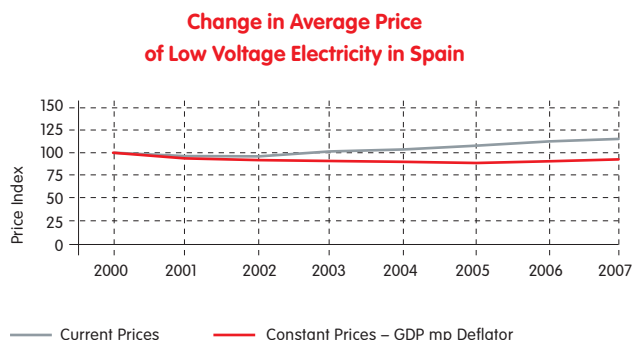


As part of the MIBEL's entry into force, an extraordinary review of tariffs in the last four-month period of the year was carried out. Published in Ministerial Order 19 612-A/2007 of 29 August, the review found that consumers of electricity from suppliers of last resort had benefited during that period from an average tariff reduction of 3.1% over the tariffs in force between January and August 2007.

In yearly terms and internalising the tariff decrease that took place in the final four months of 2007, end-customer sales tariffs increased by an average of 5.2% over those in force in 2006.

For electricity tariffs in Spain, the following regulatory framework was adopted:

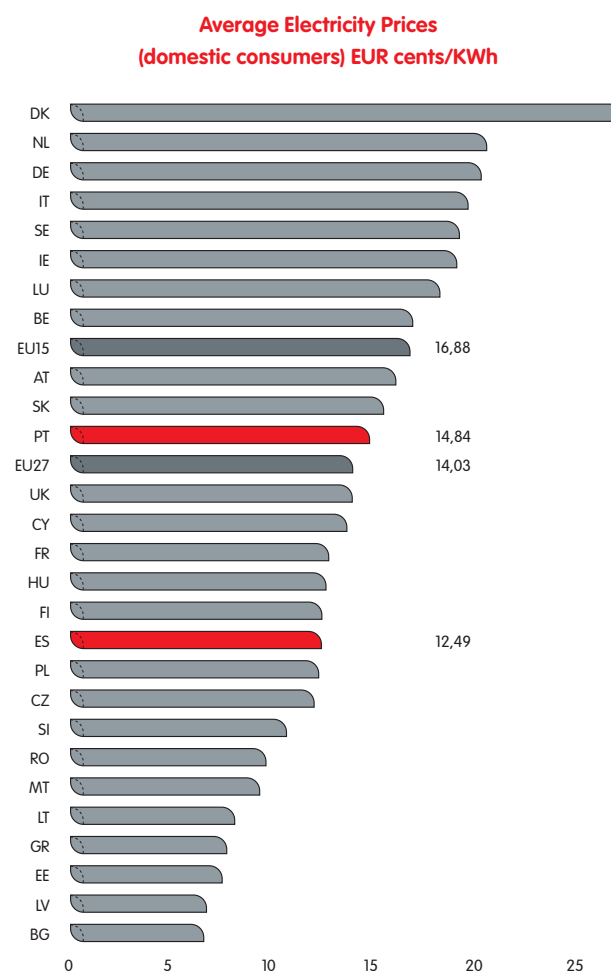
Royal Decree-Law 1634/2006, which establishes the electricity tariff from 1 January 2007, set an average increase at 4.3% (2.8% for domestic tariffs and 6.4% for medium and high-voltage tariffs). It recognises beforehand the existence of an income deficit in the settlements of regulated activity generated in 2007. This, along with the deficit from previous years, will be financed by means of assignments through an auction to financial bodies with collection rights, from January 2008.



In the first quarterly review of the electricity tariff published in Royal Decree-Law 871-2007, in force since 1 July 2007, the Spanish government left the domestic tariff unchanged but made an upwardly revision to the high-voltage tariff. The subsequent review, published in Order ITC/2794/2007 in force since 1 October, which also left the domestic tariff unchanged, amended the "power guarantee" mechanism. A new concept was introduced, aimed at ensuring short-term availability of certain technologies and medium and long-term availability linking incentives to investment in new combined-cycle power stations and to power stations that make significant environmental investments (desulphurisation).

Order ITC/3860 of 28 December establishes an average increase of 3.3% in the electricity tariff from 1 January 2008 and an equal increase in the access tariff. The exception to this is the domestic tariff, which decreases by more than 20% to encourage the liberalisation of this segment. With these figures, a deficit of around EUR 5 billion is expected for 2008. The recognition of these tariff deficits demonstrates that the definition of tariffs does not adequately consider service costs.

When compared with prices in other countries, electricity prices for domestic consumers in Portugal on 1 January 2007 were 12.1% below the EU-15 average and 5.7% above that of the EU-27. In Spain, electricity prices were lower than the EU-15 and EU-27 averages by 26% and 11%, respectively.



These data are based on a Eurostat survey of the average prices paid by five typical domestic consumers in various EU Member States. With the aim of adapting this methodology to the current

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reality of an open market, Directive 90/377/EEC of 29 June concerning the transparency of prices charged to final consumers of electricity and gas was revised in Commission Decision 2007/394/EC of 7 June, which entered into force on 1 January 2008 (only compulsory for non-domestic uses).

5.1.2. Generation (Outside of Brazil)

The EDP Group has a presence in the electricity generation business essentially in three ways:

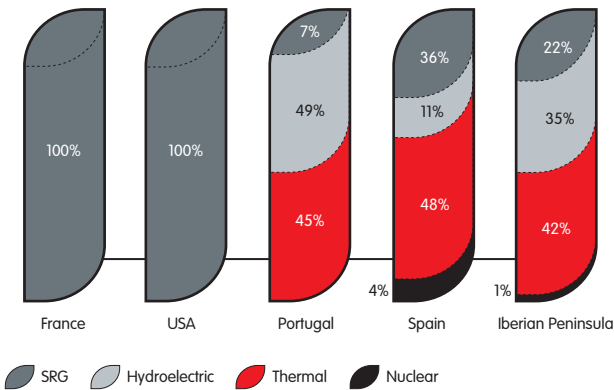
- Through EDP Produção in Portugal, operating under ordinary regime generation (ORG) and special regime generation (SRG);
- Through HC Energía in Spain, operating under ORG and SRG;
- Through EDP Renováveis, a company which was created in late 2007 and owns shares in NEO Energía and HWE, which are in turn responsible for the development and operation of wind farms in Europe and the United States.

The EDP Group currently has an electricity generation infrastructure with an installed capacity of 14,610 MW.

Maximum Capacity as at 31 Dec	EDP Group (outside of Brazil)					
MW	2007	2006	2005	2004	2003	2002
Portugal	9.439	9.078	8.921	8.402	7.940	7.654
Ordinary Regime	8.824	8.584	8.584	8.080	7.699	7.438
Special Regime	615	494	337	322	241	216
Spain	3.830	3.462	3.103	2.834	2.611	2.468
Ordinary Regime	2.435	2.492	2.488	2.488	2.468	2.422
Special Regime	1.395	970	614	346	143	46
França – Wind Farms	87	29	0	0	0	0
USA – Wind Farms	1.254	0	0	0	0	0
EDP Group Total	14.610	12.569	12.024	11.236	10.550	10.122

As a result of the EDP Group’s strategic priority to promote a portfolio of generation from cleaner technologies, its installed wind capacity increased significantly in 2007, namely through the purchase of Horizon Wind energy on 3 July 2007 and the implementation of wind farm projects in its European portfolio. At the close of 2007, 57% of the total portfolio consisted of clean technologies (hydroelectric and SRG).

EDP Group Generation Portfolio (outside of Brasil)



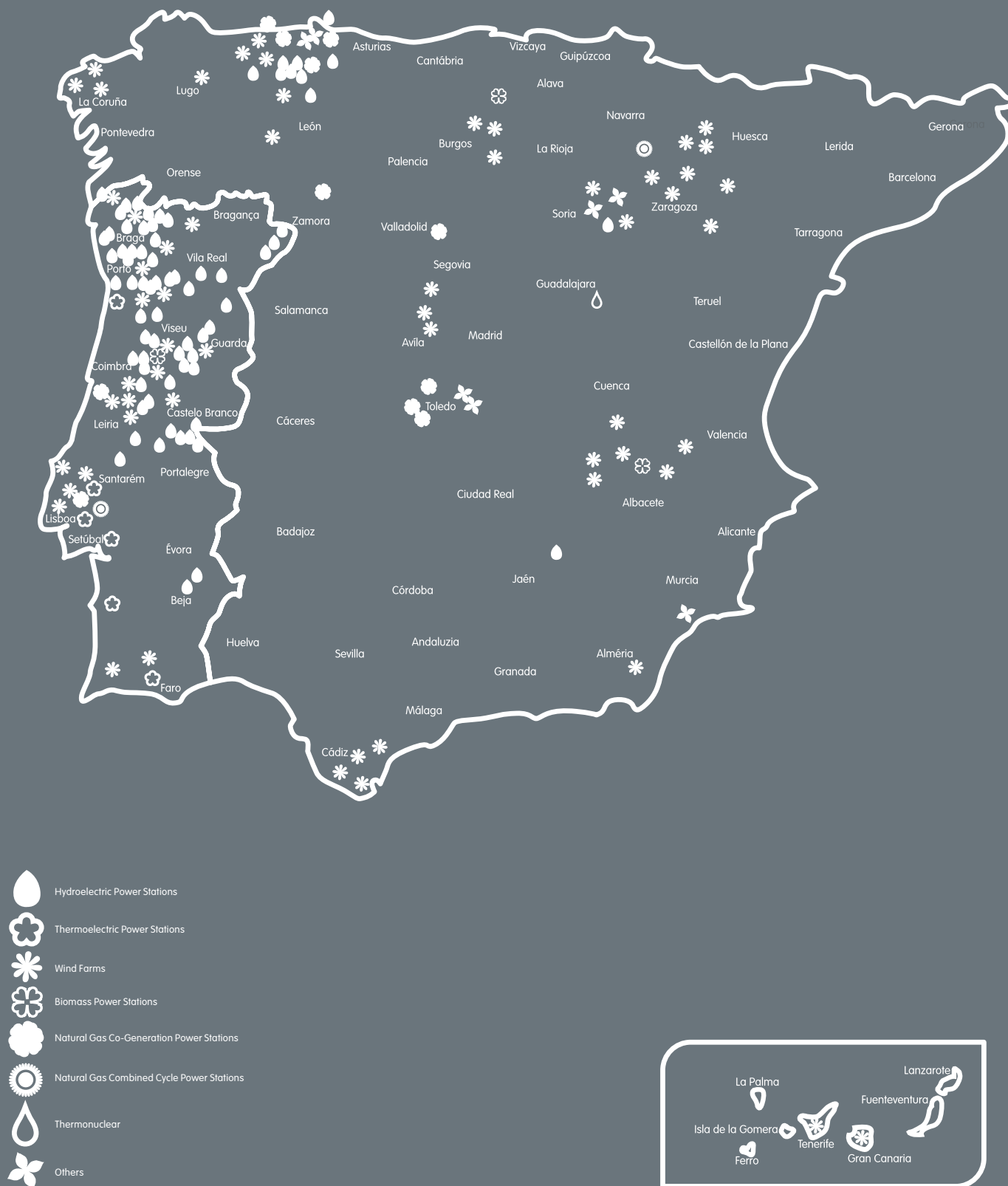
Controlled risk remains the main characteristic of the generation business, thus respecting one of the EDP Group’s strategic areas. 7,164 MW (49%) of generation capacity are unexposed to the market through CMECs, as well as 2,010 MW (14%) of special regime generation capacity, which are protected by regulated tariffs. The remaining 37% of capacity are exposed to market risks with a policy in place to hedge volume and price risks through sales to final customers.

5.1.2.1. Generation in Portugal

Ordinary Regime Generation (ORG)

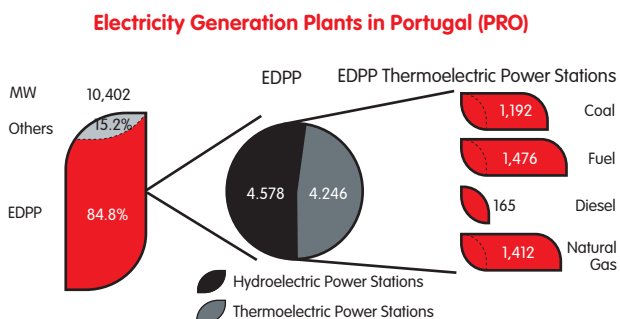
Through its company EDP Produção, EDP Group maintains a strong presence in ordinary regime generation, whether through its power stations that previously operated under the binding generation system and whose PPAs terminated on 1 July, or within the context of the liberalised market. Two other companies operate under ordinary regime generation, Tejo Energia and Turbogás, in which EDP has shareholdings of 11.1% and 40%, respectively.

At the end of 2007, the total installed capacity for ordinary regime generation in Portugal was 10,402 MW, of which 8,824 MW (84.9% of the total) belonged to EDP Produção. Of this amount, 4,578 MW were produced in hydroelectric power stations and 4,246 MW in thermoelectric power stations.



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The following charts show the trends over the last five years of the figures for installed capacity and net generation of EDP companies in Portugal.

Maximum Capacity as at 31 Dec		EDP Portugal				
MW	2007	2006	2005	2004	2003	
Hydroelectric Power Stations	4,578	4,338	4,339	4,147	4,158	
Hydroelectric Power Stations (excluding PES)	4,094	4,094	4,095	3,903	3,903	
Hydroelectric Power Stations (others)	484	244	244	244	255	
Thermolectric Power Stations	4,246	4,246	4,246	3,933	3,541	
Thermolectric Power Stations (excluding PES)	3,070	3,070	3,070	3,149	3,149	
Thermolectric Power Stations (others)	1,176	1,176	1,176	784	392	
Ordinary Regime	8,824	8,584	8,584	8,080	7,699	

Net Generation		EDP Portugal				
GWh	2007	2006	2005	2004	2003	
Hydroelectric Power Stations	9,361	10,070	4,443	9,116	14,669	
Hydroelectric Power Stations (excluding PES)	8,976	9,574	4,279	8,718	13,964	
Hydroelectric Power Stations (others)	385	496	164	398	705	
Thermolectric Power Stations	15,357	17,043	19,633	15,175	12,822	
Thermolectric Power Stations (excluding PES)	9,319	11,314	14,545	11,756	12,619	
Thermolectric Power Stations (others)	6,038	5,728	5,088	3,419	203	
Total Ordinary Regime	24,718	27,112	24,076	24,291	27,491	

In terms of development of the electricity generation infrastructure and following the signing of an agreement between EDP and EDIA on 24 October, EDP Produção was awarded the operation of the power stations at Alqueva (240 MW under ordinary regime generation) and Pedrógão (10 MW under special regime generation) for a period of 35 years.

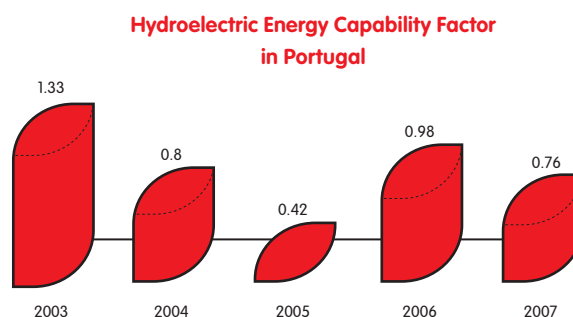
In the same context, construction began on the combined cycle power station at Lares (2 x 431 MW to begin operation in 2009), capacity was increased at Picote (241 MW in 2011) and calls for tender were issued for the project to increase capacity

at Bemposta (191 MW in 2011), the hydroelectric power station at Baixo Sabor (170 MW in 2013) and the project to increase capacity at Alqueva (240 MW in 2012).

The hydroelectric infrastructure belonging to EDP Produção is located in northern and central Portugal (except for Alqueva, which is located in the south). It is comprised of 93 generating sets distributed over 35 power stations. In operational terms, these stations are grouped into three generation centres and centrally controlled from the remote control centre at Régua.

The thermolectric infrastructure is located in the southernmost part of Portugal and is comprised of six power stations, the most important of which are located at Sines (coal) and Ribatejo (natural gas combined cycle power station).

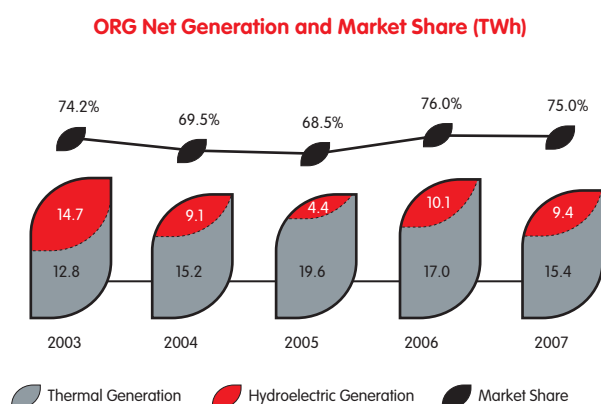
In hydrological terms, water flows to hydroelectric power stations attached to reservoirs were very weak throughout 2007, and in particular in the last quarter of the year, reaching a low point in December (IPH = 0.07). The last quarter will, indeed, go down in record as one of the driest since records began being kept. Although the water flows to run-of-river hydroelectric power stations were higher (0.94), the overall water flows for the year remained well below average, with a hydroelectric energy capability of 0.76.



The total net Ordinary Regime Generation power generated in 2007 was 24,718 GWh, which is 8.8% lower than the figure for the previous year (27,112 GWh). This is due, in part, to the low water availability for the year and to the increasing contribution from wind energy:

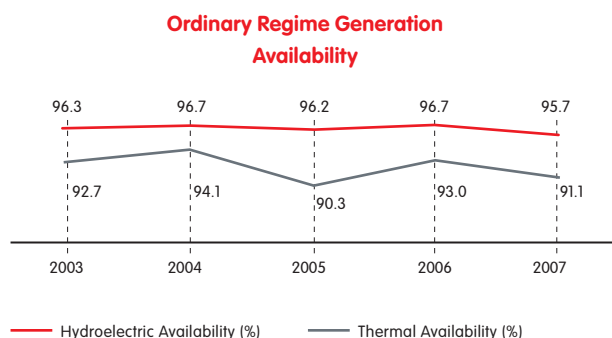
- Hydroelectric generation, including the contribution from the Alqueva power station in the last two months of the year, was 9,361 GWh, down some 7% in comparison to 2006. This decrease again reflects the less favourable hydrological conditions;

- Thermal power generation totalled 15,357 GWh, which is approximately 9.9% less than 2006. This is essentially the result of periods of unavailability of the Sines power station due to environmental modernisation work being carried out.



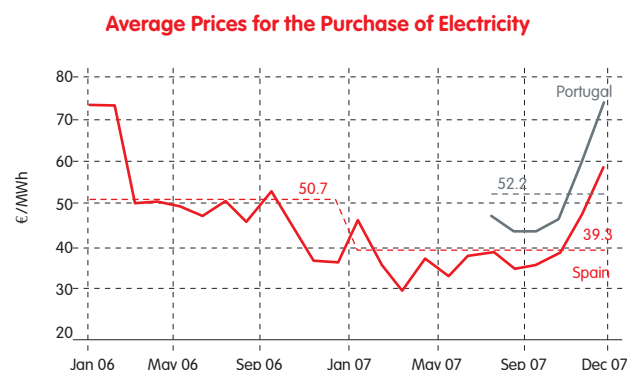
Despite the decrease in the EDP Produção net power generation for the year, the company's market share in terms of Ordinary Regime Generation remained high, being recorded at 75.0% in 2007.

In terms of availability, the EDP Produção power station maintained high performance levels in 2007, with figures of 95.7% and 91.1% being registered for the hydroelectric and thermoelectric power stations respectively.



As far as performance in the market is concerned, the Energy Management Business Unit (UNGE) is the EDP Group unit responsible for on the one hand ensuring the supply of fuel and the economic dispatch of the power stations in the Iberian Peninsula and, on the other, management of the corresponding short and medium-term risk positions. In addition to the non-regulated segment, the unit's area of operation was extended in 2007 – following the launch of the MIBEL and the termination of the PPAs in the second half of the same year – to

include management of those plants included in the Costs of Maintenance of Contractual Equilibrium (CMEC).



Prices in the Iberian electricity market remained very low in 2007, registering only a slight recovery at the end of the year.

This situation of low prices throughout the year was determined by the increase in installed capacity in Spain, given the commissioning of several combined cycle, wind energy and mini-hydroelectric power stations and the trend in both the prices of CO₂ (close to zero from the second quarter onwards) and the water availability (the final quarter was very dry). Parallel to this, there was also considerable development in the electricity forward markets (OMIP, Cesium and OTC). As far as the fuel markets are concerned, the coal and Brent oil prices (the latter being the main reference price for gas contracts) had a very volatile, though positive, evolution.

Despite these adverse conditions, we were able to achieve very positive results by seeking to anticipate unfavourable market variable developments through rigorous operation programming of the power stations and, above all, hedging electricity sales price and fuel cost risks.

The year also saw a market splitting situation in the second half due to a lack of interconnection capacity between the two countries, as well as the differences existing in the respective technological facilities.

Special Regime Generation (SRG)

At the end of 2007, in terms of Special Regime Generation (SRG), the EDP Group had an installed capacity of 76 MW in hydroelectric power stations, 5 MW in biomass power stations and 111 MW in co-generation power stations.

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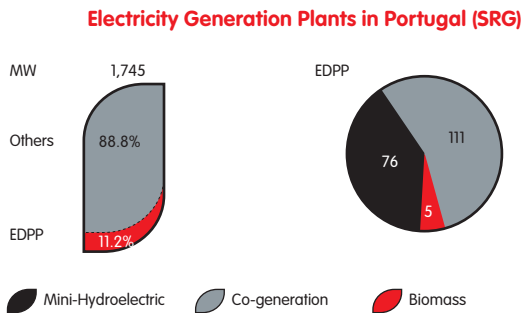
Negócios do Grupo EDP

Maximum Capacity as at 31 December		Portugal				
MW	2007	2006	2005	2004	2003	
Mini-hydroelectric	76	66	66	66	56	
Co-generation	111	111	111	111	111	
Biomass	5	5	9	9	9	
Total Regime Especial	192	182	186	186	176	

Net Generation		Portugal				
GWh	2007	2006	2005	2004	2003	
Mini-hydroelectric	134	193	90	141	196	
Co-generation	744	726	671	656	679	
Biomass	28	29	51	49	38	
Total Special Regime	906	948	813	846	913	

In comparison to 2006, there was a 10 MW increase in hydroelectric capacity, due to the inclusion of operation of the Pedrógão power station in EDP Produção, as mentioned above.

The current group of SRG hydroelectric stations is made up of 41 generating sets in 25 power stations. EDP Produção currently has a number of ongoing mini-hydroelectric power stations remodelling, construction and acquisition projects. Of these, one can highlight the Alto Lindoso ecological flow hydro plant, with a planned capacity of 2.95 MW, which is currently in the licensing phase.



The thermoelectric power stations operating in this segment include the two natural gas co-generation power stations owned by Soporgen and Energin, two companies in which EDP Produção has majority shareholdings. They supply electricity and heat to the Soporcel and Solvay Portugal production plants, respectively. The electricity supplied in 2007 was slightly higher than in 2006 and the power stations were able to fulfil their contractual obligations to customers. EDP Produção also has a 35% share in the Carriço co-generation power station, which has an installed capacity of 30 MW.

The Mortágua biomass (forest residues) power station, owned by to EDP Produção Bioelétrica, registered sales to the grid of 28 GWh in 2007, which is more or less the same as in the previous year. Availability was 90.5%, slightly up from the 89% recorded in 2006. Biomass consumed amounted to some 115 kt, of which 109 kt was forest residues and the rest was made up of pine and eucalyptus bark.

EDP Produção Bioelétrica currently has an important set of projects in progress to increase the capacity of biomass power stations. Particularly noteworthy in this context are the Constância (12.1 MW) and Leirosa/Figueira da Fox (27.6 MW) power stations, which are currently under construction.

Amongst the most important developments in terms of power generation in 2007 one can highlight:

- The transfer to EDP Produção of the Belver and Ribeira de Nisa hydroelectric plant assets following the demerger from EDP Comercial;
- The signing, on 15 June, of a number of addenda to the PPA termination agreements between EDP Produção and REN, defining the conditions for the early termination of the PPAs on 1 July 2007;
- Fixation, on 15 June, in a joint order by the Minister of the Environment, Planning and Regional Development and the Minister of the Economy and Innovation, of the economic and financial equilibrium amount (EUR 759 million) for the rights of use of the public water domain of the EDP Produção power stations in accordance with Decree-Law 226 A/07 of 31 May;
- In this context, and on the basis of this figure, EDP Produção and REN also signed a contract for the future transfer of the water domain concession contracts to be signed by the State and REN within a period of 2 years, against payment of the full aforementioned figure by EDP, once all of the concessions have been transferred;
- On 1 July, following termination of the power purchase agreements (PPAs), EDP Produção began its participation in the MIBEL spot market, represented by EDP's Energy Management Business Unit;
- Signing, on 24 October, of a contract with EDIA granting EDP Produção the concession to operate the Alqueva (240 MW) and Pedrógão (10 MW) hydroelectric power stations as well as the right of use of the respective public water domain;

- Award of the concession contract, on 6 November, to the EDP Produção/Eviva Energy consortium for the construction and operation of the Ribeiradio/Ermita hydroelectric power station on the River Vouga following the public call for tenders opened by INAG;
- The positive outcome of the dispute over the licensing for the Baixo Sabor hydroelectric power station, the European Commission having filed the complaint submitted by the Environmental Association “Plataforma Sabor Livre” at the end of August. Following this decision, a call for tenders for the general construction contract for the power station was opened on 11 September;
- Completion of the installation of desulphurisation and NOx removal equipment on generators 1 and 2 as part of the environmental modernisation of the Sines power station. Similar interventions are to be carried out on the remaining generators in 2008. In the scope of this modernisation, and following revision of the environmental licence by the Institute for the Environment (IA), the installation of denitrification systems has been planned for the 4 generators, with the work scheduled to begin in 2008.

Energy Balance

Consumption referenced as output in mainland Portugal reached approximately 50 TWh, which is a year-on-year increase of 1.5%.

As far as the contribution of ordinary regime generation (ORG) to satisfying public grid demand is concerned, coal remains in first place with a contribution of 23%, followed by natural gas and hydro power with 21% and 19% respectively.

The SRG contribution grew from 18% in 2006 to 20% in 2007, essentially due to increased wind energy generation, which accounted for approximately 8% of the grid consumption in 2007.

The exchange balance with Spain continued to favour imports from that country, which reached the highest level ever and accounted for 15% of the demand.

Energy Balance

		2007	2006	Var.
Water Availability Index		0.76	0.98	-0.22%
GWh				
EDP Group Power Stations				
Hydroelectric Output	ORG	9,361	10,070	-7.0%
Thermoelectric Output	ORG	15,356	17,043	-9.9%
Mini-hydroelectric Output	SRG	134	193	-30.8%
Wind Power Output	SRG	733	482	52.2%
Biomass Output	SRG	28	29	-2.2%
Co-generation Output	SRG	744	726	2.5%
EDP Group Net Generation		26,357	28,542	-7.7%
Direct Sales to Industrial Customers		-21	-255	91.8%
Output to Grid (EDP Group)		26,336	28,288	-6.9%
Other Generators	ORG	8,231	8,570	-4.0%
Self-generators	SRG	8,516	7,592	12.2%
Import/(Export) Balance		7,488	5,441	37.6%
Pumped hydroelectric Storage		-540	-622	13.2%
Consumption Expressed as Output		50,031	49,269	1.5%
Synchronic Compensation		-9	-17	44.9%
Own Consumption in Generation		-5	-5	3.9%
Energy Delivered to Distribution		49,510	49,247	0.5%

5.1.2.2. Generation in Spain

The installed ordinary regime capacity in Spain increased by 5,455 MW in terms of combined cycle power stations. During the year, decommissioning accounted for 753 MW of fuel-fired power stations and 67 MW of coal-fired power stations. As a result of this, the installed ordinary regime capacity in the Spanish system reached 62,580 MW.

The installed special regime capacity (renewable sources, residues and co-generation) in the Spanish system reached 23,357 MW, of which wind energy accounted for 13,322 MW. The increase recorded in 2007 was 2,546 MW, of which 2,000 MW came from wind farms. It is important to note that solar energy doubled its installed capacity in the course of 2007, totalling over 300MW.

Maximum Capacity as at 31 December

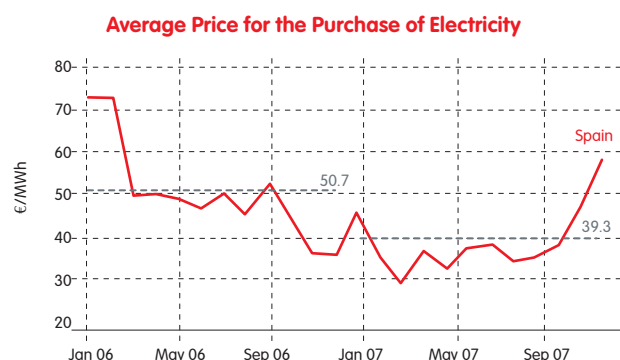
Maximum Capacity as at 31 December		Spain – Iberian System				
MW	2007	2006	2005	2004	2003	
Ordinary Regime	62,580	57,945	54,829	51,279	47,333	
Special Regime	23,357	20,809	19,261	17,447	14,846	
Total Spain	85,937	78,754	74,090	68,726	62,179	

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In the overall system in Spain, the year 2007 saw the largest annual increase ever (approx. 7,183 MW) in the electricity system.

Demand for electricity in Spain reached 261,014 GWh in 2007, which is an increase of 2.8% over 2006. This increase is less than that for previous years, which is essentially due to the higher temperatures recorded during the year.



In the course of 2007, the price of energy in the liberalised pool market reached EUR 39.30/MWh, which is considerably lower than the price recorded for the previous year. Nevertheless, prices did rise in the last quarter of the year due to higher fuel prices, low hydraulicity and increased demand. In the final month of the year, prices rose to over EUR 52.00/MWh, while, in the preceding eleven months, the average "pool" price was EUR 37.5/MWh.

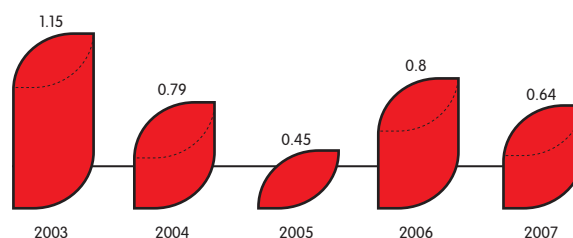
The following table shows the energy balance for 2007 in comparison to the preceding year.

Net Generation			Spain
GWh	2007	2006	Var.
Hydroelectric	26,338	25,330	4.0%
Nuclear	55,102	60,126	-8.4%
Coal	71,833	66,006	8.8%
Fuel / Gas	2,397	5,905	-59.4%
CCGT	68,139	63,506	7.3%
SRGs	56,044	50,318	11.4%
Own Consumption	-8,740	-8,907	-1.9%
International Balance	-5,750	-3,280	75.3%
Pumping	-4,349	-5,261	-17.3%
Total Consumption	261,014	253,743	2.9%

Hydroelectric generation in 2007 reached 26,338 GWh, a reference value for an average year in hydrological terms. Nevertheless, in hydrological terms, 2007 was a very volatile year. The early months recorded precipitation figures above the historic mean, but from the third month onwards rainfall dropped below the historic averages. This drop in rainfall, together with the high level of generation

meant that the hydroelectric reserves at year end totalled 32.5%, as compared to 55% at the beginning of the year. The hydraulicity index for 2007 was 0.64, which means that it was a dry year.

Hydroelectric Energy Capability Factor



Nuclear generation accounted for 55,102 GWh, which is an 8.4% decrease in relation to the previous year. Here, one must highlight the stoppages due to the charging and revision of several units. Nuclear generation accounted for 21% of the demand for electricity.

Coal, with 71,833 GWh, was the most used generation technology, registering an increase of 8.8% over 2006.

Power generated by gas combined cycle power stations reached 68,139 GWh, a 7.3% increase over the previous year. Gas is the second most important source of power generation in the system. However, the strong increase in capacity for this type of technology has meant that the average use of these power stations was only 4,000 hours.

Special Regime Generation totalled 56,044 GWh, a figure similar to that for nuclear energy, accounting for 21% of the demand for electricity. Of this total, 26,634 GWh were generated by wind energy sources, a figure roughly equal to that achieved by hydroelectric generation.

Throughout 2007, intensive negotiations were held with trade union representatives for the establishment of the first HC Group Labour Agreement. The agreement will enable us to restructure and rationalise the Human Resources area, thus improving operational productivity and efficiency. It will also pay particular attention to aspects such as reconciliation of work and family life, non-discrimination, prevention of accidents and safety and promotion of sustainable development.

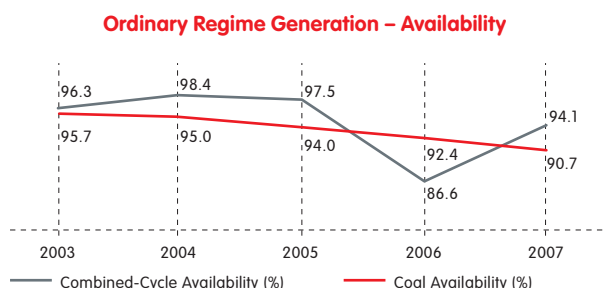
Ordinary Regime Generation (ORG)

In 2007, net ordinary regime generation by HC Energía amounted to 13,936 GWh, which is an increase of 2.6% over the previous year. The HC Energía power stations generated the equivalent of 6.6% of the net ordinary regime power generated in Spain.

Maximum Capacity as at 31 December		HC Energía		
MW	2007	2006	Var.	
Hydroelectric	426	426	0.0%	
Coal	1,460	1,523	-4.1%	
Nuclear	156	156	0.0%	
Combined-cycle	393	387	1.6%	
Total Ordinary Regime	2,435	2,492	-2.3%	

Net Generation		HC Energía		
GWh	2007	2006	Var.	
Hydroelectric	786	846	-7.1%	
Coal	10,124	9,854	2.7%	
Nuclear	1,232	1,192	3.4%	
Combined-cycle	1,795	1,692	6%	
Total Ordinary Regime	13,936	13,584	2.6%	

Coal-fired power generation amounted to 10,124 GWh, up 2.7% from 2006. This is a noteworthy figure, given that 2007 was a year with several stoppages. Here one must highlight the stoppage of Soto 3 for revision and the various stoppages at Aboño 2 in the test phase and the final connection of the desulphurisation units.



The availability of the Aboño coal-fired generators was excellent. Here, one must highlight the behaviour of group 1, which clocked up more than 8,500 operating hours, once again occupying one of the top places in the ranking of Spanish thermal power stations. The Soto 3 unit, with 350 MW, began a stoppage on 29 October. During this stoppage, scheduled to last until March 2008, the desulphurisation installations will be finally connected to this unit, and there will also be an important revision and modification of the alternator rotor.

Aboño 2, with desulphurisation fully operational and the new low-NOx burners installed, is now one of the cleanest units amongst the Spanish coal-fired thermal power stations.

Nuclear generation, which corresponds to the 15.5% share held by HC Energía in the Trillo power station, grew by 3.4% in relation to 2006. Operation of the power station was once again satisfactory, with an overall availability of more than 90%.

Power generated at the Castejón combined cycle power station was also approximately 6% higher than in 2006. A type B inspection was carried out in November, corresponding to 36,000 operating hours. For this power station, one must also highlight the start-up tests for the second unit, Castejón 3, in the last months of the year. During this test period, the unit produced 165 GWh, which were not included in the total generated power. The 100-hour test was successfully completed on 31 December. During the first weeks in January, the unit will begin commercial operation, making an important contribution to increasing the group's generation capacity in Spain and to the greater dispersion of generation technologies. In the course of 2007, the gas contracts for this new unit were completed and the gas contracts for group 1 renewed.

The closure of Soto 1 was requested in April 2007. This generator group, with an installed capacity of 63 MW, began operating in 1962. It has generated more than 11,000 GWh during its service life. A decision by the "Dirección General de Política Energética y Minas" on 2 November 2007 authorised HC Energía to close down the unit.

The construction work on the second combined cycle unit at Castejón (Navarra) was completed at the end of the year. The first connection to the grid was made in October, and definitive connection (start of supply operation) took place on 18 January 2008.

Construction of the Soto 4 combined cycle power station, the first unit of this type to begin operation in Las Astúrias, is already at an advanced stage. The power station is expected to begin operation in the summer of 2008.

In environmental terms, work on adapting the coal-fired thermal power station to the new environmental standards is ongoing, namely:

- In June, the erection of the desulphurisation installations at Aboño 2 was completed. the definitive commissioning authorisation was obtained on 21 December 2007;
- At Soto 3, construction work continued on the desulphurisation facilities, which are now at a very advanced stage. Commissioning of these facilities is scheduled for the early months of 2008;
- In October 2007 the Soto 3 unit received new low-NOx burners, with which we hope to reduce NOx emissions considerably;
- Adaptation work on the Aboño 1 installation is currently in progress to allow for co-combustion with biomass;

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- Environmental certification was achieved for Aboño and Soto de Ribera in 2007. Considering that the Castejón power station achieved the same certification in 2004, this means that all of HC Energía’s thermal power generation now meets all of this standard’s requirements. In the course of 2008 we will be working towards securing ISO 14 001 environmental certification for our hydroelectric power stations;
- The Castejón power station was awarded the EMAS distinction (Eco-Management and Audit Scheme) in 2007 in recognition of the high quality of its integrated environmental management system.

Special Regime Generation (SRG)

Through its diverse subsidiaries, the EDP Group in Spain has stakes in twenty thermal power stations, which together make up almost 140 MW of installed capacity.

As already mentioned, June 2007 saw the publication of new regulations for Special Regime Generation (RD 661/2007), providing for an improvement in retribution for the processing of residues and tightening the regulations for compliance with the efficiency criteria for co-generation power stations.

Maximum Capacity as at 31 December		HC Energía	
MW	2007	2006	Var.
Mini-hydroelectric	3	3	0.0%
Co-generation	38	42	-10.2%
Biomass	7	4	89.9%
Waste	82	82	0.0%
Total Special Regime	130	131	0.8%

Net Generation		HC Energía	
GWh	2007	2006	Var
Mini-hydroelectric	2	2	0.0%
Co-generation	90	176	-48.9%
Biomass	8	13	-38.5%
Waste	453	351	29.0%
Total Special Regime	551	543	1.5%

Net electricity generation by co-generation power stations reached around 90 GWh, suggesting close to 4,000 operating hours. The thermal power stations operated satisfactorily, but the operating time was less than forecast due to the increase in the price of natural gas.

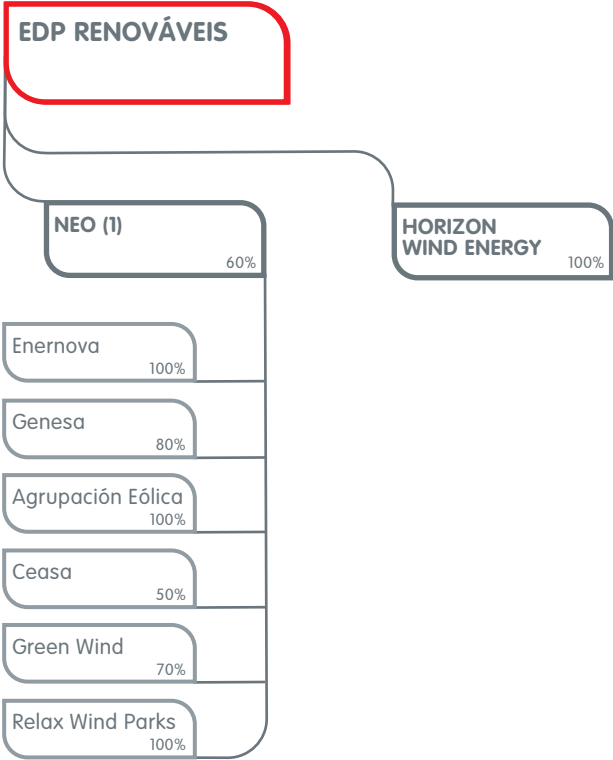
The biomass power stations, which together have roughly 7 MW installed capacity, generated 9 GWh in 2007.

Of the total of 82 MW installed capacity using the processing of residues, 453 GWh of electricity were generated, in addition to meeting obligations in terms of residue processing. In 2007, progress was made in solving the problems related to the handling of animal biomass.

SIDERGAS is noteworthy amongst waste-fed power stations. It uses the excess gases produced during the steel manufacturing process at the Arcelor-Mittal factory in Avilés to generate electricity to meet the steam requirements of the steel manufacturing process and exports the surplus electricity to the grid. Thus, the 20 MW installed capacity generated approximately 112 GW of electricity, which is 3% more than the figure for 2006. Given that the power station had passed the 20,000 operating hours mark, the year 2007 also saw the first large-scale revision.

5.1.2.3. EDP Renováveis

The EDP Group company responsible for generating power from renewable energy is EDP Renováveis, which was incorporated in late 2007 and owns shareholdings in NEO Energía and Horizon Wind Energy.



(I) The remaining 40% are held by HC Energía

Horizon Wind Energy, which was acquired on 3 July 2007, is part of EDP's strategic goals, in that it anticipated compliance with the strategy defined for 2007-2010, strengthened EDP's leadership in the renewable energy sector, enabled EDP to take up a leading position in the United States market, which has high growth prospects, and diversified the company's sources of revenue thereby reducing the risk of its portfolio.

By taking over Horizon Wind Energy, EDP became a top player worldwide in the renewable energy sector with 3.650 MW gross installed capacity in operation in December 2007.

Total EDP Renováveis	2007		2006 ⁽¹⁾	
	Gross ⁽²⁾	Contribution to EBITDA ⁽⁴⁾	Gross ⁽²⁾	Contribution to EBITDA ⁽⁴⁾
MW of wind power in operation				
Neo Energía	2,150	1,776	1,568	1,181
HWE	1,490 ⁽³⁾	1,254 ⁽³⁾	-	-
Hydroelectric MW	11	3	11	3
Total MW	3,650	3,033	1,579	1,183
GWh of wind power generated				
Neo Energía	-	2,911	-	1,902
HWE	-	862	-	-
GWh of mini-hydroelectric power generated	-	2	-	2
Total GWh	-	3,775	-	1,904

- (1) Figures for 2006 include Agrupación Eólica
(2) Total gross MW, regardless of % shareholding
(3) Includes 131 MW already built but not yet connected to the grid
(4) Capacity that contributes to the EBITDA

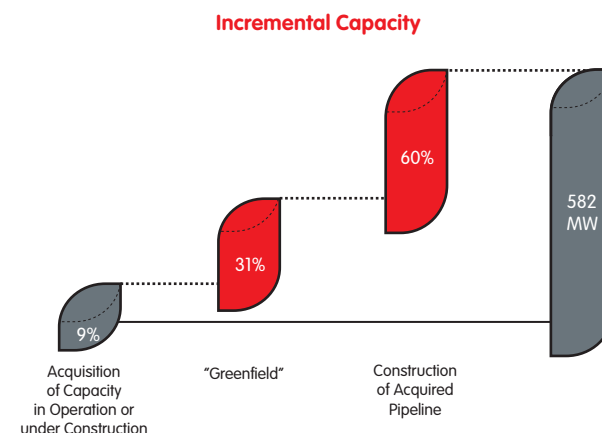
5.1.2.3.1. Neo Energía

Neo Energía reached a total of 2,150 MW connected to the grid at the end of 2007, which is a significant increase of 582 MW (+37%) in comparison to the year-end 2006.

	2007		2006 ⁽¹⁾	
	Gross ⁽²⁾	Contribution to EBITDA ⁽³⁾	Gross ⁽²⁾	Contribution to EBITDA ⁽³⁾
MW of wind power in operation				
Portugal	424	424	326	313
Spain	1,639	1,265	1,213	839
France	87	87	29	29
Total MW	2,150	1,776	1,568	1,181
GWh of wind power generated				
Portugal		735		483
Spain		2,056		1,419
France		119		0
Total GWh		2,911		1,902

- (1) Figures for 2006 include Agrupación Eólica
(2) Total gross MW, regardless of % of shareholding
(3) Capacity that contributes to the EBITDA

Neo Energía's top position was achieved thanks largely to its ability to undertake greenfield and quasi-greenfield projects. Although Neo Energía, as a company, is the result of a merger between Enernova and Genesa and the subsequent acquisition of Desa (2005) and Agrupación Eólica/Ceasa (2006), the growth component resulting from the acquisition of assets under operation was only 22%, while the other 78% was the result of its capacity to build pipelines.



This capacity to build pipelines and wind farms has placed Neo Energía at the top of the list of companies that built the most in 2006 and 2007 in the Iberian Peninsula and with one of the best performances in France. In 2007 Neo Energía had, in total, more than 800 MW under construction, 582 MW of which were connected to the grid.

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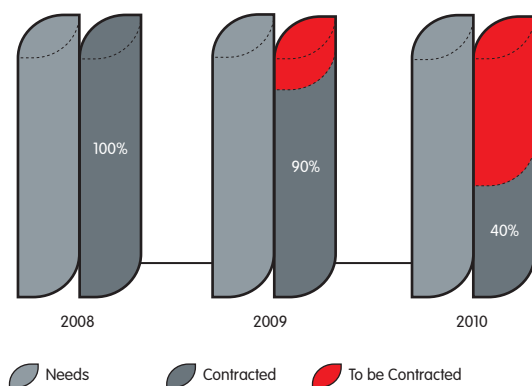
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At the same time, fulfilling its strategic growth plan for new, high-potential markets, in late 2007 Neo Energía took over Relax Wind Parks in Poland, a pipeline of projects totalling 1,022 MW in different stages of development. The first wind farm should have an installed capacity of 120 MW and is expected to go into operation in late 2009. The remaining capacity should go into operation between 2010 and 2013.

The EDP Group's penetration of the Polish renewable energy market will create an additional growth platform and a starting point for expanding this business in Eastern Europe. The aim of this acquisition is to place EDP in a leading position in Poland, a market that currently has an installed wind energy capacity of around 200 MW and enable us to continue consolidating the growth of the renewable energy business, particularly after 2010.

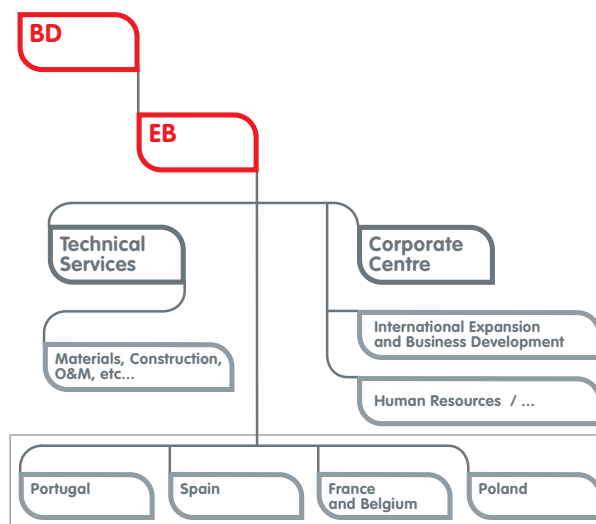
One of the critical success factors in the renewables sector is the flexible, competitive acquisition of wind turbines, as this may represent 70-80% of the total investment. The wind turbine market is currently a suppliers' market because of high demand and the manufacturers' limited supply capacity. In this difficult setting, Neo Energía (together with the EDP Group's Purchasing Department) has proved very successful in ensuring the availability of wind turbines for pipeline projects and construction by signing framework agreements with the main manufacturers offering essential factors like flexible deliveries and highly competitive prices. At the close of 2007, needs for 2008 have already been contracted and 90% and 40% are covered for 2009 and 2010, respectively.

Turbines Required and Contracted



This performance is basically down to a highly committed, results-oriented team that not only followed projects through from the administrative formalities to construction, operation and maintenance of plants, but also expanded the business to new geographical areas in line with the company's strategic plan.

Also in this context, 2007 marked a turning point for Neo Energía. It changed its corporate governance model from a Board of Directors delegating its powers to a CEO to a Board of Directors and Executive Committee. This not only separates supervisory duties from executive functions but also allows more effective management of the challenges of a platform that is large and expected to grow further. Along with the change in corporate governance, the company was restructured. A corporate centre and centralised technical management department were set up, while each country took on a lean structure focused on the execution of projects and asset management using centralised technical and corporate resources.

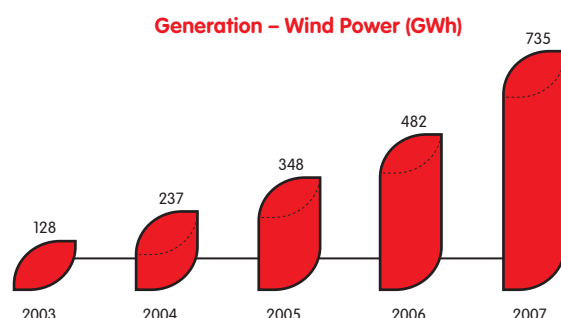


Portugal

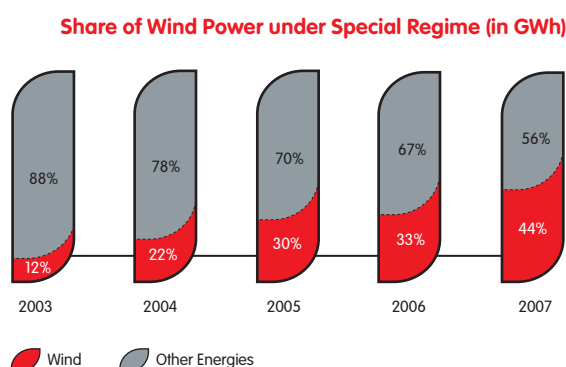
In Portugal, Neo Energía implemented all the projects scheduled for 2007, exceeding 400 MW of gross installed capacity. One should also highlight that the objectives in terms of achieving the targets established in the ENEOP business plan were achieved. ENEOP won the contract in an invitation to tender for wind energy generation in Portugal totalling 1,200 MW.

In comparison to 2006, the installed capacity was raised to 97 MW with the commissioning of the wind farms of Serra de Alvoaça (36 MW), Pico Alto (6 MW), Ortiga – Extension (2 MW) and Testos (24 MW). In addition to these, the following wind farms were commissioned: Fanhões Phase 2 – 3 (2 MW), Sobral 2 – Phase 2 and 3 (6 MW), São João 1 (Malhadizes – 8 MW) and São João 2 (Monte de Vez – 13 MW). These were transferred to Enernova in the scope of the agreement with Tecneira.

Gross sales of electricity from wind farms totalled 735,3 GWh in 2007, which is around 52.2% more than in 2006.



This growth increased the contribution of wind power to overall special regime generation in Portugal from 12% in 2003 to 44% in 2007.



In 2007, there was substantial growth in the activity of ENEOP 2 – Exploração de Parques Eólicos, S.A., owned 100% by ENEOP – Eólicas de Portugal, S.A. (ENEOP), which was incorporated on 25 October 2006, following a decision by the Directorate-General of Energy and Geology (DGEG) to award ENEOP the contract for Phase A of the public tender for power injection capacity in the SEP grid and associated reception points for electricity generated at wind farms. The contract was signed on 27 October 2006. ENEOP 2 is the company responsible for fulfilling the obligation to build and operate 48 wind farms with a total capacity of 1,200 MW. The EDP Group directly holds a 20% share in ENEOP and also an indirect share of 20% in ENEOP 2. In the course of 2007, ENEOP has met the operational targets necessary for meeting the key dates set for realisation of the wind farm construction work it is contractually obliged to carry out.

2007 also saw the acquisition of another 20% of the share capital of Eólica de Alagoa, S.A., which owns the Alagoa de Cima wind farm (13.5 MW), increasing Enernova's position from 40% to 60%.

As to the development of new wind farms for Enernova's own portfolio, the situation at the close of 2007 was as follows:

- Under construction, the Testos (24 MW), Serra do Mú (26 MW), Cabeço de Rainha II (31.2 MW) and Guerreiros (12 MW) wind farms, scheduled to go into operation in 2008;
- In the licensing or award phase, the Serra de Barroso II (10 MW), Negrelo e Guilhado (20 MW), Alto Arganil (41.4 MW) and Envendos (6 MW) wind farms, scheduled to go into operation in 2009;
- Two other projects in the portfolio with an expected power of around 17 MW awaiting official permission.

Therefore with the wind farms in operation, under construction and awaiting licensing, Enernova's own portfolio and the acquisitions mentioned will total an installed or installable wind capacity of some 620 MW, which represents a market share of around 20% of total capacity allocated and planned up to 2008 in Portugal. This percentage does not include the ENEOP 2 wind farms.

ENERNOVA's own portfolio was restructured in order to reduce costs and increase overall efficiency. This was done by merging ENERNOVA with the subsidiaries that it owns 100%. The following companies were merged in 2007: Candedo Wind Farm, Serra D'El Rei, Dómus Eólica and Ortiga.

Spain

Very important growth continued in Spain, both in operating wind farms and those in the portfolio on which construction began during the year. In Spain, Neo Energía has over 1,600 MW in operation and more than 400 MW under construction, which shows the success of the integration of the companies acquired in recent years.

Finally, in addition to wind power, Neo Energía in Spain has undertaken projects involving other technologies, such as thermoelectric solar energy in the Andasol III project in the Granada area. Construction is scheduled to begin in 2008, provided that minimum profitability is guaranteed.

In 2007, Neo Energía managed to place an additional 426 MW in operation in Spain, further demonstrating its capacity to implement its business plan.

The wind farms commissioned in Spain are those identified in the following table:

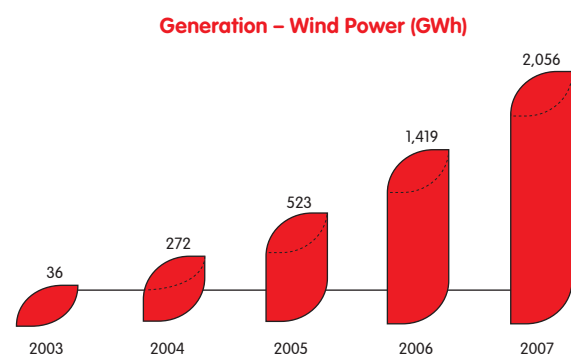
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Name of Facility	Gross MWs
P.E. Sierra de Curiscao (Phase II)	42.5
P.E. Munera I	39.6
P.E. El Pedrón	43.2
P.E. La Mallada	44.8
P.E. Cerro Becerril	14.4
P.E. La Dehesica	28.5
P.E. Munera II	30.6
P.E. La Navica	30.0
P.E. Valsagueiro	32.5
P.E. Los Almeriques	25.7
P.E. Las Monjas	26.0
P.E. Rancho Viejo	14.4
P.E. Virgen de la Peña de Alfarajín	30.0
P.E. Los Cantales	24.0
Total	426.2

In operating terms, the CEASA / Agrupación Eólica platform was integrated quickly and efficiently during the year. Neo Energía demonstrated great capacity for implementing its own portfolio of projects and those of the companies acquired in recent years. The foundations have thus been established for consolidating the growth of the business in Spain in the next few years.

Sales of electricity from wind farms reached 2,056 GWh, which is 45% more than in 2006.



2007 witnessed a change in regulations in Spain, with all wind farms in operation and licensed by 31 December 2007 benefiting from RDL436. NEO Energía has 1,440 MW that benefited from RDL436.

As to the development of new wind power projects in the portfolio for Spain, the situation at the close of 2007 was as follows:

- Under construction, seven wind farms with a gross installed power of 414 MW. These wind farms will go into operation in 2008;

- For the 2008-2010 period, wind farms with an installed capacity of 700 MW are at an advanced planning stage.

In addition to its wind power assets, Neo Energía has 3MW installed capacity in mini-hydroelectric power stations, which generated 2 GWh in 2007.

Other geographical areas

In 2007, Neo Energía consolidated its business activity in the French market, where it began operating in 2006. Thanks to integration of the Agrupación Eólica portfolio, a substantial number of operating projects (87 MW) were added during the year.

The Plouvien (10.4 MW), Patay (12 MW), Ségur (12 MW), Saint Bernabé (12 MW) and Canet-Pont de Salars (12 MW) wind farms went into operation. All together, Neo Energía has 87 MW in operation in France, contributing to the consolidation of its strategic plan outside the Iberian Peninsula.

As to the development of new wind farms in Spain, Neo Energía's position at the end of 2007 was as follows:

- One wind farm under construction and another in the licensing phase, both with 12 MW and scheduled to go into operation in 2008;
- 13 wind farms in the advanced licensing stages, six of which scheduled to go into operation by 2010, and a gross installed capacity of 59 MW.

In Belgium, construction work began on the Cerfontaine (22 MW), Chimay (10 MW) and Froidchapelle (25 MW) wind farms, all of which are scheduled to go into operation in 2008. They all belong to the portfolio of Greenwind, in which Neo Energía acquired a shareholding in 2006.

In 2007, 119 MW of co-generation assets were sold to HC Energía, allowing Neo Energía to focus solely on renewable energy.

5.1.2.3.2. Horizon Wind Energy

On 3 July, EDP completed the acquisition of Horizon Wind Energy LLC, following the signing of a contract with Goldman Sachs on 27 March for the total value attributed to the assets of USD 2.74 billion.

This transaction cements EDP's position as a leading global player in renewable energies and falls within EDP's strategic objectives, in that:



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- It brings forward compliance with the strategic guidelines laid down for 2007-2010;
- It reinforces EDP's leading position in the renewable energy sector;
- It enables EDP to enter in a position of strength into the US market, which has high growth prospects;
- It diversifies the company's sources of income and reduces the risks of its portfolio.

Horizon, previously called Zilkha Renewable Energy, LLC was founded in 2000 by Michael and Selim Zilkha. In June 2005 it was acquired by Goldman Sachs and its name was changed to Horizon Wind Energy LLC.

Horizon has been one of the most successful promoters of wind power in the USA since it was founded, essentially thanks to its highly experienced team and its excellent reputation for working closely with landowners, communities, customers and turbine manufacturers. Over time, Horizon has developed and constructed wind power projects to a total of over 2000 MW, some of which had been sold before acquisition by EDP.

In December 2006, Horizon had a gross installed wind capacity of 559 MW (342 MW net) and an additional capacity of 997 MW under construction.

In 2007, Horizon continued to implement its ambitious construction programme and by the end of the year had a gross installed capacity of 1,490 MW. Of this, 1,359 MW was fully commissioned.

Installed Capacity	2007	
	Gross ⁽¹⁾	EBITDA ⁽¹⁾⁽²⁾
Blue Canyon I	74	0
Maple Ridge I	231	116
Maple Ridge II	91	45
Madison	12	12
Blue Canyon II	151	151
Lone Star I	200	200
Twin Groves I	198	198
Elkhorn Valley	101	101
Prairie Star	101	101
Lone Star II	150	150
Twin Groves II	182	182
Total MW	1,490	1,254

(1) "Erected" MWs (connected to the grid but not in operation)

(2) Capacity that contributes to EBITDA

The company expects to reach a gross total of 1,556 fully commissioned MW (1,339 MW net) in the first half of 2008. This is the result of the construction of six wind farms in 2007, totalling 800 MW additional commissioned capacity.

In 2007, Horizon generated a total of 863 GWh, which represented 57% growth in generation against 2006. This reflects a full year of operation at Maple Ridge I and II, wind farms in New York State and the ongoing commissioning of 2007 projects, including Twin Groves I and Lone Star I.

In 2008, Horizon plans to begin building nine new wind farms totalling an installed capacity of 1,133 MW scheduled to go into operation in 2008 and 2009.

Horizon had a pipeline of wind farms totalling 10,8 GW in December 2007. These projects are in different stages of completion and are located in 15 US states.

After acquisition by EDP, Horizon signed three new power purchase agreements (PPAs):

- In July, it signed an eighteen-year PPA with Constellation Energy for the Twin Groves II project, which will ensure that all the energy produced by the 2007 wind projects is contracted through PPAs or hedges;
- In June and October, it signed two twenty-year PPAs with Empire District Electric Company and Westar Energy, Inc. for Meridian Way (Kansas, 201 MW). Construction will start in 2008.

Since its acquisition, EDP and Horizon have also worked towards ensuring they have wind turbines for upcoming wind farms. The following agreements have already been signed:

- It also signed one with GE for the purchase of SLE 1.5 MW turbines to a total of 101 MW for delivery in 2008 and 500 MW for delivery in 2009 and 2010;
- With Vestas for the purchase of V90 3.0 MW turbines to a total of 201 MW for delivery in 2008 and V82 1.65 MW turbines to a total of 400 MW for delivery in 2009;
- With Suzlon for the purchase of 400 MW in S88 2.1 MW turbines for delivery in 2008 and 2009.

In 2007, Horizon completed two transactions with institutional investors involving all assets in operation and under construction.

In July, it closed a deal with a consortium including JP Morgan, ABN Amro and Morgan Stanley for all 883 MW of gross installed capacity, with a contribution from the investors of approximately USD 700 million.

In December, it closed a deal with a consortium that includes GE Energy Financial Services and Wachovia Investment Holdings, LLC for all 600 MW of gross installed capacity with a contribution from the investors of approximately USD 600 million.

These transactions will enable Horizon and EDP to take advantage of tax benefits for wind farms, such as production tax credit (PTC) and accelerated depreciation. Horizon has 95% of the long-term ownership of projects after the investors achieve a certain negotiated return rate.

5.1.3. Distribution

EDP is active in the distribution of energy through EDP Distribuição in Portugal and HC Energía in Spain. This business, which focuses essentially on improving the distribution grids' efficiency and quality of service, was marked in 2007 by the best Equivalent Interruption Times ever recorded in Portugal and Spain, which is the main measuring rod for service quality.

5.1.3.1. Distribution in Portugal

At the beginning of the year, in accordance with Decree-Laws 29/2006 and 172/2006, EDP Distribuição incorporated and registered EDP Serviço Universal (EDP SU), a legally independent company, to which the last resort distributor licence was granted. EDP Distribuição is the National Distribution Grid concessionaire.

The creation of EDP SU, the possible creation of the Logistics Operator, which is still awaiting the respective specific legislation, and the current strategic priorities – in the form of an aggressive business plan, maintenance of strong regulatory pressure for improvement of efficiency and effectiveness levels and the considerable increase in recent years in “outsourcing” and the externalisation of tasks to other Group companies – have determined the need to reassess the organisational model.

This task was defined and carried out this year in a way that the new organisational model would make it possible for the company to respond to its aspiration to be a reference in terms of operational efficiency in the distribution business and to the strategic priorities defined for it, which are development of the human capital, optimisation of operations (OPEX) and investment (CAPEX) and improvement in the quality of energy supply and the regulatory conditions.

The philosophy that guided the design of the new model is based on defining key processes and those responsible for them, and an efficient and flexible geographic structure, while minimising the number of hierarchical levels and organisational units, boosting the clear management and control of those processes through functional and hierarchical reporting, and making the executing units accountable for the results.

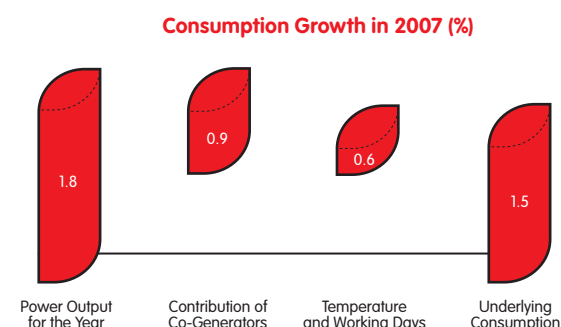
Implementation of this model led to a 22% reduction in the number of management positions and a lowering of the respective average age by 3.4 years, having achieved a significant level of rotation at all levels. Approximately 42% of those in office changed their area of activity.

Meter reading management activities were transferred to EDP Soluções Comerciais, which now carries out these operations in the scope of the provision of services contract the company has with EDP Distribuição.

The transfer of the information systems resulting from the restructuring was carried out with success through the REDIS Project.

Energy Balance

The year 2007 saw a 1.8% increase in the global volume of electricity fed into the distribution grid.



Taking into account, in particular, the effect of the climatic conditions in 2007 and the continued, though now somewhat reduced, policy of co-generation power stations of selling all of their generated power to the grids, in accordance with Ministerial Order 399/2002, we have registered a 1.5% growth in underlying consumption, which is in line with the 1.8% growth in electricity being fed into the REN grids.

In total, the increase in outgoing energy was 3.2% in comparison with 2006.

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The following table shows the Energy Balance for 2007 as compared to 2006. It shows the return of a significant volume of demand from the open market to the regulated market as far as high and medium voltage are concerned. the opposite trend was registered for low voltage.

Outgoing Energy from Electricity Grid

GWh	2007	2006	Var.
To the Regulated Market	43,779	41,228	6.2%
To the Free Market	5,731	7,406	-22.6%
Total	49,510	48,634	1.8%

Note: Includes VHV consumption

Outgoing Energy from Electricity Grid

GWh	2007	2006	Var.
Electricity delivered to the distribution grid	49,510	48,634	1.8%
Losses in distribution	-2,591	-3,169	18.2%
Outgoing energy from electricity grid	46,919	45,465	3.2%
Electricity sales on the regulated market	41,546	38,253	8.6%
Very high voltage	1,527	1,377	10.9%
High voltage	6,265	5,358	16.9%
Medium voltage	10,290	8,589	19.8%
Special low voltage	2,491	2,308	7.9%
Low voltage	19,523	19,222	1.6%
Public lighting	1,449	1,399	3.6%
Electricity sales on the regulated market	5,373	7,161	-25.0%
Very high voltage	3	41	-92.3%
High voltage	11	98	-89.0%
Medium voltage	4,098	5,820	-29.6%
Special low voltage	996	1,190	-16.2%
Low voltage	264	13	1,951.1%

During 2007, 32 new installations for special regime generators (SRG) were connected to the grid, which corresponds to an installed capacity of 695 MVA largely associated to wind power installations (657 MVA).

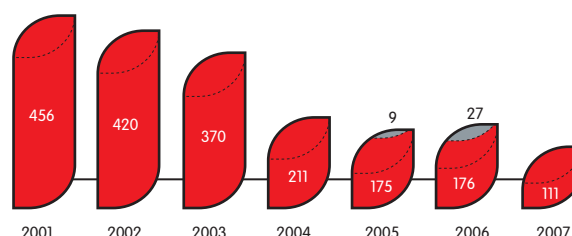
With the aim of optimising the drawing up of the Energy Balance, the development of a new information system was launched to support the Energy Data Management process – focusing in particular on the Energy Balance. The system will intervene at the internal processes level within EDP Distribuição and also at the level of articulation with the various entities that collaborate in the energy supply value chain, in accordance with the National Electricity System.

Service Quality

The technical service quality, measured by the Installed Capacity Equivalent Interruption Time (TIEPI), reached an overall total

of 111 minutes. This is considerably lower than the figure for 2006 (203 minutes).

Installed Capacity Equivalent Interruption Time Medium Voltage (in minutes)



Extraordinary Impact

There were no significant occurrences caused by factors outside the distribution grid operator and the internal TIEPI, which measures the level of interruptions for which the company is responsible, improved considerably, by 33%. This is reflected in the reduction from 125 minutes in 2006 to 84 minutes in 2007.

The remaining general quality of service indicators – namely the system average interruption frequency index (SAIFI), the system average interruption duration index (SAIDI) and the number of interruptions for customers – also matched the very positive trend in the TIEPI.

In 2007, the implementation of specific improvement plans in certain regions of the country that registered lower levels of service quality was maintained. The plans consisted of the improvement, remodelling and maintenance of the grids that serve these regions.

The SCI Mobility System was also consolidated. It now covers the whole country with direct impact on the LV incident resolution operations.

The voltage quality and continuity (QCT) of the EDP Distribuição grid continued to be assessed in 2007 through implementation of the QCT Monitoring Plan, as set forth in the Service Quality Regulations (RQS).

The monitoring plan was implemented as expected and 249 facilities (109 HV/MV substations and 140 transformer posts) were monitored. Four of the facilities were monitored continuously throughout the whole year and 245 were monitored for 3-month periods, making a total of 564,240 QCT monitoring hours of our facilities and grids.

Furthermore, high levels of quality of service to customers by the grid distribution operator continued to be registered. This is reflected in the operator's clear compliance with the general supply service quality indicators in the Quality of Service Regulations (RQS):

- Estimates for low-voltage lines and connections within 20 working days;
- Installation of low-voltage lines and connections within 20 working days;
- Customer low-voltage connections within two working days;
- Maximum waiting time of 20 minutes in stores;
- Maximum waiting time of 60 seconds for telephone callers;
- Reconnection after accidental interruption within four hours;
- Requests for information dealt with within 15 working days.

The Company's performance in terms of reading low voltage (LV) meters is no longer gauged by a general indicator. The interval between two readings, which should not exceed 6 months, is now individually controlled.

Distribution 2010 Programme

Given the considerable pressure to improve performance the Company is subject to, EDP Distribuição, on the basis of the new organisation, launched the Distribution 2010 Programme, which consists of 10 main initiatives focusing on performance improvement and covering all of the Company's operations.

It is a transformation programme, the initiatives in which have knock-on objectives in the areas of behaviour and technology, with clearly defined responsibilities. The initiatives are in line with the Business Plan 2007 – 2010.

InovGrid Project

The InovGrid Project is one of the 10 initiatives in the Distribution 2010 Programme. It is a part of the response to the strong pressure the electricity sector is subject to, resulting in the need to implement a technological renewal and the organisational adaptation of the operation of the distribution grid, associated with the installation of telemetering equipment and the progressive implementation of micro-power generation. The aim of the project is to progress towards an intelligent power

distribution system, based on energy telemanagement, which will revolutionise the grids and their interaction with the consumers/ generators, facilitate the spread and integration of the distribution of micro-power generation, improve operational safety and quality of service and provide individualised management instruments and functionalities to the grid users that focus on the promotion of energy efficiency and the provision of new services.

PEC. Next Continuous Contract Work

Continuing the process begun in 2006, which saw the public launch of the Invitation to Tender Programme and Procedures for Qualification of Bidders, 2007 saw the implementation of the next procedures for the implementation of this new Continuous Contract Work, which culminated in the commencement of the contract in September.

The aim of the new contract is to increase quality levels in provision of services in the context of construction and maintenance work on the power distribution grids and the installation of metering teams, with a view to guaranteeing cost reductions. To this end, the conditions were created to establish greater competitiveness between bidders and greater capacity of response to the requests in the tender. These include:

- Reduction in the number of contract work areas;
- Division of tender processes into two segments depending on the amounts, type of work and geographical areas involved;
- Increase in the number of bidders per contract work area, with differentiated work quotas;
- Stipulation of prior qualifications for certain types of work and certification for entities carrying out specific tasks;
- Incentives and penalties introduced through a new performance assessment model.

Included in this contract were new activities, guaranteeing award of contract of all types of work inherent in the EDP Distribuição operations.

Telemetering

Since the beginning of July 2007, all customers for MV, HV and EHV electricity now have telemanagement / telemetering technology at their disposal, in compliance with an obligation laid down by ERSE (Energy Services Regulatory Authority).

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07 Initiatives involving the most innovative systems available in energy telemanagement applied to the LV segment also continued, and were extended to 400 more customer installations.

"Active Grid" Project

This project, which is based on the Power On software, aims at putting into place a new outage management system in the electricity grid that would replace the current SGI (Incident Management System), as well as all the interfaces required for the other Company systems. It will allow for integration of the outage management for the three voltage levels (HV, MV and LV) into one application, using the Technical Information System (SIT). This will have a positive impact on quality of service, in terms of reducing service restoration times, and in the quality of information available to the customer.

In accordance with the timeline for implementation of this project, this software application was made available in production environment for the whole geographic area of the Lisbon Grids and Customers Department (DRC) for the Lisbon area. Its gradual introduction to the other DRCs is planned for 2008.

Efficiency

With a view to achieving greater effectiveness and optimisation of investments and operating and maintenance costs, the year 2007 was marked by the launch of the EDP OPEX programme. The programme was developed for the quarterly monitoring of the economies achieved in these areas through fifteen initiatives identified for EDP Distribuição in the scope of the OPEX Project. The initiatives focus on the modus operandi in the field and the purchase of equipment for facilities.

The project's objective in terms of cutting costs for the Company in 2007 was achieved. Individual analysis of the performance of each of the initiatives shows that, in general, the measures adopted are achieving the expected positive results.

The application of increasingly demanding criteria in investment analysis was maintained, together with the major efforts towards optimising the operation and maintenance of the grids and facilitating a reduction in investments in 2007.

The Productivity + Programme also remained in place. The aim of this programme is to improve the productivity levels of internal human resources and external service providers, continuing with the definition and implementation of operational management systems in diverse Company areas, namely in maintenance,

service restoration, design projects and construction, conduction centres and technical centres.

In this context one can highlight the WFM/GME Project (Workforce Management/Team Mobility Management), which was launched in late 2006 and continued throughout 2007.

The WFM/GME Project makes use of the most modern information and telecommunication technologies to improve management of the teams in the field through the optimisation of work schedules and the allocation of service tasks with a view to minimising execution times and to update the systems with real time information on work carried out. It is applied in the areas of incidents/outage, maintenance and customers and has a positive impact on quality of service and the Company's image.

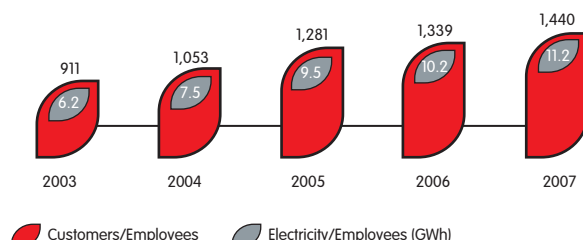
In the area of risk management, the analysis of the risks already identified in EDP Distribuição was consolidated. With the aim of creating awareness for and informing the holders of the most important posts in the Company Macrostructure of this problem, and owing to the obligations the Company is bound by, a workshop was carried out that was attended by the highest level staff members in the EDP Risk Management Department. Risks already identified were analysed and others were acknowledged and the need to identify the respective owners was highlighted, as well as that to validate the quantifications already put forward and the actions proposed with a view to minimising their occurrence and effects.

Also in 2007, work began on drawing up the Risk Management Sub-Project, which is part of the Management + Project, which in turn is an integral part of the above-mentioned Distribution 2010 Programme.

The Project Management Project was launched with the aim of implementing a collaborative tool to support the project management methodology adopted by EDP Distribuição, focusing on the project planning, control and execution phases.

The increase in operational efficiency enabled more customers to be served and more energy to be distributed with fewer employees. The ratio of customers per employee, often used as a measure of productivity in distribution companies, increased from 773 in 2001 to 1,339 in 2007. Additionally, the energy distributed per employee indicator more than doubled between 2001 and 2007.

Operational Efficiency of EDP Distribuição (Regulated Market + Free Market)



The following events in distribution are also worth noting:

- In response to EDP's social responsibility and its principles of sustainability, a number of measures were put in place to be carried out by EDP Distribuição in the scope of the Plan for the Efficient Use of Electricity (PPEC), after approval of the respective financing by ERSE, the Energy Services Regulatory Authority;
- The Environmental Diagnostics Programme was continued, with visits being made to the facilities included in the selected sample and the subsequent report identifying the measures to be taken being drawn up;
- In the scope of the Environmental Performance Promotion Plan (PPDA), the annual report for 2006 was delivered to ERSE, including the programme's objectives for 2006-2008, and the Environmental Accounting System was put in place;
- Following an order issued by ERSE, a Reconciliation System was developed that enables us to calculate the electric energy adjustments for the purpose of settlement of deviations, namely adjustments for losses in the grids and adaptation of the generation and consumption curves. This "logistics operation" was previously the responsibility of REN as part of its account adjustment function;
- Throughout 2007, EDP Distribuição maintained a relationship of close cooperation with the Association of Portuguese Municipalities, having simultaneously reorganised its representation in mainland Portugal, at all times striving for better relations with each municipality, better knowledge of their specific needs and a balanced response to the various questions emerging in the course of their activities, in particular those relating to concession contracts. Here one must highlight the renewal of the concession contract for the distribution of low voltage electricity with the city of Tomar finalisation of the renewal of a similar contract with the

municipality of Oeiras is expected to follow soon. Likewise one can highlight the commencement of negotiations for the possible renewal of the concession contract with the municipality of Lisbon.

5.1.3.2. Distribution in Spain

In Spain, the total amount of energy distributed in 2007 was 260,036 GWh, 3% more than in 2006.

Electricity Distribution		HC Energía	
GWh	2007	2006	Var.
High Voltage	5,882	5,874	0.1%
Medium Voltage	1,204	1,215	-0.9%
Low Voltage	2,536	2,461	3.0%
Total	9,622	9,550	0.8%

The energy distributed by HC Energía in Spain was 9,622 GWh, which is an increase of 0.8% over 2006. Low voltage consumption grew by 3.0% as a result of the weather conditions for the year. The large corporate customers maintained the intensive use of their factories and premises and their weight explains the moderate increase in demand for energy.

Electricity Distribution (Full Tariff + Access Tariff)		HC Energía	
Number of customers	2007	2006	Var.
High Voltage	21	21	0.0%
Medium Voltage	912	867	5.2%
Low Voltage	615,644	602,293	2.2%
Total	616,577	603,181	2.2%

As far as distribution outside Asturias is concerned, one must highlight the fact that a total of 11,171 customers was reached overall in the distribution zones of Alicante, Madrid and Valencia. The energy distributed to these customers totalled 224 GWh.

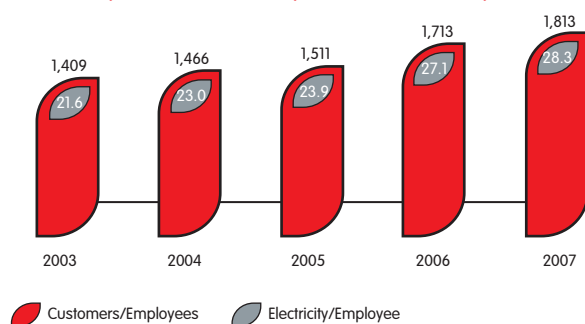
Efficiency of operations

Organisational work and developments aimed at optimising operational efficiency for electricity distribution continued in 2007. Reorganisation of employee numbers, investments carried out and new work order criteria enabled 28.3 GWh to be distributed per employee, approximately 44% more than in 2001. Likewise, the number of customers per employee reached 1,813 in 2007, which is 36% higher than the 2001 figure.

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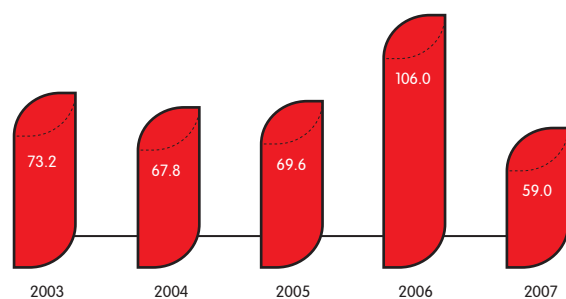
Operational Efficiency of Distribution in Spain



Service Quality

HC Energía registered the best quality index in the history of the company in 2007. The TIEPI (Installed Capacity Equivalent Interruption Time), the indicator that measures the quality of supply by electricity distribution companies, registered a figure of 59 minutes for HC Energía. This figure means that the TIEPI has improved on the result for 2004, when the figure was 64 minutes. In comparison to the preceding year, a considerable improvement in quality was achieved. In 2007, no significant incidents affecting quality and continuity of supply in the company's market were registered and the company was once again amongst the best performers in the country.

Installed Capacity Equivalent Interruption Time Medium Voltage (in minutes)



This indicator is above the 97% mark, the highest figure set by Royal Decree 1955/200, which regulates electricity transport, distribution, marketing and supply operations, as well as licensing procedures for electric energy facilities.

One must also highlight the following developments in the distribution operations in Spain:

- An agreement with Red Eléctrica de España (REE) for the sale of transport facilities in the distribution zones in the Comunidad Valenciana (Valencian Community). The total revenue from

the operation is EUR 18.6 million and was authorised by the Spanish Ministry of Industry on 15 November 2007;

- In the context of the development of the distribution grid in the Levante area, the 20 kV medium tension line between Elche and Dolores (Valencia – Alicante) was put into operation, making it possible to eliminate the local generation power stations from the supply for these markets, with the resulting cost-cutting effect;
- Adaptation of new electronic meters to the tariff regulations. The Power Control Switch campaign was launched, with more than 17,000 devices being installed since July, and the campaign for the installation of telemanagement-enabled domestic meters was also begun;
- The HC Energía Master Grid Plan was approved and the design criteria for substations were revised;
- With a view to making better use of Group synergies, the EDP Group Distribution Committee was set up and diverse working groups created.

5.1.4. Supply

The EDP Group is active in supply activity in Portugal and Spain in the regulated market, where the tariff plan for the supply of electricity is regulated, and in the free market, where it operates in competition with other Iberian players.

During 2007 the main objective was to develop a profitable commercial strategy. With this in mind, the two major priorities were profitability, contributing to hedging the power generation risk through customer volume in the liberalised market, and maintaining a leading position in the liberalisation process in the group's natural geographic areas of operation.

5.1.4.1. Supply in Portugal

The year was begun under a new organisational structure for the National Electricity System, with clear separation between operation of the distribution grid and supply in the Regulated Market (RM). This was achieved by means of the setting up, by EDP Distribuição, of a legally independent company – EDP Serviço Universal, SA (EDP SU) – which functions as a supplier of last resort, leaving EDP Distribuição with the role of the MV and HV distribution grid operator, all in accordance with Decree-Law 29/2006 of 15 February.

The year 2007 was also marked by the launch of the MIBEL (Iberian Electricity Market) in July. This development introduced a considerable number of amendments to the national regulation of the sector, particularly resulting from the early termination of the PPAs (Power Purchase Agreements), which served until that date as the reference framework for the cost of energy implicit in the sales prices to final customers in the RM.

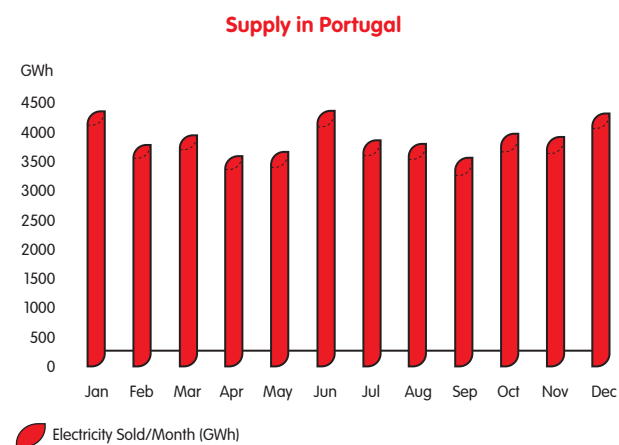
Indeed, the replacement of the PPAs in the price forming methodology by market price and CMEC (Costs of Maintenance of Contractual Equilibrium) mechanisms rendered an interim tariff revision necessary, with ERSE publishing in August the new prices applicable for the September – December 2007 period.

One should point out that the CMEC, contrary to the PPAs, are recognised in the General Use of the System (UGS) tariff, because they are borne by all customers in Portugal, regardless of whether they are supplied through the regulated market (RM) or liberalised market (LM). Under the previous PPA model, the associated cost was included only in the energy tariff paid by the RM customers.

Thus, the price revision in September reduced the competitive edge the LM had in comparison to the RM, through the significant reduction in the RM prices and the increase in the LM supply prices.

Nevertheless, the EDP Group managed to achieve a high level of commitment with the market, reinforcing its importance in it despite the adverse price conditions.

In overall terms (i.e., in both the RM and LM markets), the EDP Group supplied 6,051,114 electrical facilities by the end of the year, selling an annual total of 44.6 TWh.



Supply on the Regulated Market

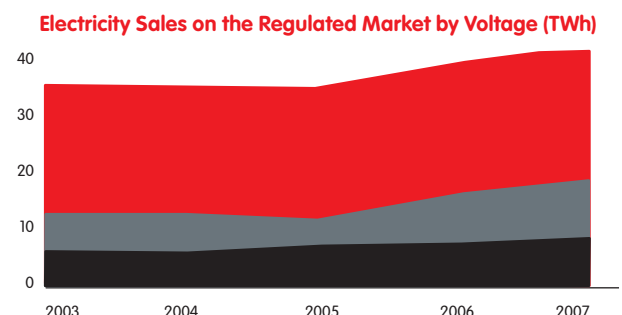
EDP SU, the company that was awarded the last resort sales licence in accordance with article 52 of Decree-Law 172/2006 of 23 August, was set up on 19 December 2006. It began operating on 1 January 2007.

The electricity supply contracts previously signed with EDP Distribuição were transferred to EDP SU, which assumed the commitment to guarantee continuity of energy supply to the consumers that remain in the regulated tariff regime.

In 2007, the total number of customers in the regulated market dropped 1% in relation to 2006. This is the result of more than 100,000 low voltage customers migrating to the liberalised market. In contrast to the developments in the low voltage market, the high and medium voltage segments witnessed the return of a high number of customers from the LM to the RM. Additionally, the strong growth in the number of high voltage customers reflects the establishment of electricity sales contracts with the EDP power stations.

The sales of electricity in the RM rose by 8.6% in comparison to the previous year, particularly in the high and medium voltage segments. The weak growth registered in low voltage sales, approximately 1.6%, can be put down to the aforementioned migration of customers to the LM.

	N. of Customers			Electric. (GWh)		
	2007	2006	Var.	2007	2006	Var.
Total	5,902,262	5,961,697	-1.0%	41,546	38,253	8.6%
Very High Voltage	55	20	175.0%	1,527	1,377	10.9%
High Voltage	213	182	17.0%	6,265	5,358	16.9%
Medium Voltage	20,669	19,955	3.6%	10,290	8,589	19.8%
Special Low Voltage	25,655	25,118	2.1%	2,491	2,308	7.9%
Low Voltage	5,807,362	5,869,451	-1.1%	19,523	19,222	1.6%
Public Lighting	48,308	46,971	2.8%	1,449	1,399	3.6%



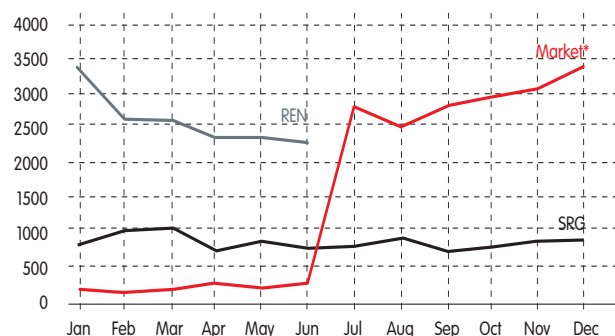
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In the first half of 2007, the electricity necessary to guarantee supply to the regulated market customers was essentially purchased from power stations with power purchase agreements (PPAs), through REN and from special regime generators. A small amount was also purchased in the market.

Following the entry into force of Decree-Law 264/2007, which establishes a number of provisions designed to further development of the MIBEL (Iberian Electricity Market), EDP Serviço Universal began to purchase most of its electricity in the market in the second half of the year.

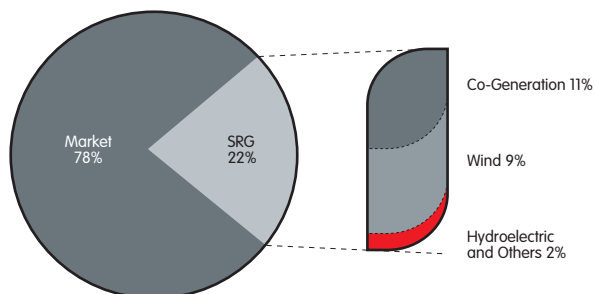
Electricity Purchased – 2007 (GWh)



* Including purchases at auctions

Also, 2007 saw an increase in the contribution from Special Regime Generation (SRG), which reached 22% of purchased electricity in the latter half of the year.

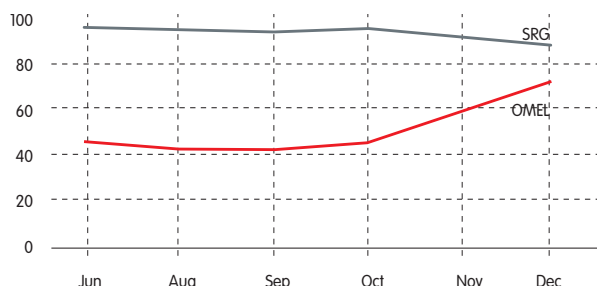
**Breakdown of Energy Purchased (GWh)
in the 2nd Half of 2007**



As far as the average energy purchase prices are concerned, one must highlight a considerable increase in the market prices in November and December. The average purchase price in the OMEL (Operador del Mercado Ibérico de Energía – Pólo

Español, S.A.) rose from approximately EUR 50.00/MWh in July – October to some EUR 74.00/MWh in December.

**Average Price for the Purchase of Energy
in the 2nd Half of 2007 (€/MWh)**



With regards to the quality of service provided in the regulated sale of energy, the specific indicators in the Service Quality Regulations for this activity were met:

- Maximum waiting time of 20 minutes in stores;
- Maximum waiting time of 60 seconds for telephone callers;
- Requests for information dealt with within 15 working days.

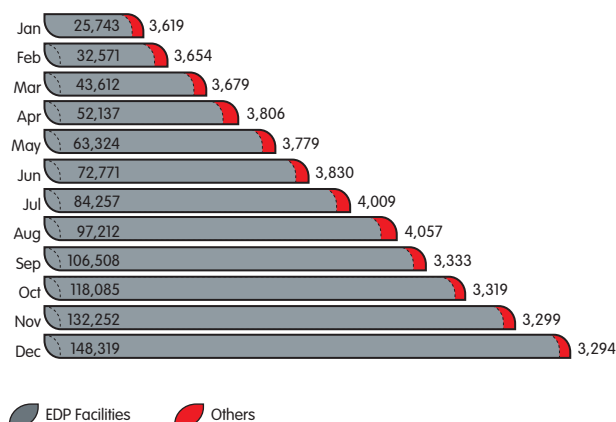
Supply on the Free Market

The EDP Group is active in the Liberalised Market through EDP Comercial (EDPC), which houses three business units:

- One dedicated to companies and institutions (B2B), which operates in the market under the brand name EDP Corporate;
- Another that is aimed at the private consumer and small business segment (B2C), which operates under the brand name edp5D;
- And an Energy Services unit, with an offer aimed at all customers in the market, be they from the B2B or B2C segment.

Throughout 2007, EDP Comercial maintained a leading position in the liberalised electricity market, with a market share based on energy sold of 56% during the year and 88% of installations supplied in December.

Facilities on the Free Market



EDP Comercial

	2007		2006	
Sales on the Free Market (GWh)	5,372	100%	7,161	100%
EDP Comercial	3,010	56%	4,037	56%
Others	2,363	44%	3,124	44%
Facilities on the Free Market	151,613	100%	26,199	100%
EDP Comercial	148,319	98%	22,573	55%
Others	3,294	2%	3,626	45%

B2B Business Unit

Following the strategy launched in 2006, B2B continued in 2007 to invest in a profitable commercial policy, the objective of which was to enable risk coverage along the whole value chain and thus help to achieve a low risk profile for the Group. In this scenario, and despite the adverse price context, 2007 was marked by a sales operation aimed at restructuring the customer portfolio so as to allow for more flexible management with greater risk control and a greater contribution to profits.

At the beginning of 2007, a drop in energy purchase prices was expected, which, given the regulated prices then known, created an opening in the LM, allowing for the renegotiation of customers and the attraction of new customers to the regulated market, some of which had already been supplied by EDP Comercial in the past.

Implementation of this strategy included:

- Adoption of low risk contractual structures for EDP Comercial (regulatory, price, volume and demand profile risks);
- Greater focus on credit risk management;

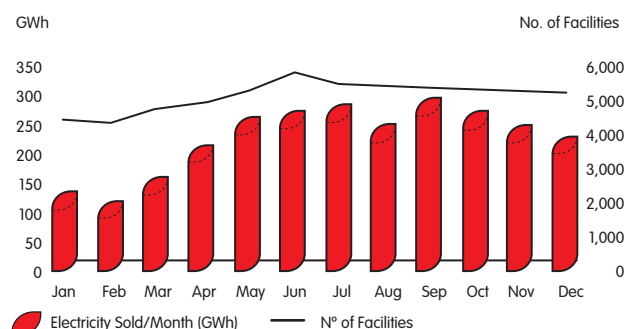
- Making the most of the confidence capital, i.e. the high levels of acceptance for contracts in this portfolio.

Furthermore, great efforts were made to strengthen partnerships and close relationships with the customers, which take on particular importance and dimension in times of transition, as was the case in the interim tariff revision that took place in September. The relationship established between EDP Comercial and its customers played a crucial role in overcoming that disruption.

The activity in 2007 reflects EDP Comercial's commitment to the market, in a position of constant proximity to the customer, enabling the company, at the beginning of the year, to achieve a market share in terms of energy sold of approximately 40% and, with the subsequent reduction of the LM activity of the remaining rivals, to increase that share to almost 56% by the end of the year.

At the end of 2007, the B2B unit supplied 5,105 facilities (15% more than at the end of 2006), having sold approximately 2.8 TWh during the year, which is a drop of 32% in comparison to the preceding year (the result of the progressive drop in the size of the customer portfolio in 2006, as contracts came to their end).

EDP Comercial B2B*



*Does not include SLV customers classified under the B2C segment

Against this background, it became necessary to improve organisational, operational and procedural flexibility, and to create conditions for more dynamic commercial operation and a more active risk management. This was reflected in the considerably positive development in profits, as the objective of achieving a turnaround in gross margins was fully achieved.

B2C Business Unit

After completion of the final phase in the liberalisation of the market, i.e. the open market being extended to normal low voltage (NLV), in 2007 EDP Comercial, through edp5D, represented

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the only concrete offer for the B2C segment, achieving a portfolio of some 143,000 customers by the end of the year.

The objective defined for edp5D was to develop a profitable commercial strategy that would contribute to EDP Comercial achieving a leading position in the liberalised NLV segment. The strategy is based on three main pillars:

- A strong and distinctive market positioning based on the provision of an integrated set of energy services that contribute to good quality of life and well-being, with all the quality and guarantee that the EDP brand represents;
- An innovative offer in the form of 5 value dimensions for the customer: Economy, Comfort, Proximity, Innovation and the Environment;
- A service of excellence that contributes to the satisfaction and increased loyalty of the customers.

In 2007, the edp5D brand and offer was materialised through the “edp5D pack”, a pioneering initiative in the Iberian market in terms of energy services packaging. The pack includes: an energy-saving light bulb (CLF), an information leaflet detailing all the benefits of being an edp5D customer and contract forms.

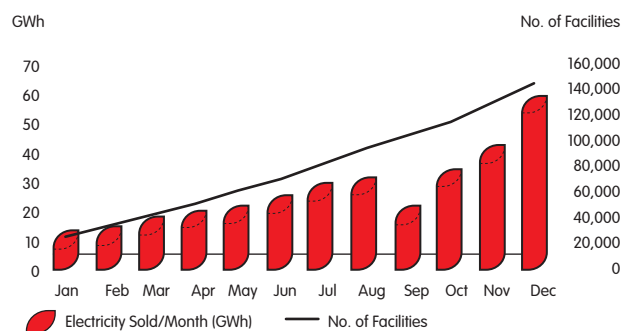


Promoting energy efficiency is one of the brand positioning factors. The year 2007 saw an intensive campaign for the exchange of incandescent bulbs for energy-saving ones using various mechanisms – door-to-door distribution, partnerships with modern distribution chains and in EDP stores and agencies.

The campaign, which was part of the PPEC, is described in greater detail in the following section (Energy Services Business Unit). Entirely managed by B2C, the campaign was so successful that twice the initial target was achieved, and a total of 650,000 light bulbs were exchanged.

EDP Comercial was successful in meeting the objectives it had set for this segment, supplying 143,214 customers by the end of the year and having sold 259 GWh during the year, which is the equivalent of an annualised consumption of 521 GWh.

EDP Comercial B2C*



*Does not include SLV customers classified under the B2C segment

The success of edp5D was also reflected in the average number of contracts signed daily (490), which was the result of the high performance of the sales team and the innovative and differentiating offer in terms of attractiveness and customer proximity.

At the end of 2007, EDP Comercial took another step in the development of the edp5D offer by creating a multisensorial identity and its materialisation in a customer reward scheme. The brand was linked to the universe of the 5 senses, a ground-breaking initiative at the world level in the energy sector.

The edp5D multisensorial identity has the brand represented by the 5 senses (sight, taste, smell, hearing and touch). The senses correspond to an exclusive benefits plan for edp5D customers, which is based on an experimental marketing concept and promotional offers, sent by text message to mark special occasions or periods throughout the year, all in the spirit of the edp5D brand.

One year after the total liberalisation of the market, EDP continues to develop strategies aimed at equating its service with excellence and innovation, applying a set of solutions specifically tailored to suit each customer.

Energy Services Business Unit

With its permanent commitment to partnership and proximity with its customers, EDP Comercial has continuously developed new energy service offers that help the customers to improve their operational performance, in terms of optimising their energy costs.

Throughout 2007, in addition to continuing to boost its service offer (including a new project designed for small and medium-sized enterprises), EDP Comercial implemented various measures included in the Plan for the Efficient Use of Electricity (PPEC) by the Energy Services Regulatory Authority, ERSE, which was approved in 2007. It also submitted a new application to participate in the PPEC 2008 and ventured into a new business area: large-sized thermal solar installations for buildings.

In the context of the PPEC, 2007 was a year of challenges, with the ambitious and successful implementation of integrated measures in this energy-saving scheme. The EDP Group managed to secure funding amounting to EUR 8.1 million, or some 80% of the total of EUR 10 million allocated in 2007.

Of this amount, EDP Comercial had measures funded to the value of approximately EUR 4.5 million, covering schemes aimed both at the B2B and B2C segments, in order to, on the one hand, inform and sensitise private household customers to the issue of energy efficiency and, on the other, to help improve energy efficiency on the technological basis installed in the corporate segment.

Essential for the success of this operation were rigorous coordination and monitoring, as well as an exemplary commercial execution with the involvement and efforts of various areas of the company, namely the Energy Services business unit and the B2B and B2C marketing and sales units. To this end, three priority lines of action were defined:

- Development and implementation of a communication plan (promotion of conferences, information and access to application forms through the website, information leaflets, etc.) and support material for the whole project;
- Implementation of sales training plans for both the B2B, B2C and Services sales teams and partners selected for implementation of the approved measures;
- Definition of an ambitious action plan and constant and rigorous monitoring with a view to successfully achieving the objectives set.

In the corporate/institutional segment, electronic speed controllers and power factor correction equipment were installed in electrical facilities.

In the private consumer segment, one can highlight the scheme for the free exchange of incandescent bulbs for energy-saving ones already described above (B2C Business Unit).

Results of PPEC 2007

B2B measures		
Dissemination of efficient electricity use	~800	Customers covered
Correction of power value	180	Devices installed
Electronic speed variators	150	Devices installed
B2C measures		
Energy Bus	~4000	Visitors
Compact fluorescent light bulbs	650.000	Bulbs distributed
Promotion of efficient refrigerators	7.000	Refrigerators

The applications to the PPEC 2008 were presented in the first half of the year. There was an increase in the number of entities applying for the support measures. The EDP Group managed to secure funding of EUR 4.89 million for measures it plans, which is 53% of the total amount of EUR 9.25 million available. EDP Comercial secured approximately EUR 2.7 million for its measures, making it the leader in terms of approved financial support for the implementation of measures. It received 29% of the total amount allocated by the PPEC 2008 regulatory body.

EDP Comercial is investing in an increasingly more intimate relationship of partnership and will be more and more present and committed to helping its customers choose the option most suited to their needs, by providing more information and solutions for consumption optimisation and reducing costs.

5.1.4.2. Supply in Spain

Supply on the Regulated Market

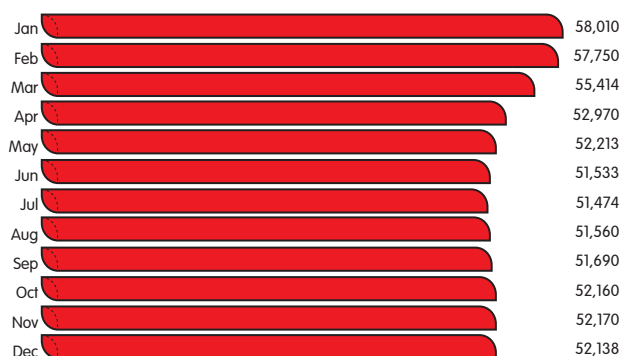
As far as the supply business in the Regulated Market is concerned, the 610,000 mark was exceeded in electricity customers in the HC Energía distribution zones (Asturias, Madrid, Valencia and Alicante), together representing consumption of 9,623 GWh.

Private customer loyalty building operations were carried out, with the development of the "Funciona" service, which consists of the revision and maintenance of electrical and gas installations and appliances, and already covers 75,000 contracts, and the

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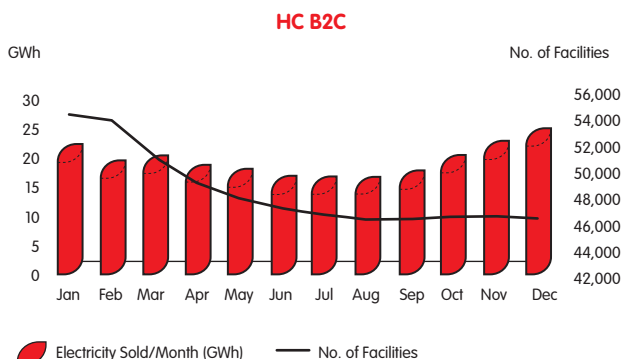
Supply on the Free Market

Facilities on the Free Market

 HC Facilities

At the end of the year, the number of customers being supplied was 47,980. The commercial effort centred on obtaining efficient coverage for the Group's generation and optimisation of its customer portfolio.

HC Comercialización	2007		2006	
Sales on the Free Market (GWh)	71,876	100 %	62,571	100 %
HC	10,731	15 %	6,671	11 %
Others	61,145	85 %	55,900	89 %
Facilities on the Free Market	1,751,252	100 %	2,006,010	100 %
HC	52,138	3 %	63,687	3 %
Others	1,699,114	97 %	1,942,323	97 %



A customer loyalty building campaign was also carried out in the dual private customer segment, through the “Fórmula Ahorro” plan. The “Fórmula Gás” campaign was launched, achieving approximately 33,000 contracts signed in the Liberalised Market. The offer included the supply of gas, the “Funciona” maintenance service and the HC Points Scheme.



fórmula ahorro hc

En **hc energía** te lo ponemos más fácil. Ahora, el contratante nuestro fórmula ahorro, disfrutará de más servicios y más ventajas.

hc energía

Apúntate ya y disfruta de sus ventajas

GRATIS

300 kWh de energía

150 kWh de agua

por cada 100 kWh de energía consumida

2000 kWh de energía

Préndete

con un contrato de 3 años

2000 kWh de energía

con un contrato de 3 años

El contrato de servicio

50%

de descuento

por el servicio de mantenimiento

Facturación conjunta

El suministro de energía eléctrica y agua se facturará en una sola cuenta.

The Electronic Billing service was also initiated, and the goals of reaching 9,900 customers and 20,500 contracts were exceeded.

More than 675.000 page visits to the “www.hcenergia.com” website were recorded in 2007. The Customer Area was also created, which allows customers to consult data, contracts and bills.

HC Energía was awarded the “Call Centre de Oro 2007” prize for the best call centre service in the energy sector. This shows that requirements in terms of service accessibility are being met. The centre attended to the needs of 200,000 customers throughout the year.



5.2. GAS BUSINESS IN THE IBERIAN PENINSULA

5.2.1. EDP Market Positioning

EDP is a benchmark player in the Iberian natural gas market. It is the majority shareholder in Naturgas Energía (Spain) and Portgás (Portugal) and a minority shareholder in Setgás (Portugal).

In view of the increasing dimensions of these operations, which make EDP an important Iberian operator in this sector, and their strategic character, from the end of 2006 onwards and throughout 2007, the activities were restructured, integrating the following objectives into one specific business unit:

- Guaranteeing the integrated management of the EDP gas business strategy, with coordination of the diverse Group activities in the area of natural gas – from procurement/trading to supply and distribution;
- Add to the value of the group’s investments in this sector by increasing visibility in the capital markets of EDP’s accomplishments and the potential of the capacities, assets and resources of the Group’s natural gas business;
- Stimulate the exchange of best practices in the natural gas business amongst group companies and encourage the achievement of synergies resulting from integration of this business within the Iberian Peninsula.

IBERIAN MAP



This business unit, EDP Gás, was set up in 2006 and consolidated in 2007. Today it provides EDP with a verticalised insight into the business at the Iberian level, enabling it to leverage the know-how residing in each group subsidiary.

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	Portugal	Spain
Transports	n.a.	☑
Distribution	☑	☑
Regulated Supply	☑	☑
Free Supply	n.a.	☑

In 2007, EDP Gás launched a number of transversal optimisation projects aimed at guaranteeing the sharing of best practices and the use of synergies amongst the subsidiaries. Amongst these projects were the Investments and Maintenance Management project implemented at Naturgas, which benefits from the joint know-how of Naturgas and Portgás, and the management control reporting system based on the “scorecard” method now in force in the EDP Group.

In terms of human resources, a culture of mobility and integration was cultivated. Here one must highlight the high level of employee participation in Spanish language courses in Portugal (at Portgás) and Portuguese language courses in Spain (at Naturgas).

In preparation for the liberalisation of the market in Portugal, EDP Gás was incorporated. With operations planned to begin in 2008, although contacts with customers and promotion campaigns already took place in 2007, the company is currently in the midst of the licensing process in accordance with the regulations.

In 2007, EDP Gás strengthened its position as the second operator in natural gas distribution in the Iberian Peninsula (11% of the market), reaching 845,000 points of supply and increasing its number of customers by 5%. The following are the main dimensions of the gas business in the Iberian Peninsula.

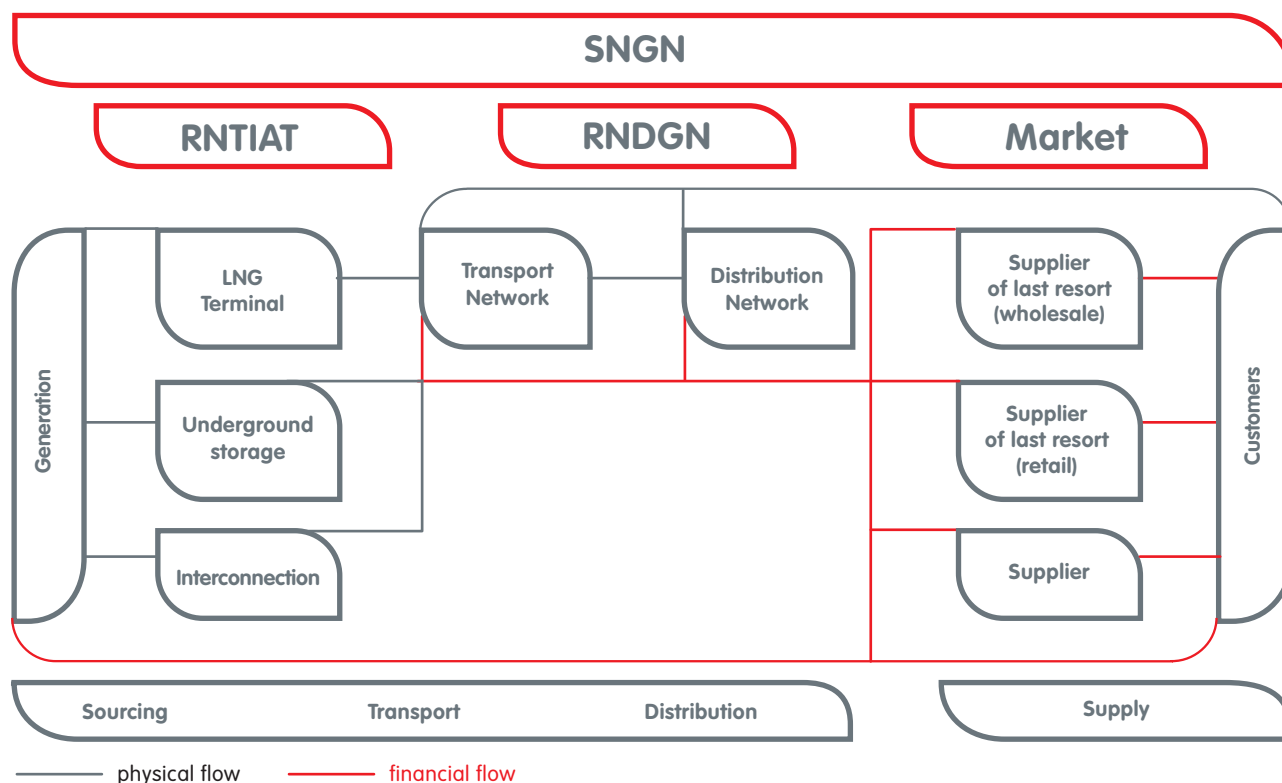
Main Indicators	EDP Gás		
	2007	2006	Var.
Number of Customers (thousand)	791.7	754.3	5.0%
Regulated Distribution	376.4	506.2	-25.6%
Supply	415.3	248.1	67.4%
Km of Grid (Km)	8,456	7,662	10.4%
Transport Grid	307	250	22.9%
Distribution Grid	8,149	7,412	9.9%
Volume of Natural Gas (m³ million)	3.5	3.1	14.7%
Distributed	1.9	1.9	3.6%
Supplied	1.6	1.2	32.3%
Volume of Natural Gas (TWh)	40.9	35.7	14.7%
Distributed	22.7	21.9	3.6%
Supplied	18.2	13.8	32.3%
Number of Employees	409	434	0.7%

5.2.2. Procurement of Gas

Following the setting up of the business unit, the procurement of natural gas and the management of gas purchase contract portfolio of the diverse group companies were coordinated in a centralised form by EDP Gás.

In 2007, two important steps were taken towards consolidating and rationalising the EDP Group procurement portfolio in the medium- and long-term:

- The extension of the natural gas supply contract to the second turbine group at the Castejón power station, the commissioning of which began in 2007, and which included an overall revision of the contract with an increase in contractual quantity of approximately 0.2 bcm/year to allow for the consumption of the second group, an adjustment of the overall contractual quantity to the expected demand profile and an improvement in flexibility of use. The expansion of the supply contract was one of the elements of a more comprehensive agreement with Gás Natural in the area of Iberian natural gas, signed on 17 May, which also included the acquisition, by HC Energía, of the share that the Gás Natural group had held in Naturgas Energía, and the provision, by Gás Natural, of a logistical flexibility service in importing LNG, amongst other points.
- The partnership with Sonatrach, which was sealed with the signing of a set of agreements in October 2007 that anchored the principles agreed upon by the two groups in a Memorandum of Understanding signed by them on 11 April 2007. The partnership includes, on the one hand, the entrance of Sonatrach as a minority partner in specific natural gas production projects carried out by EDP and, on the other, the supply of gas by Sonatrach to these projects and to EDP itself for its gas retail operations in the Iberian market. According to the partnership agreement, Sonatrach will supply the EDP group with a total of up to 1.6 bcm/year, taking the group's procurement portfolio from 3.3 bcm/year to 4.9 bcm/year. This volume will be divided between gas for EDP's retail operations (0.7 bcm/year), the Soto 4 power station (0.3 bcm/year) the Lares power station (0.3 to 0.6 bcm/year, depending on whether or not Sonatrach takes a share in the capital of the second Lares turbine group). The quantities for the EDP retail business will have a build-up, with 0.3 bcm/year being supplied up to September 2009, which will increase to 0.7 bcm/year when the Medgaz gas pipeline begins operating. The Medgaz international gas pipeline between Algeria and Spain, which is currently still being laid and is scheduled to begin operating in mid 2009, shall be the means of supply of gas to be delivered in Spain. The Sines terminal will, in



principle, be the means of supply for gas to be delivered in Portugal. Until completion of the Medgaz pipeline, deliveries in Spain will be made via an LNG terminal on the Spanish coast.

Several trading deals aimed at optimising the portfolio were also carried out in 2007. The most noteworthy were:

- Gas spot purchase operations: a total volume of 50 million m³, which enabled the EDP Group to maximise the volume of gas supplied, making use of opportune developments in the short-term market;
- Gas spot sales operations: a total volume of 115 million m³, guaranteeing the profitability of the Group's gas business even in periods of low demand;
- Intra-group operations: a total volume of 45 million m³, guaranteeing that gas is available for whatever activity requires it in each given moment, while at all times respecting the limitations of the gas supply contracts.

On another level, EDP Gás continues to actively collaborate with HC Energía and Naturgas Energía in managing problems of regulated infrastructure access in Spain, which is becoming more

difficult given the changes in market structure, increased natural gas-fired power generation, low storage capacity and a restrictive regulatory framework.

5.2.3. Portgás

Organisation and regulation of the gas sector in Portugal

The liberalisation of the market began on 1 January 2007 for the ordinary regime generators, as set forth in Decree-Law 140/2006, which establishes the general principles for the organisation of the National Natural Gas System and regulates the legal regime applicable to the business operations, following that established in Decree-Law 20/2006 of 15 February, which completes transposition of Directive 2003/55/EC. The next step in opening up the market, which will be completed for the whole universe of natural gas customers on 1 January 2010, will be the extension of eligibility to customers with demands in excess of 1 million m³ as of 1 January 2008.

The structure of the natural gas sector is based on the Portuguese National Natural Gas System (NNGS), which integrates the National LNG Transport, Storage Infrastructure and Terminal Grid (RNTIAT) and the National Natural Gas Distribution Grid (NNGDG).

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The SNGN receives, stores, transports and distributes natural gas through the RNTIAT and RNDGN systems. Global management of the system is ensured by the concession holder of the Portuguese Natural Gas Transport Network (RNTGN). In organisational terms, exploitation of the RNTIAT and the RNDGN comprises the following concessions: (i) concession for the RNTGN. (ii) concession for underground storage. (iii) concession for reception, storage and regasification of LNG. (iv) concessions and licences for the RNDGN.

The first Gas Year began on 1 July 2007, and the tariffs for access to the RNTIAT infrastructures have since been published in order 13 315/3007 issued by ERSE, as well as the main regulations that lay down the principles for the operations of the diverse agents in the natural gas market, namely the Tariff Regulations, the Business Relations Regulations, the Quality of Service Regulations and the Access to Grids, Infrastructures and Interconnections Regulations.

Also in accordance with the aforementioned legislation, in July 2007 Portgás set up Portgás – Serviço Universal, which, from January 2008 onwards will operate as the supplier of last resort for the Portgás concession area under a licence to be issued by the State.

New image

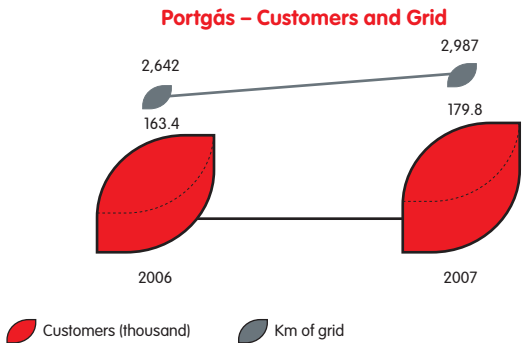
In December 2007, Portgás launched its new image in the form of the new brands EDP Gás Distribuição and EDP Gás Serviço Universal. These changes had threefold objectives: (i) Strengthening the company's internal alignment with the EDP corporate image. (ii) a visual modernisation for the new phase of development and operational control. (iii) to respond, in communicational terms, to the separation between the distribution and regulated supply activities.



Regulated Market

The year 2007 was marked by advances in the implementation of the strategy focused on growth and creation of value achieved by attracting new customers.

Portgás thus continued operating its concession, guaranteeing expansion of the coverage, both in terms of the areas supplied by its distribution infrastructure and in terms of the commercial development in the various market segments. The company intensified its commercial operations in the existing domestic market, allowing for greater profitability of investments in infrastructures and maximising the number of points of supply per metre installed.



The year 2007 was also characterised by activities pertaining to the operationalisation of regulatory provisions in the context of the liberalisation of the natural gas sector.

Portgás completed the legal and accounting unbundling process for the natural gas business, making adaptations at the information systems level and defining new operational support functions for the regulated and non-regulated business operations.

Also in the same context, all work was carried out with Galp Gás Natural aimed at transferring regulated assets and the subsequent reversal of the infrastructure sharing agreements, which was formalised in a deed signed on 31 December 2007.

The following are the main operating indicators.

Main Indicators	Portgás		
	2007	2006	Var.
Number of Customers (thousand)	179.8	163.4	10.0%
Km of Grid (Km)	2,986.9	2,641.9	13.1%
Volume of Natural Gas (m³ million)	0.2	0.2	12.3%
Volume of Natural Gas (TWh)	2.5	2.3	9.3%
Number of Employees	112	115	-2.6%

5.2.4. Naturgas Energia

Organisation and regulation of the gas sector in Spain

The year 2007 saw a new alteration to the regulation of the Spanish gas market. On 2 July, Law 12/2007 was published, which amended the Hydrocarbons Law 34/1998 to bring it in line with Directive 2003/55/EC of the European Parliament on the common regulations for the internal natural gas market. The new law establishes measures for achieving a fully liberalised internal natural gas market offering greater competition, reduction of prices and improved service to the final consumer. To this end, the correct functioning of the access to the networks was strengthened, guaranteeing transparency, objectivity and non-discrimination.

Amongst the most important measures in the new law is the re-definition of the activities of the different agents in the gas system. It makes a legal and functional separation between the so-called "grid activities" and the production and supply activities and eliminates possible competition between the distributors and the suppliers in the supply sector by doing away with the tariff system and creation the last resort price, to which consumers can resort depending on the situation and evolution of the market.

The regulatory framework was completed by the following Royal Decrees and Orders that have an important impact on the regulated areas:

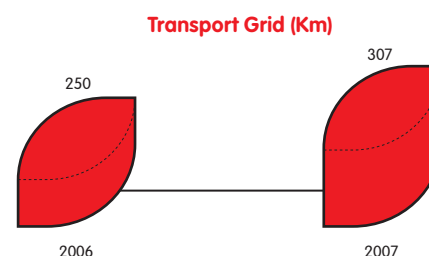
- Royal Decree 1068/2007 was issued in July 2007. It regulates last resort operations in the natural gas sector. It also presents a list of the suppliers that have sufficient technical means to guarantee supply and service to the low-pressure gas customer. Included in the list is Naturgas Energia Comercializadora.
- The same month saw the publication of Ministerial Order ITC/3039/2007, which defines the mechanism by which natural gas customers transfer from the regulated market to supply of last resort. The order indicates that the customer migration mechanism is to begin in September 2007 and is to be executed under maintenance of the currently applicable regulated system of procurement and supply by the distributors until 1 July 2008. The purpose of this is to minimise risks for management of the system.
- In late 2007, Order ITC/3863/2007 was published, which establishes the tariffs for 2008 for the access of third parties to the facilities and updates aspects relating to retribution for regulated activities in the sector.

Regulated Market

The liberalisation process in course has led to a continuous drop in the number of customers and amount of energy distributed in the regulated market. In this context, work continued on developing the grids in the areas of influence and on expanding the transport and distribution infrastructures.

The following transport activity initiatives during 2007 are worth highlighting:

- Commencement of work on laying the Bergara – Irún gas pipeline;
- In the final execution phase, the connection of the pipeline to the Soto de Ribera power station. modifications carried out on the route of the pipelines to the motorway concession operators of Bizkaia (Interbiak) and Gipuzkoa (Bidegui);
- Entry into operation of the Soria – Agreda secondary transport network;
- Formalities processed for the Bergara – Irún Phase III, Transcantabrian, Serinyá – Figueres, Siero – Villaviciosa, Corvera – Tamón and Hernán Industrial Zone pipelines.



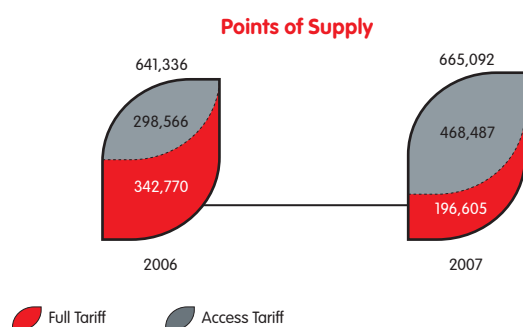
In terms of distribution activities, diverse initiatives were carried out, of which one can highlight the following:

- Merger of Naturgas Energia Distribuição and Gasnalsa, whereby the process of acquisition of distributors is currently being finalised;
- Commencement of works for the supply of the municipalities in the Basque Country: Artea, Astigarraga, Ataun, Berastegi, Berriauta, Dima, Elduain, Ezkio and Muxika. Commencement of works in the following municipalities in Asturias: Llanes, Morcín-Soto de Ribera, Serantes-Barres and Tapia de Casariego;
- Inauguration of the new Barakaldo maintenance centre, with an investment of EUR 3.5 million.

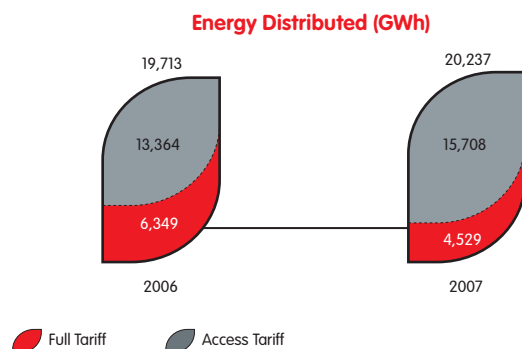
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Initiatives at the level of construction and saturation of the existing network resulted in an increase in the number of points of supply, as shown in the following table:



In 2007 there was a slight increase in the energy distributed by the networks in comparison to the preceding year:



Free Market

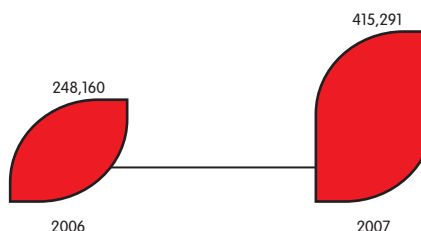
The new regulatory measures favoured growth in the operations of the energy supplying companies. In this context, the increase in the number of customers supplied by Naturgas Energia Comercializadora was 67% and the energy supplied grew by 32%. The difference in the increases can be explained by the fact that most of the new contracts were for small customers.

This regulatory alteration made it necessary to take certain commercial action measures, of which the following were the most important:

- Reciprocal natural gas Sales and purchase agreement between Naturgas Energia Comercializadora and Gas Natural Comercializadora. Natural gas sales contract between the same parties tied to the agreement between Eléctrica de la Ribera del Ebro (ELEREBRO), HidroCantábrico Energía, Naturgas Energia Comercializadora and Gas Natural Comercializadora;

- Migration of the last industrial customers ($p > 4$ bar) from the Regulated Market to the Liberalised Market, through elimination of the regulated tariffs for said customers;
- Legal incorporation of NaturNeo (51% Naturgas Energia/49% Neo) for investments in renewable energies in the Basque Country;
- The trend towards liberalisation of the Spanish gas market made it necessary for Naturgas Energia Comercializadora to strengthen its sales model. To this end, it consolidated the work already carried out with a view to achieving a detailed understanding of the outset situation. From there, it continued to work on defining the optimal segment mix and the market development strategy. This required that value proposals, commercial offer and price policies be defined per segment. This project was finalised in December 2007.

Gas Customers – Naturgas Energia



On the whole, 2007 was a positive year for Naturgas Energia, with substantial increases in business profits, which were fundamentally the result of improved natural gas sales margins.

The main consolidated indicators for Naturgas Energia for 2007 are as follows:

Main Indicators	Naturgas Energia		
	2007	2006	Var.
Number of Customers (thousand)	611,896	590,929	3.5%
Regulated distribution	196,605	342,770	-42.6%
Supply	415,291	248,160	67.3%
Km of Grid (Km)	5,469	5,006	9.2%
Transport grid	307	250	22.9%
Distribution grid	5,161	4,756	8.5%
Volume of Natural Gas (m³ million)	3.3	2.9	14.6%
Distributed	1.7	1.7	2.4%
Supplied	1.6	1.2	32.0%
Volume of Natural Gas (TWh)	38.4	33.5	14.9%
Distributed	20.2	19.7	2.7%
Supplied	18.2	13.8	32.3%
Number of Employees	297	319	1.7%

5.3. ELECTRICITY BUSINESS IN BRAZIL

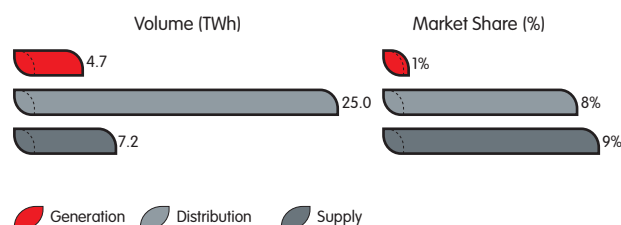
5.3.1. Summative overview of Energias do Brasil and its performance on the capital market

Energias do Brasil, a subsidiary of the EDP Group in Brazil, acts as a sub-holding, involved in the electricity generation, distribution and supply business areas. It has a market presence in the south-east, central-west and northern Brazil regions, more specifically in the states of São Paulo, Espírito Santo, Mato Grosso do Sul and Tocantins. Since July 2005, Energias do Brasil has been listed on the São Paulo Stock Exchange (Bovespa), an exchange that brings together companies with the best corporate governance practices.

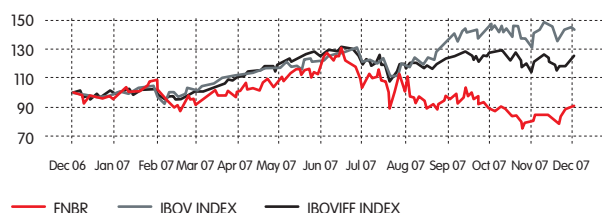
In terms of power generation, Energias do Brasil had 1,044 MW installed capacity at the end of 2007, which provided 4.7 TWh of generated energy.

In the distribution area, the company has full control of the companies Bandeirante Energia S.A. (Alto Tietê, Vale do Paraíba and Litoral Norte districts of São Paulo state), Espírito Santo Centrais Elétricas – Escelsa (Espírito Santo state) and Empresa Energética de Mato Grosso do Sul S.A. – Enersul (for the state of Mato Grosso do Sul), serving more than 3.2 million customers and distributing 25 TWh in 2007.

In the electricity supply segment, it operates through Enertrade, which supplied 7.2 TWh to customers on the liberalised market in 2007, giving a market share of 8.5%.



Changes in Energias do Brasil Share Price



The price of the Energias do Brasil (ENBR3) share ended the year 2007 9.6% down from the value at the end of 2006. The market value of Energias do Brasil at the end of 2007 was 4.8 billion Brazilian reais. The drop in share value was to a large extent due to the market's perception of the impact of the Revision. Remuneration Basis (BRR) for Enersul on the consolidated profits. Since it was floated on the market in July 2006, the company's share value has increased by 60.6%.

In 2007, Energias do Brasil was elected the "Best Company in Corporate Governance" in the Brazilian energy sector by "Isto É Dinheiro" magazine, which assessed performance in diverse management areas: corporate management, finances, human resources, innovation and technology and social and environmental technology. The company had already won the Corporate Governance prize of the Brazilian Corporate Governance Institute (IBGC) in 2006 in the public limited company category.

Energias do Brasil's inclusion in the São Paulo Stock Exchange's Business Sustainability Index (ISE) was confirmed for the second year running in December 2007. The index's new portfolio will remain valid until 30 November 2008 and is made up of 40 shares issued by 32 companies from 13 sectors of the Brazilian economy, totalling BRL 927 billion in market value. Energias do Brasil's participation consisted of answering a questionnaire that covered six areas: General, Product Nature, Corporate Management, Economic/financial, Social and Environmental. The ISE is a reference for companies that are committed to business sustainability and introduces good practices into the Brazilian market.

In the year 2007, the following sustainability actions carried out by the Energias do Brasil companies are particularly worthy of mention:

- Creation of the Instituto Energias do Brasil (Energias do Brasil Institute), a non-profit institution aimed at promoting open and transparent dialogue with all interested parties and harmonising socio-environmental, educational, cultural and voluntary work activities in the Energias do Brasil companies;
- Launch of the Sustainability Policy and the Integrated Environmental and Occupational Health and Safety Policy;
- Start of implementation of the Integrated Management System in all Energias do Brasil companies in accordance with the ISO 14000 and OHSAS 18000 standards, with the aim of achieving integrated management of all environmental and occupational health and safety activities;

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- Development of the Programme for Reduced Consumption and Rational Use of Water and Electricity;
- Development of the Programme for the Management of Atmospheric Emissions and the Reduction of Fuel Consumption;
- The training programme in sustainability for Energias do Brasil employees was begun, using the Chronos Project, which is made up of a virtual training course, of the e-learning type, developed by the University of Cambridge and the WBCSD. The aim is to integrate concepts of sustainable development into business life. In this initial phase, the course was directed at managerial staff. In a second phase, to begin in 2008, the training will include the remaining group workforce.

One can also highlight the continuation of the Energias do Brasil strategy in relation to the emission of greenhouse gases, in line with the Kyoto Protocol. The strategy consists of identifying in the group business operations and assets projects that can generate carbon credits. Of the six “Clean Development Mechanism” projects already identified, 3 are in the registration phase with the Executive Board at the UNO, one is in the approval phase in the

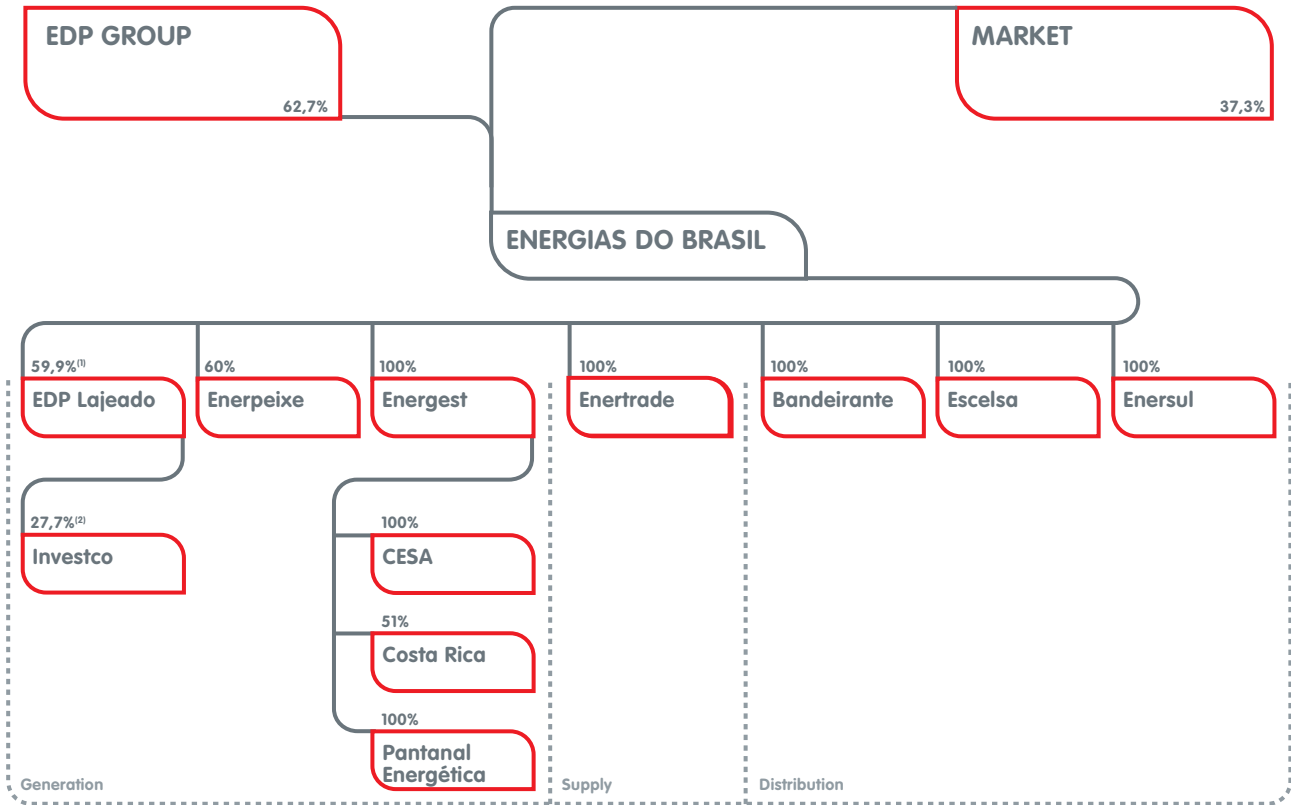
Brazilian designated national authority (DNA) and one is in the initial “Project Design Document” formatting phase.

5.3.2. Background to the Brazilian electricity market

In recent years, the Brazilian electricity sector has undergone important structural and institutional changes, moving from a configuration centred on the State monopoly as a service provider and sole investor to a market model in which multiple agents participate and investments are shared with private capital.




According to the ANEEL report, updated in February 2008, the installed capacity for power generation in Brazil was 100,475 MW, with hydroelectric power stations dominating (76.5%).

Around 1,400 agents currently invest in the energy generation market, though the ten largest players own around 65% of the total installed capacity. The majority of investment still comes from the Brazilian government with only three private agents amongst the top ten and the largest of these accounting for only 6.5%. Energias do Brasil, with 1.044 MW of installed capacity, has 1.0% of the country’s total installed generation capacity.



(1) Voting capital (100%) (2) Voting capital and represents the percentage held by Energias do Brasil in the generated energy.



-  Hidroelectric Power Stations (operating)
-  Hidroelectric Power Stations (under construction)
-  Thermoelectric Power Stations (in project)
-  Distributors
-  Distributors' Concession Area

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EDP Group Business

The generation market is based on a structure that consists largely of long-term supply contracts (LTSCs) between producers and distributors, with A5, A3 and A1 auctions to supply long-term demand and medium- and short-term adjustments, respectively, and a matching/day trade market where adjustments are made for the differences between forecasts and real consumption.

In most of the Brazilian states (primarily in the north and north-eastern regions) the concession areas or distribution companies correspond to the geographical state boundaries. In other states, namely São Paulo and Rio Grande do Sul, there are concession holders with smaller coverage areas.

Again according to the ANEEL report, this situation has given rise to 64 energy distribution companies, 48 of which are private enterprises. This activity operates under a completely regulated concession scheme and is remunerated according to its operational costs and its asset base. Electricity acquisition costs as defined in the contracts with producers are passed on entirely to the consumer through final customer sales tariffs.

A report published by Empresa de Pesquisa Energética – EPE indicates that the consumption of electricity by captive and liberalised market consumers served by the Brazilian electricity system totalled 376,905 GWh in 2007, which is an increase of 5.4% over the preceding year. The volume of energy distributed by the group's distribution companies accounts for 6.5% of total Brazilian consumption.

Electricity selling agents are companies that do not own electricity systems and are authorised to act exclusively in the market to buy and sell electricity from and to authorised concession holders or

consumers who can freely choose their supplier (free consumers). The Group's energy selling company, Enertrade, accounts for 8.5% of the Brazilian market.

5.3.3. Energias do Brasil Activity

Focus on operational efficiency

The year 2007 was characterised by implementation and operationalisation of the Vanguarda OPEX Project, the Integration project and finalisation of the Vanguarda Project. In addition to these projects, the focus on operational improvement in the Technical and Commercial activities and optimisation of synergies within the Group also led to the development of lean management projects in the sales and technical areas.

Vanguarda and Vanguarda Opex – The Vanguarda project was completed in December 2007, with annual savings of BRL 126.4 million.

Even with the leaner structure, optimisation efforts continued to be necessary, leading to the implementation of the Vanguarda Opex, which is aligned with the EDP Group's Opex project. It will bring estimated savings of around BRL 23 million in operating costs from 2009 onwards, also taking into account the gains from the sales and technical lean management projects.

Unification of Corporate Systems – In the context of the Aliança (Alliance) project, in early 2006 the administrative, financial and human resources modules were completed. The aim here was to improve procedures and internal decision-making, making it



possible to implement the Vertical Shared Services Unit (UVSP). May 2006 saw the operating launch of the SITBrasil project aimed at uniting the technical modules (electricity grid management, own telecommunications networks management, technical service to customers and environmental monitoring). This work was entirely completed in June 2007. In June 2005, the Integração (Integration) project was launched to unite the sales modules (billing, reading, metering and customer management) with a view to reducing costs and raising productivity. The first phase of this project was completed in November 2007. The second phase is scheduled to be completed by mid 2008.

Generation

The power generation activity at EDP – Energias do Brasil S.A. includes management of the hydroelectric power stations (UHE) and the small hydroelectric power stations (PCH) in the states of Espírito Santo, Mato Grosso do Sul and Tocantins, with a total installed capacity of 1,044 MW as at December 2007.

In comparison to the preceding year, there was an increase of 25 MW resulting from the commissioning of the São João PCH in the state of Espírito Santo in the second quarter of 2007.

The table below discriminates the installed capacity and net energy generation in 2007 and 2006:

Energias do Brasil	2007	2006
MW		
Lajeado ⁽¹⁾	250	250
Peixe Angical ⁽²⁾	452	452
Energest ⁽³⁾	212	211
Pantanal	52	31
Cesa	62	59
Costa Rica	16	17
Enersul	0	0
Maximum Capacity as at 31 Dec (MW)	1,044	1,018
GWh		
Lajeado ⁽¹⁾	982	1,236
Peixe Angical ⁽²⁾	2,203	1,196
Energest ⁽³⁾	980	984
Pantanal	213	226
Cesa	252	252
Costa Rica	74	86
Enersul	0	0
Net Generation (GWh)	4,704	3,980

(1) Shareholding of 27.65%, equivalent to the part held by EDP in the enterprise

(2) Entered into operation in 2006 (1st group in June, 2nd group in July and 3rd group in September).

(3) Subholding of Energias do Brasil that controls the generation assets from the process of deverticalisation of Escelsa and Enersul until May 2005.

Following the EDP – Energias do Brasil strategy of growth in generation and diversification of the portfolio, the following are the most important activities carried out in 2007:

- The sale of energy in auction in October 2007 through a 15-year Power Purchase Agreement (PPA) for the imported coal-fired 720 MW thermoelectric power station to be built in partnership with MPX Energia (50%) in the port of Pecém, Ceará state. The project, which will have total investment of US\$1.3 billion, will be structured on the basis of an Engineering & Procurement Contract. Commercial operation is scheduled to begin in 2012 and the investment will increase the Group's current installed capacity by some 35%;
- The investment of BRL 36 million in the Santa-Fé PCH located in Espírito Santo with an installed capacity of 29 MW. commissioning is scheduled for the second half of 2009;
- Recapacitation and modernisation of three hydroelectric power stations (Mascarenhas UHE, Suíça UHE and Rio Bonito PCH), which will increase the total installed capacity by 25.1 MW. completion is scheduled for the last of the three power stations for the third quarter of 2010.
- Carrying out of projects and feasibility studies for new hydro-power generation (PCH and UHE), thermal generation (biomass) and wind generation, furthering a portfolio of projects with a long-term installed capacity of 1,560 MW.

Concrete investments made in 2007 totalled BRL 108 million, which is a drop of 63% in comparison with 2006 due to the completion of the works on the Peixe Angical UHE and the São João PCH.

The power generation assets were also included in the Energias do Brasil Group sustainability strategies. In 2007 the Group submitted three Clean Development Mechanism (CDM) projects for the reduction of greenhouse gas emissions to the UNO.

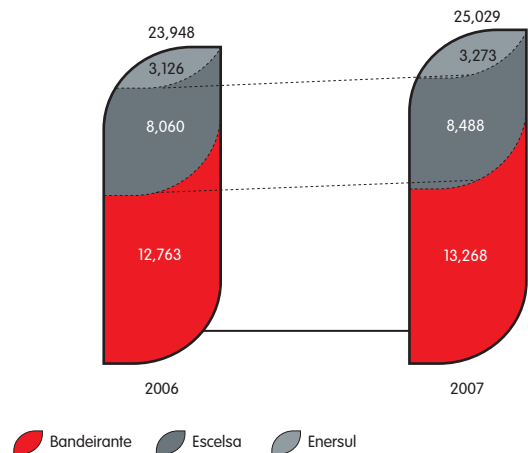
Distribution

Energias do Brasil saw the amount of energy distributed increase by 4.5% from 2006 to 25,0 TWh. About 3.2 million customers were served, which is a year-on-year increase of 3.0%, and equivalent to supply to nearly 10 million inhabitants.

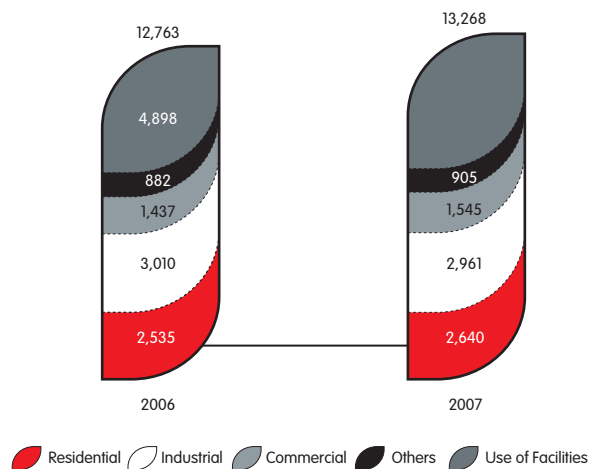
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EDP Group Business

Electricity Sales – Brazil (GWh)



Electricity Distributed – Bandeirante (GWh)



No. of Customers			
Energias do Brasil	2007	2006	Var.
Bandeirante	1,401,461	1,364,738	2.7%
Escelsa	1,095,275	1,058,915	3.4%
Enersul	710,288	689,951	2.9%
Total Customers	3,207,024	3,113,604	3.0%

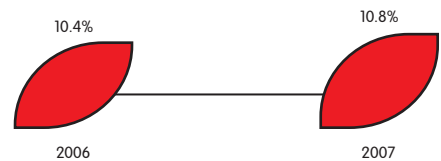
No. of Customers			
Bandeirante	2007	2006	Var.
Residential	1,283,265	1,252,268	2.5%
Industrial	8,949	8,633	3.7%
Commercial	91,455	86,629	5.6%
Outros	17,792	17,208	3.4%
Total Customers	1,401,461	1,364,738	2.7%

Bandeirante

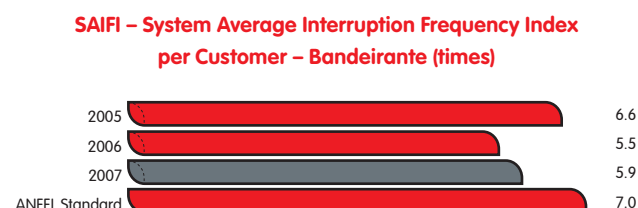
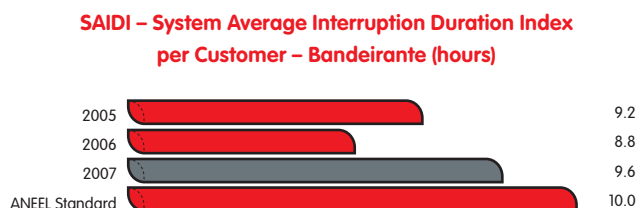
The total amount of energy distributed by the Bandeirante system in 2007 was 13,268 GWh, which is an increase of 4.0% over the preceding year. The electricity distributed to final consumers totalled 8,045 GWh, an increase of 2.3% over 2006. In terms of customer base size, the company closed the year 2007 with 1,401,000 customers, up 2.7% from 2006. In 2007, the electricity distributed by the Bandeirante system to the liberalised market and concessionaires totalled 5,218 GWh, which is an increase of 6.5% over 2006.

At Bandeirante, with the actions included in the Programme to Combat Commercial Losses being stepped up in 2007, some 174,000 field inspections were carried out, 43,000 electricity meters that were either obsolete, damaged or electro-mechanical were replaced with electronic meters with indirect metering and 15,000 clandestine customer situations were regularised.

Losses – Bandeirante (%)

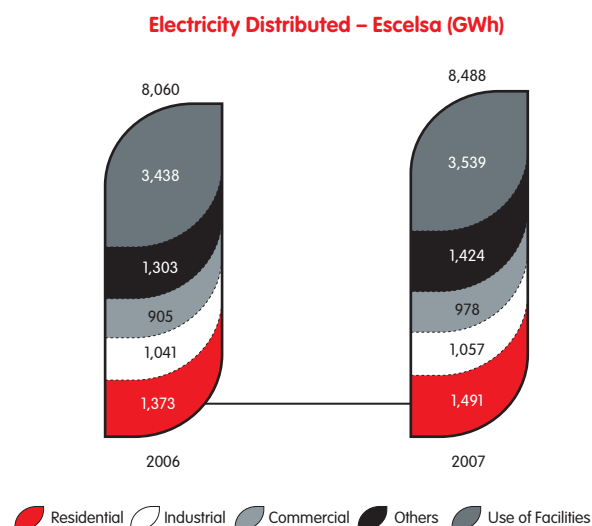


Bandeirante met all the quality requirements imposed by ANEEL. Thanks to the investments made in the grids, the implementation of modernisation and automation projects in the electricity system and the prudent use of resources in its management and maintenance, the company's quality standards are actually better than those stipulated by the sector's regulatory body.



Escelsa

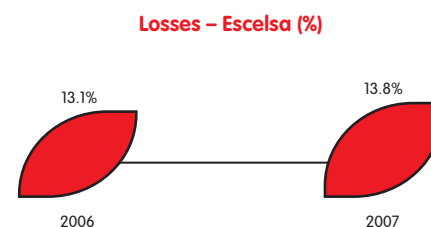
Escelsa distributed 8,488 GWh in 2007, growth of 5.3% over 2006. Its customer base reached 1,095,000, up 3.4% from the previous year. In the captive market, Escelsa sold a total of 4,565 GWh, up 6.8% over 2006. It also distributed a total of 3,915 GWh to the liberalised market and other concessionaires, which is an increase of 3.7% over the preceding year.



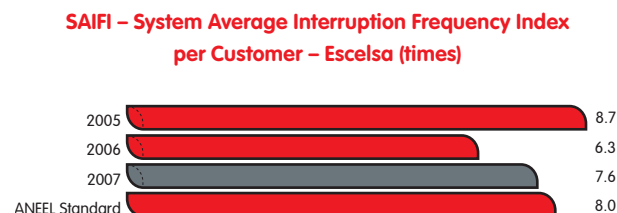
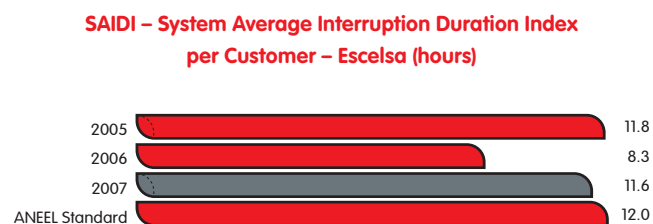
No. of Customers			
Escelsa	2007	2006	Var.
Residential	856,525	827,193	3.5%
Industrial	10,584	10,602	-0.2%
Commercial	92,274	89,923	2.6%
Others	135,892	131,197	3.6%
Total Customers	1,095,275	1,058,915	3.4%

The periodic revision for Escelsa in 2007 was approved by ANEEL in August.

As regards commercial losses, a vigorous programme was developed to combat fraud in which 345,000 field inspections were carried out and 170,000 clandestine connections were suspended, in addition to investments in metering and grid protection technologies, thereby recovering 11 GWh. Despite this, commercial losses increased from 5.4% in 2005 to 5.97% in 2007.



Escelsa also met the quality requirements imposed by ANEEL and the growth in the indicators compared to the previous year was largely the result of the high incidence of storms.



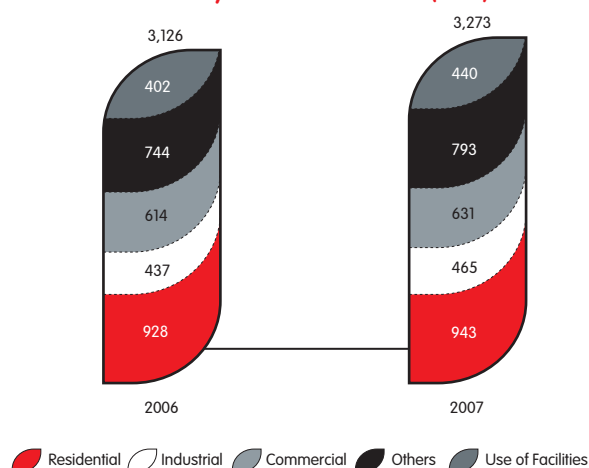
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EDP Group Business

Enersul

Enersul distributed 3,273 GWh in 2007, a year-on-year increase of 4.7%. The customer base also rose 3% over 2006 to some 710,000. In the captive market, the volume of energy sold in 2007 to these clients totalled 2,825 GWh, which is an increase of 4.0% over 2006. For the liberalised market, Enersul distributed some 440 GWh in 2007, which is an increase of 9.4% over the preceding year.

Electricity Distributed – Enersul (GWh)



No. of Customers			
Enersul	2007	2006	Var.
Residential	574,666	559,006	2.8%
Industrial	3,967	4,091	-3.0%
Commercial	56,304	55,206	2.0%
Others	75,351	71,648	5.2%
Total Customers	710,288	689,951	2.9%

As regards commercial losses, in 2006 the state Public Prosecution Office lodged a court action aimed at allowing collection from customers with irregularities in their metering through judicial channels only, prohibiting the cut of energy supplies in such situations. Enersul appealed the court decision and managed to suspend its entry into force temporarily as of 22/11/2006. A final decision has yet to be made.

One challenge the company faced in 2007 was the alteration of penalty and collection procedures for irregularly deviated energy, through orientation of the legal area, which established profound alterations to the process in the field and also in the way that irregularities are calculated.

As a result of this, it was necessary to review all the 16,981 processes calculated in 2006 and also carry out new inspections in 2007, leading to a total of 31,275 fines. In view of this background, even with the implementation of a vigorous programme of inspections, removal of clandestine connections, replacement of meters and the establishment of protected grid and telemetering for rural clients in 2007, commercial losses still rose from 7.6% to 8.2%.

Losses – Enersul (%)



Enersul also met the quality requirements imposed by ANEEL. Once more, the growth in the indicators compared to the previous year is due largely to the high incidence of storms.

SAIDI – System Average Interruption Duration Index
per Customer – Enertrade (hours)



SAIFI – System Average Interruption Frequency Index
per Customer – Enertrade (times)



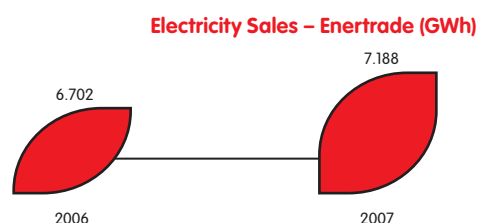
Supply

Enertrade, the EDP Group company which operates on the Brazilian free energy market, supplied 7,188 GWh in 2007, representing an increase of 7.25% compared to 2005.

There was no significant growth in the liberalised market in 2007, indicating that the migration of potentially free customers has stabilised after the strong growth in 2005 and 2006. Thus, the Enertrade growth was made up of gains in terms of market participation. Enertrade's participation in free market sales went from 7.54% in 2006 to 8.49% in 2007 (excluding self-dealing contracts).

In addition to supplying energy, Enertrade maintained its portfolio of services for liberalised market customers, including online access to consumption metering, representation with the CCEE, market simulations and energy portfolio management, amongst others. A new contract management tool is currently in the implementation phase. It will bring greater flexibility and agility to the control and management of the energy position of the trading company, serving also as the basis for the offer of new services that provide added value to the customers.

The greatest growth in Enertrade sales was in response to the increase in demand in the area in which the Energias do Brasil distributors operate. This shows the importance the trading company has in serving large customers. In this situation, they continue to be served by a group company, thus maintaining the relationship with the customer. Additionally, no Enertrade customers returned to the captive market.



As of 2008, the new rules establish procedures for energy traders to operate by buying energy from alternative sources (small hydroelectric power stations, biomass power stations and wind farms) and to sell it, in any voltage, to any consumers that are connected to the grid at loads of over 500 kW. The change anticipates that the loads from various units of a single company can be added together. This applies to banks, hotel and store chains as well as large residential condominiums. The price of the energy will be higher the smaller the scale of these alternative sources but ANEEL provides for compensation through a discount of 50% in the Use of the Distribution System Tariff.

Given the new approved rules, this market is expected to grow, encouraging investment in sources that may sell alternative energy.

For these customers, Enertrade will be able to purchase energy in a centralised manner, identifying the best alternative sources to complement supply.

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1. ORGANISATIONAL DEVELOPMENT

The year 2007 was marked by increased centralisation of the organisational structure, following the implementation of the new Corporate Centre structure and, in particular, the creation of the Organisational Development Department.

The strategic challenges the Group faced and the constant dedication to creation of value were the main catalysts for organisational development and the various initiatives launched in this area with a view to improving efficiency and strengthening a solid and differentiating culture focused on the customer, solving problems and capacity of execution.

In this perspective, particular attention was given to the initiatives aimed at consolidating a matrix management model, taking the form of double reporting, thus enabling the Corporate Centre to more efficiently perform its role of support to the Executive Board of Directors in defining, coordinating and controlling the implementation of business strategies, policies and objectives in the Group's various geographical areas of operation.

Accordingly, the year 2007 saw important developments in the areas of management by processes, performance optimisation, quality and organisational alignment.

Finally, worthy of note because of its dimension is the acquisition of Horizon, which resulted in the launch of several integration projects aimed at using synergies, particularly in the area of specific purchases, and alignment with the culture and best management practices of the Group.

Management by Processes

The development of an integrated approach to management by processes continued in 2007, and it is one of the priority aspects in the area of organisational development. Here one can highlight the completion of the P.R.O.S. Project (Processes, Organisation and Systems), which was begun in 2006 and in the course of which the software application to support the Group's management by processes was chosen and, following this, the proof of concept for the use of this software in the specific area of internal control was carried out.

In the course of 2007, various important initiatives were carried out in the general scope of management by processes and optimisation in the various business units and group companies, of which the most important are:

- The launch of the Revenue Guarantee project, aimed at improving the revenue cycle in the electricity distribution and supply businesses in Portugal and outlining the appropriate measures for minimising possible loss of income detected in the companies. This project led to the detailed definition of a number of measures to be implemented in 2008, including modification to processes, the creation of a fraud detection system and the implementation of an integrated income cycle control system, with an estimated value capture in excess of EUR 30 million per annum;
- The launch of the GEPRO project at EDP Soluções Comerciais, focusing on the study and establishment of performance indicators for the key processes and also associated with the appointment of those responsible for these processes and definition of the respective roles;
- The launch of the GIM project (Investment and Maintenance Management) at Natargas, based on the investment and maintenance management model in place at Portgás and aimed at the overall optimisation of the key processes common to the gas business in the Iberian Peninsula, making it possible to optimise the use of available resources and contribute to rationalising costs;
- The definition and implementation of a process model at Neo Energia based on a multi-geographic approach to the business of wind power generation, covering from the outset the Iberian Peninsula and subsequently being expanded to the other European countries in which the company operates.

The project for the definition of an integrated Iberian commercial platform for the "business" customer segment, involving the examination of the processes of the whole commercial cycle in a "dual fuel" approach.

Performance Optimisation

Sustained and coherent improvement in efficiency based on participation of all levels of the organisation, which was fulfilled by the Lean Programme, was a priority in all of the EDP Group businesses and in particular for EDP Produção, EDP Soluções Comerciais and HC Energia, where considerable levels of adherence and improvement were achieved.

The portfolio of initiatives in the Lean project is made up of some 650 initiatives (570 initiatives – PT, PH, HC and 80 support area initiatives). The percentage implemented is approximately 50%, while the rate of implementation is expected to rise in 2008, as will the number of initiatives, thanks to completion of the

DPI (Projects and Investment Department) diagnosis and the identification of new initiatives in the Sustainability programmes. One can highlight the following developments in the course of 2007:

- The roll-out of the Lean project to the whole of EDPP (coal, fuel, gas, hydro, cogeneration, O&M, wind farms, investment projects and support areas) and HC Energía;
- Implementation of approximately 300 Lean initiatives;
- Energising and monitoring of the diverse aspects of the various local and sectorial programmes (training, awareness raising, preparation of documents, surveys, reports, transversal actions);
- Formalisation of the transversal rules of the Lean Programme;
- Audit Pilot.

One should also highlight the results of the Opex Project, a cost-reducing initiative carried out across the whole group which enabled the companies to make significant savings in the course of 2007. The impact of these savings in the profit and loss account was around EUR 79 million in the Iberian Peninsula and some EUR 45 million in Brazil.

Last, but not least, a reference to the initiative for the globalisation of the procurement model, providing for effective sharing and systematisation of the information pertaining to trading and purchase operations based on a software application known as Sinergie, which received the “Procurecon for Innovation 2007” award”.

Quality

Quality is implicit to the Group’s strategy operating principles, supporting the vision formulated by EDP of being a reference supplier, a leader in value creation in the markets in which it operates.

One should add that certification in quality induces trust in the relationship between the businesses and the customers, having a positive, strengthening effect on the connection with the respective regulators, supervisors and other stakeholders.

In this sense, in 2007 several initiatives were carried out in the area of quality, particularly pertaining to maintenance and certification of new areas, of which one can highlight the following:

- EDP Produção consolidated certification according to the NP EN ISO 9001:2000 standard in the areas of project engineering and management and support processes, having begun assessment work on the extension of this certification to the whole value chain including the core business areas – Operation and Maintenance;
- At Naturgas, a Quality Plan was developed that included definition of new improvement indicators and objectives. All of the companies’ certifications were also renewed on the basis of the ISO 9001 standard, with the respective documentation being updated;
- HC Energía also carried out audits in the context of the ISO 9001:2000 certifications in the areas of generation, distribution and supply, with positive results;
- Energias do Brasil received ISO certification for the first time, in accordance with the NBR ISO 9000:2000 standard, in the context of the Data Collection and Collective and Individual Continuity Indicator Establishment Processes, focusing on the company’s systems operation centres.

At Labellec, the projects for the implementation of management systems certifiable to the EN ISO 9001:2000 and EN ISO 14001:2004 standards in terms of quality, environment and occupational safety were carried out. Also currently in progress is the accreditation of the Field Test Laboratory in the area of Technical Quality of Service, as well as the extension of the accreditation of various laboratories to cover a significant number of new tests.

Organisational alignment

With the aim of guaranteeing greater cohesion with the Group strategy and, at the same time, seeking to respond to the evolution of the businesses, market and regulation, a number of organisational alignment initiatives were carried out in 2007 of which the most relevant are:

- Adaptation of the Energy Purchase Business Unit to bring it into line with the most important business and regulatory alterations resulting from, in particular, the launch of the MIBEL on 1 July 2007 and the emergence of new forms of future trading of energy (e.g. distributor auctions – Cesur), as well as the increase in the provision of services to other EDP Group companies;
- Reorganisation of the distribution business in Portugal, centred on the grid operation activity and based on a more efficient and flexible model that made it possible to concentrate the

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functions of maintenance of the structural grid elements, design and construction (HV and MV) and automation and telecontrol at the nationwide level. This new organisational design also made it possible to expand the geographic areas of intervention in the field, minimising hierarchical levels and organisational units and boosting the increase of outsourcing;

- Reorganisation, in Spain, of the sales area and the grids, with the aim of improving customer satisfaction, diversifying the service offer and facilitating interaction between large account managers and the companies;
- Adaptation of the natural gas business in Portugal to the new regulatory context, namely through separation in accounting and organisational terms of the Portgás grid operation activities (distribution), which now operates under the brand name EDP Gás Serviço Universal. Preparation work also began on the launch of the liberalised market sales activity in anticipation of the launch of the Mibgás;
- Reorganisation of EDP Soluções Comerciais, the aim of which was to focus on the core business activities and to make good use of synergies through the centralisation of the Group's technological management of the sales information systems and also strengthening of the sales activity and getting to know the final customers better;
- Design and implementation of a new governance model and organisational structure for NEO, which has sustained the increase in dimension and the geographic expansion of operations. The organisational structures of the various businesses purchased, namely those in France, were effectively integrated, while at the same time standardising the business processes that are transversal to the different organisational units within the Group;
- Lastly, with the main objective of establishing a formal reference framework that would allow us to know "how to do what we have to do" and systematising the most important aspects of the organisational culture, in an effort to document and advance knowledge of the business activity and organisation, several manuals were produced and published, of which the EDP – Energias de Portugal, S.A./ EDP Group Organisation Manual is particularly noteworthy.

2. HUMAN RESOURCES

2.1. Strategic Management of Human Resources

Several projects were launched and carried through in the field of human resources in 2007, directly reflecting the EDP Group's continued commitment to improving the skills of its employees and developing their talents.

Strategic Human Asset Management Plan: This plan began to be implemented in all the Group's geographic areas of operation and companies through the **Projecto Talento (Talent Project)**.

Thus, a **Human Resources Organisational Model** was defined and approved in a multinational organisation approach. This enables the group to centralise "strategic thinking" and decentralise tacit and operational management, furthering articulation and maximisation of synergies within and between geographic areas, with clear definition of responsibility and reporting for each body involved. With this model it is hoped to promote focusing on business results, clarity, transparency and proactive communication in HR processes and a culture of overcoming obstacles and fairness.

Likewise, implementation of a **Process Model** was begun, covering all relevant aspects of Human Assets Management: potential and performance assessment, compensation management (fixed and variable compensation), skills development and training, recruitment and selection and career management.

EDP Comercial was the pilot company for implementation of the Talent Project, which was applied in all planned stages and completed.

In the scope of the new Human Resources Strategic Management model, several work sessions were carried out with all the organisational units, in which the objectives (KPIs) were defined, the functions described, the directory of technical competences was systematised and competences allocated with the respective proficiency levels per function.

Human Capital Management Information System – eneRHgia Project: This system will support, in a unique, integrated and effective way, the EDP Group's Human Assets Management process model. When it is fully operational, this tool (with "tentacular" connection via Intranet/Internet between the different EDP Group geographic areas) will cover the approximately 13,000 employees, 1,000 hierarchies and 282 users of the Human Resources area.

In 2007 the BASE (People) and HR Charter modules of the eneRHgia Project were installed in a single environment capable of supporting the information on the EDP Group companies' employees in the various countries in which it operates (Portugal, Brazil, Spain and United States of America), with the respective master data and organisational structures. Several EDP Group bodies were involved in Portugal (23 companies – DERH, DRHT, DORH, DRH Companies, DSI, PRH, PFM and DCM), Brazil (six companies, DRH companies and IT), Spain (HC Energía – 23 companies, DRH and IT, Naturgas – 4 companies and NEO – 15 companies) and the United States (Horizon).

Dynamisation: Implementation of the Talent Project and the new Human Capital Management Information System began with the carrying out of communications in the various countries and themed workshops, to achieve a detailed design of the processes. These sessions were attended by representatives from the Human Resources department of all the Group companies, the eneRHgia team.

Preliminary work was also begun with the objective of drawing up a Procedure Manual for the EDP Group's Integrated Talent Management Model.

High Potential Young Staff Programme (JEPs): This programme was launched in 2007 as part of the Talent Project. It is aimed at identifying a group of young employees with high potential amongst the EDP workforce, with the capacity to be leaders in the future. It is based on the segmentation of talent and analysis of skills gaps resulting from self-assessment, assessment by management and the results from an assessment centre. In a later phase, a specific retention and development plan will be drawn up for each young employee identified as being high potential. In 2007 the programme involved 113 young employees in Portugal and 54 in Spain. In Brazil the programme is expected to be launched in early 2008 and will cover a group of 72 young staff members. With this initiative, EDP has taken one more step towards guaranteeing excellence of Human Resources management.

Internal and external coaching: In 2007, EDP continued to invest in this form of behavioural skills development. A total of 12 external (international/domestic) coaching programmes were completed and another 12 begun in the last quarter of the year, as well as a team coaching programme. As far as internal coaching is concerned, there are currently seven programmes in progress. In 2007 four mentoring programmes were also carried out.

HC Energía Agreement – At the end of eleven months of negotiations with the employees' representatives, a collective

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agreement was signed for all HC Group companies that will be valid for a period of six years. The agreement incorporates important improvements, of which we would like to highlight the following:

- Flexibility of working time, of which the two months of continuous working day in the summer months are an example;
- Better economic and social conditions, for example, salary increases indexed to the CPI, and special energy prices for employees;
- Job creation, for example through the early retirement plan, where HC Energia undertakes to make new recruitments for at least 50% of those employees who go into early retirement. One should also highlight that provisions have been made for the recruitment of people with physical disabilities.

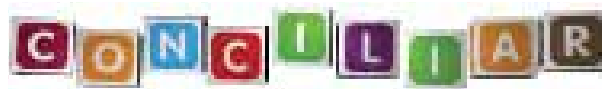
HC Energia is convinced that the agreement will lead to an improvement in its already good levels of efficiency and increase the company's competitiveness.

Internal mobilisation

"Sou EDP" (I am EDP) Programme: This organisational culture programme involved, in Portugal, 7,077 employees, 250 energisers and 27 local coordinators in a total of 1,500 sessions. The objectives of all this dynamism were: sharing the challenges, strategic orientations and diversity within the EDP Group and stimulating reflection on these matters, sensitising employees to the practice of values and the adoption of behaviours that embody the specific EDP "way of being", diagnosing the degree of presence of these values and strengthening them through the suggestion of actions, mobilising employees towards a participative and optimistic attitude in relation to the EDP Group's challenges and the role and responsibility each one has in achieving the goals set. Initially implemented in Portugal, the Sou EDP Programme is to be expanded to Spain and Brazil.



Conciliar Project: Part of the Sou EDP Programme, the Conciliar Project was launched with the aim of developing initiatives that further the well-being, motivation and creativity of the workforce and also guaranteeing closer ties with the company, thus adding value to the business. By means of this project, EDP wishes to make it possible for employees to balance their private, family and working lives. The Conciliar Programme is carried out in four main areas: health and well-being, family assistance, private life and work, and citizenship. EDP has established partnerships with certain entities and bodies with a view to securing special conditions for its employees in the development of activities that contribute to a healthy life and personal enrichment and to solving problems related with the management of day-to-day life. Conciliar also includes initiatives that recognise special moments in the lives of employees and their family members. In this context, the Conciliar Portal was created. It is accessible through the Intranet and was initially made available in Portugal and then in Spain and Brazil.



In 2007 we were one of the companies in the running for the **Most Family Friendly Company Award**, which is given by the AESE, and finished in **1st Place**.

Voluntary Work: Collaboration with the "Junior Achievement" Association and the "Aprender a Empreender" entrepreneurial learning association in voluntary actions. A total of 38 of our employees volunteered to work in the following programmes: "Economics for Success", aimed at 4th year secondary school pupils. "The Family and the Community", aimed at low-level primary school pupils. "Economics for Success" – TEIP Schools (Priority Intervention Educational Territory) – Oporto, and "Right Arm" – "One Day in Your Future", aimed at pupils that had already completed the Economics for Success programme. This consisted of one day – 5 June 2007 – during which the pupils accompanied a volunteer in his/her work environment, having contact with and participating in his/her usual tasks, thus giving them an insight into the real world of work.

Global Management

EDP once again participated in this management game with 12 teams, of which 10 were mixed, i.e. made up of students from diverse higher education institutions in the country and EDP Group employees, and 3 were made up exclusively of managerial staff from the various Group companies. In all a total of 51 students and 31 company employees participated.

2.2 Development in the Workforce

The number of EDP Group employees was 13,097 at the end of 2007, which is 478 less (-3.5%) than at 31 December 2006. In 2007 the entire telecommunications business was sold off and Horizon Wind Energy, the renewable energy specialist in the United States, was added, bringing 196 employees with it.

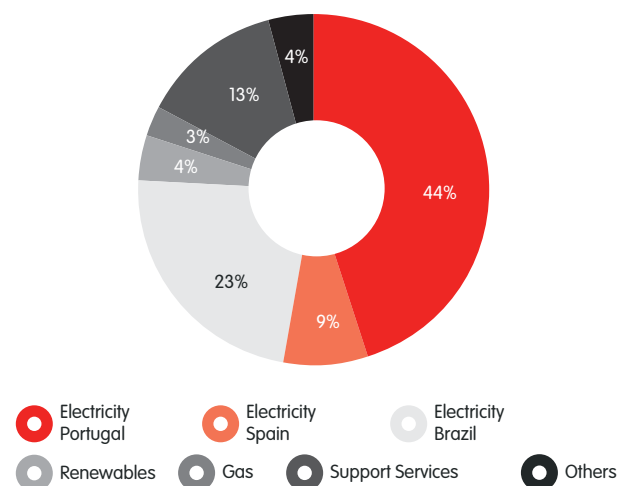
Number of Employees	2007	2006	Var.
Iberian Electricity Market			
Electricity Business (outside of Brazil)	7,527	7,482	0.6%
Generation (excluding renewables)	2,249	2,187	2.8%
Portugal	1,594	1,571	1.5%
Spain ⁽²⁾	655	616	6.3%
Distribution	4,592	4,869	-5.7%
Portugal	4,203	4,474	-6.1%
Spain	389	395	-1.5%
Supply	164	180	-8.9%
Portugal	76	88	-13.6%
Spain	88	92	-4.3%
Renewables	522	246	112.2%
Portugal	31	25	24.0%
Spain	295	221	33.5%
EUA	196	0	-
Gas Business	409	407	0.5%
Portugal	112	115	-2.6%
Spain ⁽²⁾	297	292	1.7%
Electricity Business in Brazil	2,980	3,076	-3.1%
Generation	231	242	-4.5%
Bandeirante	1,036	1,081	-4.2%
Escelsa	957	1,003	-4.6%
Enersul	741	734	1.0%
Supply	15	16	-6.3%
Support Services	1,648	1,627	1.3%
Telecommunications	0	395	-
Others⁽¹⁾	533	588	-9.4%
Total	13,097	13,575	-3.5%

Note: Including corporate bodies; corresponds to 100% of the number of employees, regardless of EDP Group's shareholding.

(1) Including holdings and other shareholdings.

(2) Tecman employees are considered under Generation in Spain.

Employee Composition Breakdown



This decreasing trend was, however, strongly influenced by adjustment programmes for permanent employees leaving the company, namely the PAE (Permanent Employee Adjustment Plan) in Portugal and the PDV (Voluntary Separation Programme) in Brazil.

The PAE 2006/2008, launched during 2006, is part of an organisational simplification process, which focuses essentially on flexibilisation of process and constant upgrading of support technologies. Eligible for the plan are employees with jobs that could be performed with fewer resources and for which their functional or geographic replacement is not viable, as well as employees who have been transferred to minority shareholding companies and have guarantee of maintenance of contract in the company to which they were transferred without possibility of reinstatement in the Group.

For those employees that leave the company, EDP, with the support of a specialised company, has ensured the implementation of support measures in the form of specific socio-professional re-orientation programmes, concentrating on practices that facilitate the search for new employment or the creation of one's own business, and of active retirement programmes aimed at analysing the occupation interests and orienting the diverse aspects of the lives of former employees – health, leisure, training, voluntary work, etc.

As this is a concern of the PAE currently in progress, the company will continue to monitor these support programmes throughout 2008.

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2.3. International Work

The international expansion of the EDP Group in the energy sector is a strategic priority that will lead to greater international workforce mobility, namely among Brazil, Spain, USA and Portugal. With this in mind, and with the aim of standardising the rules and procedures applicable to international work situations, the RTI (International Labour Regulation) was revised and adapted to any of the countries of destination.

In the year under review, 19 company employees were employed in geographic areas other than their own in Portugal, Spain, Brazil and the United States.

2.4. Recruitment and Selection

In terms of recruitment and selection:

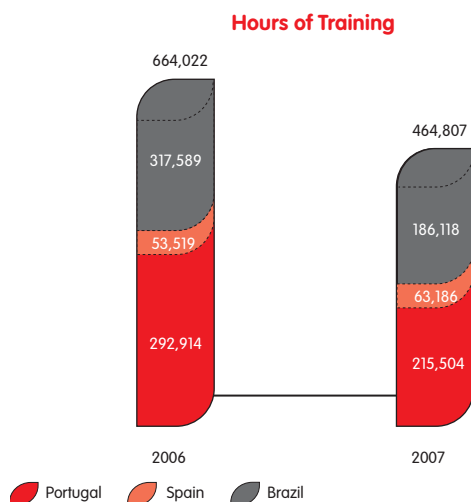
- A total of 86 new employees joined the Group companies in Portugal. Their average age was 29.7 years, reflecting the continued effort to rejuvenate the workforce;
- 54 new fixed-term work contracts were signed;
- The Group companies received approximately 15,000 job applications;
- EDP was present at 10 employment fairs, the most important being those held at the higher education institutions IST, FEUP, UNL, UCP, ISEG, FEP and ISCTE.

A wide range of training courses/internships were awarded, including:

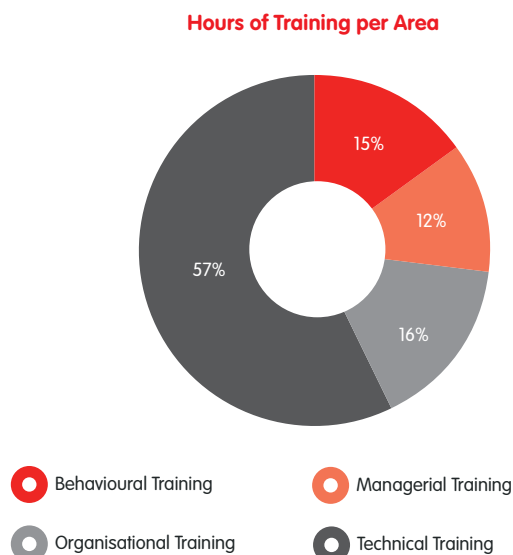
- 203 work training courses for young employees in all geographic areas.
- 124 internships for undergraduate students in Portugal;
- 8 internships with IAESTE – The International Association for the Exchange of Students for Technical Experience, in Portugal;
- 23 internships with the Fundação da Juventude (Youth Foundation), through its PEJENE programme for internships for young higher education students in enterprises, in Portugal;
- In Brazil, vocational training opportunities were awarded to 168 minors.

2.5. Training

In 2007, at the EDP Group level, more than 464,000 hours of training were carried out, involving 36,499 trainees and 5,435 training actions.

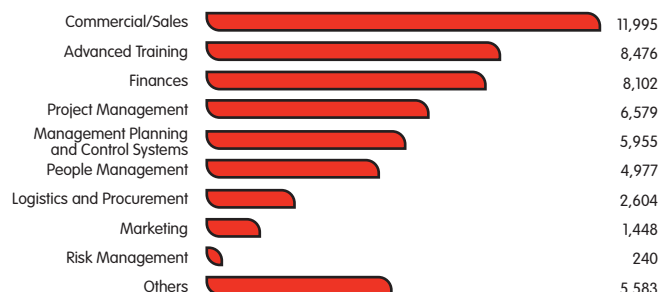


The Technical Training area dominated, accounting for 57% of all training carried out, followed by the Organisational area with 16%, Behavioural Training with 15% and Management with 12%.



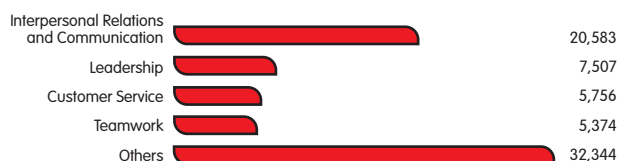
Training courses were also administered in the area of Sales in 2007. There were a total of 106 courses, involving 825 employees in a total of 11,995 training hours

Management Training (No. of hours)



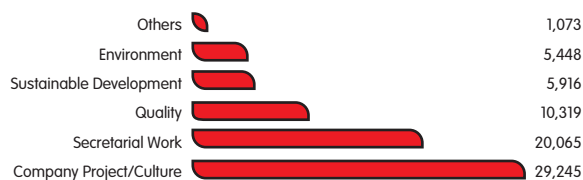
As far as Behavioural Training is concerned, one must highlight the courses carried out in the area of Interpersonal Relations and Communication and Leadership, with a total of 20,583 hours and 7,507 hours respectively.

Behavioural Training (hours/person)



In the Organisational training area, one can highlight the Corporate Culture project, with a total of 29,245 hours of training, involving 8,090 employees in 426 training actions. Of these, some 400 actions were part of the Sou EDP project. In this area one can also highlight the training actions carried out as part of the Reconciliation Programme.

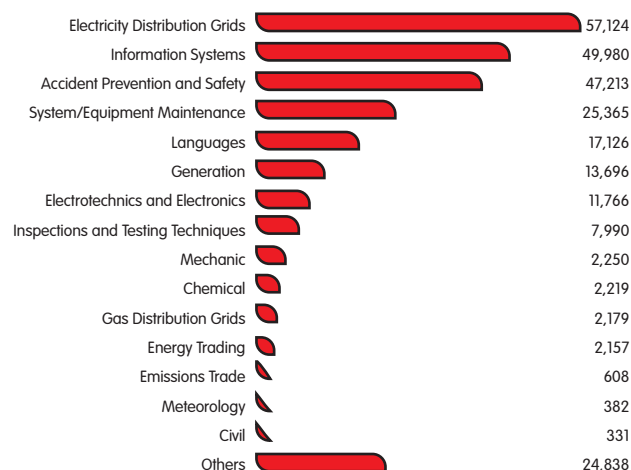
Organisational Training (hours/person)



As far as Technical training is concerned, in the area of training in Electricity Distribution Grids, a total of 57,124 training hours were carried out. the Information Systems area received 49,766 training hours. and in the area of Accident Prevention and Safety, some

47,427 training hours were carried out. All in all, these actions involved 10,868 trainees.

Technical Training (hours/person)



Investment in EDP Group employee development covered 24,013 trainees in a total of 215,504 hours of training distributed over 2,339 training actions. The direct cost of these training actions was approximately EUR 5 million.

The development of Key Management Teams and their adaptation to the constant demands of the market led to a number of training actions being carried out in the area of Interpersonal Relations and Communication and also to investment in Advanced Management Training, involving 39 employees.

The training workshop on "Feedback in the Performance Assessment process" was begun with the Senior Management Team (50 employees). This training will be continued on a cascade basis, i.e. in a top-down approach. The aim was to align and raise management's awareness of the importance of feedback and conducting the interview in the Performance Assessment Process. to give the managers techniques and tools to objectively assess the performance of their teams. to enable managers to identify gaps between what is expected and what is achieved and to build individual development plans. to focus more on development of an employee's potential. and to help manage careers: evolution, development and mobility.

In Spain, in the HC Energía, Naturgas and Neo companies, a total of 63,186 training hours was carried out. Of these, 41,188 hours were taken up by 900 training actions carried out by HC Energía involving a total of 5,344 trainees. The most important training

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areas were Generation, Distribution, Accident Prevention and Safety and Information Systems.

In Brazil, a total of 1,421 training actions were carried out, corresponding to a total of 186,118 training hours. Most of the training was in the Technical and Behavioural areas.

2.6. Occupational Health and Safety

Occupational health and safety are fundamental values in the project of sustainable development of the EDP Group. The importance that EDP attaches to this area goes beyond compliance with the legal stipulation and is explicit in the group's safety policy, oriented by the strategic objective of "Zero accidents, no personal damage".

EDP Safety Policy – EDP Commitment

The re-issue and dissemination of the EDP Safety Policy in 2007 illustrate our commitment to occupational safety management, in an approach based on continuous improvement and the conviction that labour development in a safe and healthy environment is decisive for employee satisfaction and a value added for success in business.

Responsibility for prevention of occupational accidents and risk control lies with the senior heads of each business unit.

In terms of occupational health, the internal work medicine services are responsible for monitoring employees' health through medical checkups, promoting sanitary education and checking the conditions in the workplaces and the first-aid equipment.

The Accident Prevention and Safety Committee, in which the highest managerial levels of the Group companies associated with risk activities are represented, supports the EDP Executive Board of Directors in defining the strategic objectives and managing safety.

The corporate Occupational Health and Safety structure is the body that supports the Accident Prevention and Safety Committee and the Executive Board of Directors in safety coordination and management in the EDP Group. The activities are implemented and carried through locally by the Accident Prevention and Safety Services in each business unit.

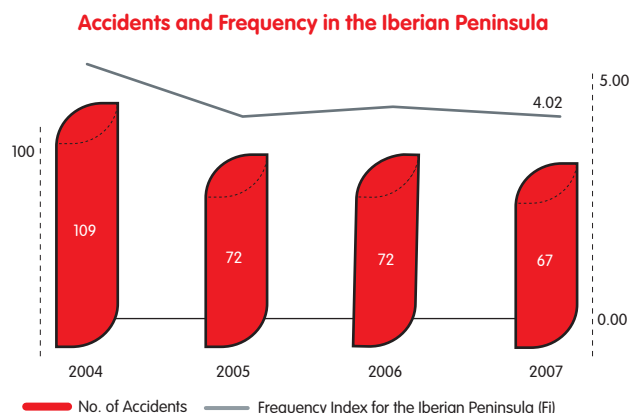
To its strategic objective, EDP has adopted an Occupational Health and Safety Management System referenced to the OHSAS 18.001:1999 standard and the recommendations of

the International Labour Organization contained in document ILO- OSH 2001.

The EDP Corporate Safety Management System underlines the principle that occupational health and safety matters are managed according to common, concerted criteria in the EDP Group companies.

The work towards reducing accidents has resulted in a drop in the number of EDP employees' accidents of around 30% in 2007, as compared to 2006.

Thus, the accident frequency at EDP Portugal was 3.07 accidents per million work hours (taking into account accidents leading to absence from work of one day or more). The composite frequency for EDP Portugal together with the service providers in the industrial activities of electricity generation and distribution was 4.29.



The frequency index for the Iberian Peninsula in 2007 was 4.02, while for the global EDP Group universe it was 3.70 accidents per million work hours.

The accident gravity scale index at EDP was 272 calendar days lost per million work hours. For the global EDP Group universe the gravity index was 225.

Despite the efforts towards heightening awareness and increased monitoring, we must lament the death of five service providers in the electricity business in the EDP Group universe. Three died in Portugal and 2 in Brazil.

EDP's performance in terms of safety management was acknowledged in 2006 with the award of 3rd place in the Henrique Salgado Prize 2007, with a paper on "Preventive Management for Service Providers".

The most important aspects and activities in 2007

Training: Execution of the EDP safety programme in 2007 was carried out in the field with a huge number of initiatives aimed at eliminating occupational accidents and illnesses. These included educational and training courses, permanent risk assessment and processing, the participation of and in communication with the workforce, together with a programme of frequent inspections and internal and external audits.

At EDP, the training in occupational health and safety amounted to some 19,300 hours, divided into 324 training actions involving 2,883 employees – in addition to the short-duration awareness-raising actions which, in turn, involved 2,350 participants, including service providers.

In the context of emergency response management, 29 drills with accident scenarios were carried out in several industrial and administrative premises. The exercises were aimed at testing the effectiveness of the respective internal emergency plans and involved external entities such as the civil protection agency, fire brigade and the police and public security authorities.

In collaboration with fire fighting units, 6 information actions on the components of the electricity grid and the precautions and procedures to respect in fire fighting situations in electrical installations or their surroundings were carried out.

Priority lines of action for 2008:

- Organisation of themed days involving service providers;
- Launch of a programme for the reduction of accidents through behaviour at EDP Distribuição;
- Definition of a corporate system for audit management and the collection and processing of near miss information.

In 2007, a total of 125 safety committee, commission and sub-commission meetings were held, at which the action programmes and plans for safety and health activities were presented and discussed, as well as the findings of investigations into occupational accidents that had taken place and the recommended corrective measures.

Pandemic Flu Contingency Plan: The EDP Contingency Plan was approved and disseminated with a view to anticipating and managing the impact of a possible situation of pandemic flu amongst the workforce and in the Group company businesses. In this area, EDP has developed a partnership with the National

School of Public Health at the Universidade Nova de Lisboa for the execution of a “Scenarios against Pandemic Flu” project”. This project, given the title “Healthy Winter” was carried out in winter 2007 and will continue into 2008. It will use the seasonal flu that characterises this time of the year to conduct a study making it possible to test a number of responses to a possible pandemic flu outbreak.

Protection from involuntary exposure to cigarette smoke:

Reinforcing and complementing the legal provisions prohibiting smoking in the workplace, a preventive consultation programme to give up smoking was set up. It is designed to support all employees that wish to stop smoking. In 2008 and 2009 corporate actions will focus on:

- Prevention of excessive alcohol consumption;
- Prevention of drug dependency;
- Prevention of musculoskeletal injuries.

Fifth EDP Occupational Safety Meeting: With the aim of consolidating the safety practices in the Group, the 5th EDP Occupational Safety Meeting was held under the motto “Safety, Sustainability, Satisfaction and Success”. The initiative was linked to the European Safety Week and was attended by some 400 persons, including EDP Group employees, service providers and work inspection bodies.

New protection clothing against electric arc burn injuries:

To further improve occupational safety conditions, particularly in those activities more exposed to electricity-related risks, a new polo-style shirt was introduced as part of the work clothes. The fabric is fire-resistant and protects against electric arc burns.

EDP Accident Prevention and Safety at Work Prizes: Aimed at consolidating the prevention and safety culture, EDP has created the “Annual Occupational Accident Prevention and Safety Prize”, which was awarded for the first time in 2007. The prize acknowledged EDP employees and service providers who stood out in 2006 for their actions or contributions to advancing the prevention culture at EDP.

EDP Sports Prize: The EDP Sports and Physical Maintenance Prize distinguishes employees who make sport and exercise an habitual part of their lives. The aim is not to distinguish isolated sporting results but the regular practice of sports.

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Certification in safety

As far as EDP Portugal's activities in the electricity sector are concerned, the Occupational Safety, Hygiene and Health Management Systems in all thermoelectric power stations, or 97.3% of the installed thermal capacity, are certified. The same is valid for 94.3% of hydroelectric power generation.

The drop in the percentage of certified hydroelectric capacity in relation to 2006 has to do with EDP's purchase of the operation rights for the Alqueva and Pedrógão power stations at the end of 2007. The certification process for these power stations will begin in 2008.

In the gas business, Naturgas is certified in occupational health and safety in accordance with the OHSAS 18001 standard: 2007.

Objectives for 2008/2009:

- Safety certification (OHSAS 18001: 2007) for the Alqueva and Pedrógão power stations – EDP Produção;
- Revision of Safety Certifications (OHSAS 18001: 1999) of the EDP Produção generation plants to the OHSAS 18001 standard: 2007;
- Safety certification (OHSAS 18001: 2007) for ELEBRO and NEO.

3. RISK MANAGEMENT

Risk management mandate and structure

The Group activities are exposed to a certain number of risks, and to manage these, we have created a risk management organisation and process based on the following:

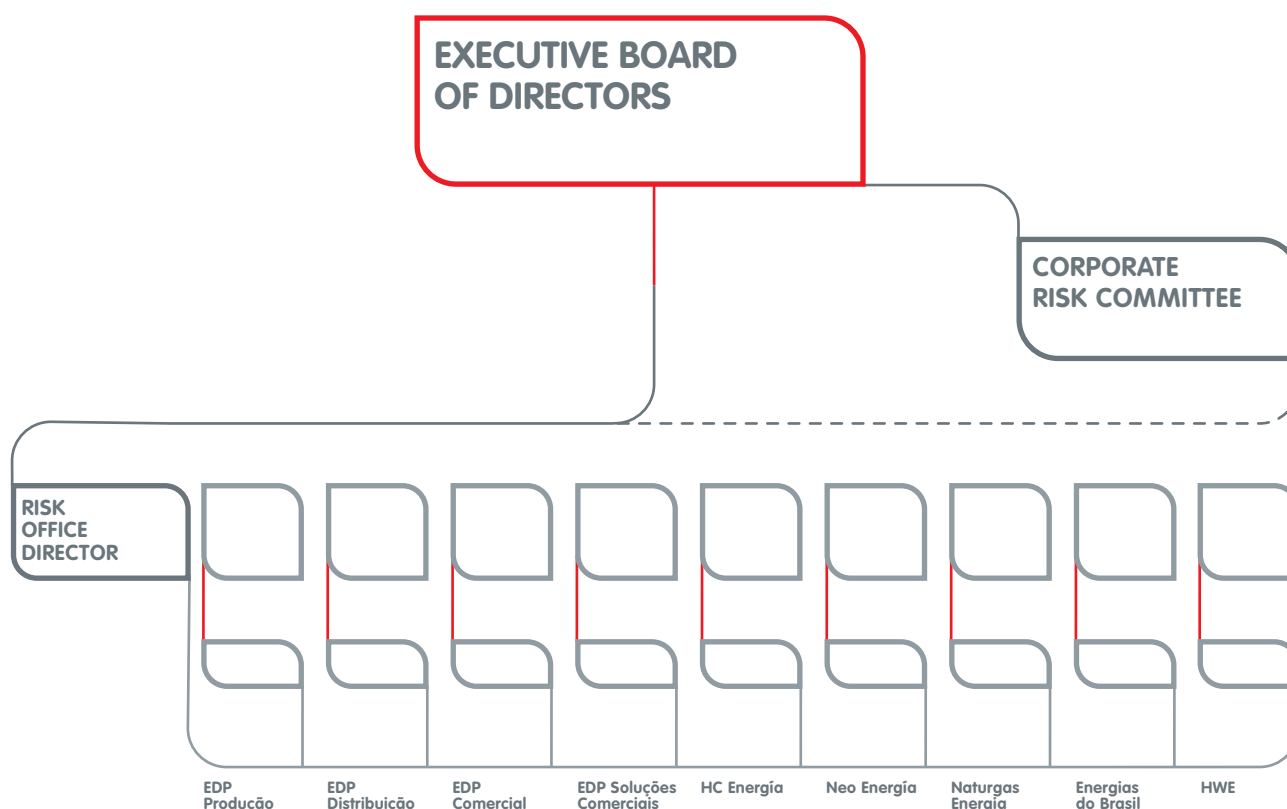
- **Risk identification and prioritisation.** The Risk Portal, an instrument developed internally for the consistent collection of information on each relevant risk, is used at the EDP Group level. It makes a qualitative and, to the extent possible, quantitative assessment of risks and determines the probability of occurrence and control level, as well as preparing priority matrixes for action and control.
- **Risk strategy.** The purpose of the risk strategy is to identify, for each of the priority risks, the key measures that can be applied to avoid or minimise the risk, (action plan register in the Risk

Portal), decide on the transfer of the risk to another entity (insurance, hedging) and define the risk/return profile desired.

- **Governance and control.** This is based on the corporate risk management policy defined by the Executive Board of Directors and in the structure defined for that purpose.

The Executive Board of Directors decides on the level of exposure to be assumed by the EDP Group in its diverse activities and, in addition to the corresponding mandates delegating tasks and responsibilities, defines the overall risk limits and ensures that the risk management policies and procedures are observed.

In this it is supported by a Risk Committee, chaired by the CEO and made up of members of the Executive Board of Directors, directors from the Risk Management and Financial departments and the Energy Management Unit and other senior management members who are invited depending on the items on the agenda. The main tasks of the committee are:



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- To ensure that the most significant risks are monitored;
- To establish reporting mechanisms;
- To produce recommendations on policies, procedures and risk thresholds for the Group.

At a corporate level, the Risk Management Department exercises independent risk control, supervising and reporting continuously on overall compliance with the established procedures and limits. It is also responsible for developing specific models and methods for risk management. In the period under review, in addition to these activities, the Risk Management Department conducted its own studies, thus actively contributing, in a business intelligence approach, to the assessment of important and very topical matters risk/return for the Group, namely:

- Strategic assessment of the MIBEL – Iberian Electricity Market 2008 – 2016, in the context of price trends, impact of the volatility of wind generation, level of use of the diverse technologies and the risk of not matching supply and demand;
- Assessment of the regulatory risk associated with the problem of possible income resulting from the use of free CO₂ licences, commonly referred to as windfall profits;
- The “Cash-flow at Risk” Project, the aim of which is to assess the Group’s integrated risk, i.e. its capacity to support unexpected losses, either through assessment of the financial liquidity (the Group’s capacity to satisfy its short-term cash needs) or using the economic value (the Group’s long-term capacity to comply with its business plan and create value). this methodology was already applied in the in-depth analysis of EDP Distribuição, EDP Produção and the UNGE (Energy Management Unit);
- Active participation in risk management projects coordinated by, namely:
 - * The Linnaeus risk analysis project in the various business units, with the support of Deloitte;
 - * The “Risk Measurement and Value Creation” project to establish the best risk measuring practices, with the support of Mercer Oliver Wyman.

The business units manage their own risks within the established criteria and delegated areas. There is double reporting by the Risk Officer of each Business Unit and the Manager of the Risk Management Office, to ensure that the activities, reporting and control are in harmony with each other. A double reporting

solution is in place between the Risk Officer for each business unit and the Director of Risk Management, thus ensuring alignment of the operating, reporting and control practices.

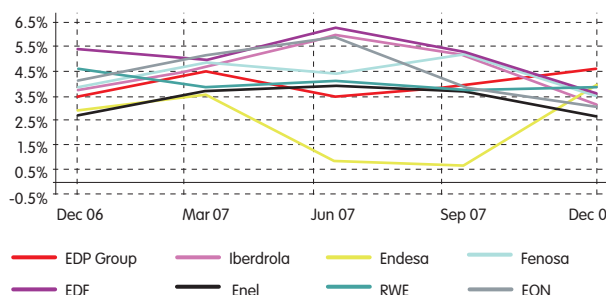
Risk factors

The main risk factors identified by the EDP Group are structured as follows:



The Business Risk is the Group’s most important risk, followed by Market Risk, Operational Risk and Credit Risk. This is the typical situation for utility companies in the sector. One should note that, in comparative terms, the EDP Group has a relatively low overall risk level as assessed by application of the VaR (Value at Risk)/PV (Present Value) formula to the quoted shares (5-day VaR, 95% probability of not being exceeded, based on the RiskMetrics calculation model). Over the year, EDP’s VaR/PV remained quite stable, oscillating between a minimum of 3.5% and a maximum of 4.5%. One should also emphasise that the drop in the long-term rating in the 2nd half of the year, from ‘A’ to ‘A-’ (Standard & Poor’s), as a result of the acquisition of Horizon Wind Energy LLC, was well received by the market as a reasonable compromise between growth strategy and low risk maintenance. The shares’ volatility has remained stable.

VaR (Equity) 5d, 95% / Market Cap



Risk management throughout the value chain – MIBEL

Although there are risks that apply across the board to all units, the following is a list of the most probable risks per business unit.

Electricity Generation and Energy Management:

Electricity price risk. The income from generation can be affected by alterations to the price of electricity in the wholesale markets. The Group has limited exposure to the power stations operating in the free market (Spain and the Ribatejo power station in Portugal), due to the fact that the majority are subject to the CMEC (Costs of Maintenance of Contractual Equilibrium) adjustment mechanism (power stations that had a PPA with REN and now operate freely in the market as of 1 July 2007). On the other hand, the Group actively seeks to protect the margin, undertaking integrated action in the scope of the Energy and Sales Management. In the MIBEL, the UNGE has a mandate to operate in the wholesale market, both to optimise the generated power offer in the OMEL spot market and to make use of the forward market, OMIP, OTC and arbitration in the Spain/France interconnection. A new risk is that of the market price being higher in Portugal than in Spain, as a result of market splitting, after exhausting the interconnection capacity and the need to resort to more expensive generation means in Portugal. However, this risk is not relevant at the Group level given that supply in the free Portuguese market does not depend on imports from Spain. The UNGE simulates the behaviour of the Iberian system and uses the MUR programme for the periodic calculation of the MAR (Margin at Risk).

Fuel and CO₂ price risk. This risk is also more important for the power stations operating in the free market. The UNGE is responsible for its management. It operates in the purchase of coal and fuel oil, the management of gas purchase contracts for electricity generation and CO₂ emission rights, and also in establishing hedging solutions for the price of fuels and the dollar exchange rate (the latter in coordination with the Financial Management). As far as gas supplies are concerned, EDP Gás is responsible for the negotiation of new contracts, as well as the management of situations of excess/shortage between the Group companies and with external companies. The MUR is also utilised in risk assessment, using its trend assessment capacities in the evolution of fuel and CO₂ prices.

Operational risk in the operation of power stations and wind farms. Power stations and wind farms are exposed to breakdowns and outages, which may result in loss of revenue to their resulting non-availability. This risk is mitigated through application of the highest level of operation and maintenance models and security procedures. On the other hand, the most

important insurable risks are also associated with generation. Power generation is protected by insurance policies managed by the EDP Valor Insurable Risk Management Office.

Environmental risk. The power generation resources are those most exposed to this risk, be it due to the use of natural resources or due to the emissions and residues that thermoelectric generation always produces. The Group follows a very strict Environment Policy, aimed at fully satisfying the licensing parameters for the facilities and introducing additional measures that will help to minimise possible responsibilities in this area.

Credit risk. In operations in organised markets, this risk is not significant, and in OTC operations and in fuel purchasing the UNGE minimises it by applying exposure limits in line with the internally approved limits in accordance with the rating of the other contract parties (which is defined by an external entity, or internally if there is external information).

Trading in markets:

Electricity price risk. This risk is assumed by the UNGE, once the sales volumes to final customers are defined by EDP Comercial and HC Energía. The exceptions here are situations in which it is possible to conclude contracts indexed to the market price.

Volume risk. Be it due to climatic and economic conditions or the result of customer migration between the liberalised market and the public service regulated market, the volume of energy to be sold to final customers always carries a certain amount of instability. In principle, this risk is assumed by supply, as it will have to make the excess or shortfall adjustments with the UNGE at market price. However, the transition phase the MIBEL is now in, which can lead to considerable fluctuation in the amount of free market consumption, depending on the fluctuating attractiveness of the regulated tariff, calls for dynamic management of this risk in the form of integrated and periodic intervention through the Prices and Volumes Committee set up for this purpose.

Supply quality operational risk. In the liberalised market, the sales service quality criteria are the entire responsibility of the Group, meaning that great importance is attached to their good management.

Credit risk. The management of this sales-related risk is carried out, first and foremost, on the basis of the contractual criteria applied and, secondly, by EDP Soluções Comerciais, the unit to which the reading – billing – collecting cycle has been delegated (in Spain: HC Energía).

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Supply of Last Resort:

In accordance with the European legislation, those consumers that opt for regulated tariffs are customers of the so-called Supplier of Last Resort, whose operations are totally regulated (share of electricity purchases in auctions, in the futures market, etc.).

Regulatory risk. This is a low-risk activity. Nevertheless, the accumulation of tariff deficits in the sector is grounds for concern as to the future consistency of a hybrid system with systematic arbitration between the public service's regulated tariff and the free contracts in the market.

Supply quality operational risk. Regardless of the regulated criteria for quality of supply service (average response time in providing services to customers, percentage of readings of low-voltage meters, etc.), the Group has placed great importance on management of this risk, as the impacts resulting from it for management of the brand erosion risk are by no means negligible.

Credit risk. Management of this risk has been delegated to EDP Soluções Comerciais and is carried out in terms with the regulations defined for the public service customers (cycle of supply cut after payment deadlines have been passed).

Electricity distribution:

Regulatory risk. The alterations to the remuneration rules for this activity can impact the revenue of EDP Distribuição and HC Energia. In addition to the just defence of the valuation criteria for the activity, the Group works to apply the best grid planning, construction, operating and maintenance practices in an effort to achieve, and even surpass, the efficiency gains implicit in the regulatory objectives.

Technical service quality and losses operational risk. In addition to the regulated criteria for quality of technical service (duration and number of service disruptions, service reinstatement times, etc.) and the incentives for the reduction of physical losses in the grid, the Group has placed great emphasis on management of this risk, as the impacts resulting from it for management of the brand erosion risk and efficient energy management policy are by no means negligible.

Grid operational risk. The existence of infrastructures in the public domain (lines, cables, transformation posts, etc.) can heighten the impact from breakdowns and incidents. This risk is mitigated through application of the highest level of operation

and maintenance models and security procedures. On the other hand, the insurable risks are transferred to insurance policies.

Environmental risk. Although of less importance than in generation, the problem of co-existence of the overhead power lines with the visual impact and with routes followed by bird wildlife – aspects that are given meticulous attention in the design phase – are worthy of reference, as are additional measures that help to make the infrastructures compatible with birds that seek them out as resting or nesting places.

Risk management in other geographic areas and activities

Although the conditions in the regulated and free markets are different, the principles and methodologies listed above apply also to the gas distribution and supply business and to Energias do Brasil, NEO Energia and Horizon.

As far as gas is concerned, the strategic partnership with Sonatrach has made a significant contribution to the profitable growth with controlled risk in this activity context, as it provides a significant increase in flexibility and hedging levels.

The acquisition of Horizon clearly confirms the Group's changing power generation profile, and also marks its entry into a geographic region that offers enormous growth possibilities with low country risk, helping to assert the Group as one of the major world players in renewable energies while exposing it to relatively low greenhouse gas emission risks.

Transversal risk management

Investment risk. The process of investment assessment and decision-making has established standardised criteria for defining the discount rates to be used for assessing the expected cash flows and for scenario modelling (which incorporate different sensitivities, for example to price risk, energy volume risk, regulatory risk). These criteria help to set boundaries for the Group's appetite for risk and the capital cost for each business unit/geographic area is revised periodically. The Investment Committees (in the business units and at the corporate level) allow for effective implementation of these mechanisms in the investment assessment and execution monitoring phases, monitoring operational risks in these phases and their potential impact on the expected value.

Financial risk. The Group's financial risks are mainly managed by the Financial Management, which is responsible for the treasury management of the Group in Portugal, management of the debt portfolio and the interest and exchange rate risks through

financial market instruments (in Brazil, Energias do Brasil follows, under coordination, similar principles and methodologies).

The purchase of Horizon has led to a change in the EDP debt structure resulting from the financing in dollars of the purchase. Despite the existence of exchange rate risk associated with the payment of interest on such financing, the exchange risk linked to the issued debt market value is offset by the value of the Horizon assets.

The liquidity risk is mitigated by the debt management policy and contracting new financing, the main objective of which is to manage, in a balanced way, the medium-term portfolio and smooth out maturity. This risk is also mitigated by the availability of (underwritten) credit facilities that are contracted and not used.

Given the financial policies followed by the Group, one continues to observe a low level of market risk and a diversified counterparty risk involving financial institutions with appropriate ratings.

Liabilities arising out of the EDP Group Defined Benefits Pensions Fund and health care benefits in Portugal are fully covered by Pensions Fund assets and specific provisions within the EDP balance of accounts. These liabilities are calculated annually by an Independent Actuary on the basis of IFRS-IAS assumptions, taking various features into account including the performance of the Fund, demographic features, economic variables and the relevant requirements.

In the year under review, a new Governance Model for the EDP Group's Defined Benefit Pension Plan was implemented. It aims at guaranteeing coordinated management of the Pension Plan in the financial, human resources, planning and control and risk management areas. The structure implemented ensures separation of functions between the legal representative entity, the overall custodian entity and the financial assets managers. The former two allow for double control in the evaluation of assets and monitoring of compliance with the allocated management mandates.

Operational risk. This involves potential losses resulting from incidents caused by faulty or inadequate procedures, staff, equipment or systems or resulting from external incidents (including the risk of failure to comply with legislation and ethical standards. operating losses including economic and non-economic effects and loss of reputation).

In the Information Technologies area, the Information Systems Management has been consolidating the whole risk

management process. Here, one should note that alternative services to those existing have now been contracted with a view to guaranteeing minimum capacities for printing and enveloping for sending bills and other documents to Group customers.

The most significant risks, which are transferable to the insurance market, pertain to industrial facilities. For these risks and for others resulting from complaints by third parties for material or personal damages and their consequences, that may be originated by the very activity of the Group companies, the Strategic Insurance Plan 2007/2008 by EDP Valor's Insurable Risk Management Office was approved. It is based on the establishment of joint programmes for all the Group companies in Portugal and Spain for direct contracting with the insurance market and boosting the role of the Group's own reinsurance company – Energia RE. This conjugated policy has made it possible to optimise insurance costs and improve control.

The Group does not expect any significant negative repercussions with regard to legal risks, either involving litigation or arbitration connected to operations involving both the licensing of new facilities or compliance with tax and accounting obligations.

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4. INFORMATION SYSTEMS

4.1. Governance

In 2007, the focus was placed on increasing the maturity of the Information Technologies governance processes, on strengthening relations with the internal customers and on preparing the global application of the best practices in ICT management at the EDP Group level. Here one can mention the following activities in particular:

- Reorganisation and verticalisation of the IT service operational areas, with the aim of guaranteeing more direct relations with the internal customers and resource management focused on the business priorities;
- Consolidation and strengthening of the IT management team, with investment in training in good relational practices and IT management and in technological upgrading;
- Creation of an IT Strategy and Architecture Committee, focused on identifying synergies in the systems and communication networks, involving the various geographic regions in which the EDP Group operates;
- Updating of the Information Security Standards Policy, applying the best market practices and those recommended by ISO 27000 standards;
- Improvement in the IT Internal Control System in accordance with the international Cobit 4.0 standard, including:
 - * Definition and implementation of new application access management and control processes and tools, with priority for the critical systems;
 - * New processes and activities supported by the IT management tool, decisive for the efficiency of the management model adopted;
- Improvement in internal and external service quality indicator reporting (outsourcing contracts).
- Decision process support architecture, aimed at standardising the tools and procedures used;
- Global strategy for tools to be used to improve and standardise the Group presence on the Internet, extranet and intranet;
- Creation of an Electronic Office, which consists of the standardisation of the information resources, making them accessible regardless of the geographic region the user is located in (includes unification and improvement of data networks);
- SAP systems upgrade strategy;
- Definition of a new architecture and Iberian support platform for the B2B commercial systems – liberalised market.

4.3 Main projects/initiatives

The Information System initiatives in 2007 were aimed at providing the business with the tools that would enable the Group to effectively and innovatively achieve to reach its goals. Various projects were launched with this purpose in mind, the most important of which involved:

Corporate Applications

Support for initiatives designed to improve the operational effectiveness and efficiency of the Group companies and business units, as well as the Corporate Centre:

- EDP Valor:
 - * Efficient Value (new improvement package for the back office systems);
 - * Self-billing;
 - * Automatic capture of bills and cheques (automatic collection of bill and cheque information).
- Corporate Centre:
 - * EneRHgia (support solution for the EDP Group's Integrated HR Management Model);
 - * Internal Control (pilot project for a tool to guarantee the internal control cycle).

4.2. Strategy and Architecture

A series of strategy and architecture initiatives were carried out across the Group's geographic areas of operation in 2007, of which the most noteworthy were:

- EDP Inovação:

- * WikiEDP

- Alterations to systems that were necessary to ensure compliance with new regulatory requirements:

- * Parallel and online accounting on the basis of the two systems – POC (Portuguese Plan of Accounts) and IFRS/ IAS (international financial reporting standards) – giving the EDP Group greater flexibility in terms of accounting organisation.

Supply area

- Completion, at the end of the first semester, of implementation of the Supplier of Last Resort System, as well as the access to grid billing from EDP D to EDP Serviço Universal;
- Implementation of a new process for determining the energy in meters, regulated market and access to the grids;
- Implementation of the electronic bill for the regulated and liberalised markets;
- Implementation of the new regulations for requests for supply of energy;
- Implementation of telemetering in SLV (special low voltage) facilities;
- Implementation of the Consumption Reconciliation System between the various market agents;
- Implementation of the new continuous contract work;
- Continuation of the B2C liberalisation project, with the focus on debt management activities, the creation of new products and diverse energy efficiency campaigns, “Conta Certa”, electronic billing, edp5DNegócios, etc.;
- Implementation of the B2C customer portal;
- Implementation of the Audiovisual Contribution to the Liberalised Market;
- Development of several improvements to the campaigns and sales management tool;
- Launch of the centralised collection management project;

- Launch of the Iberian B2B project with definition of the business processes and requirements and subsequent issue of an RFI to select the tool to be used.

Distribution

- **The WFM – Workforce Management Project**, which is aimed at implementing a system for the management of activities, incidents and mobile teams in the field. It will be integrated with the “technical systems” for operation of the electricity distribution grid and also the back office systems. This is a structuring project, as it will enable us to improve productivity and customer service and further automation of the information gathered, thus reducing the back office support infrastructure. Project in development.
- **“PowerOn” Project** – aimed at implementing a new generation system to replace the current information management system, for the management of incidents in the electricity distribution grid. The system has already been made available to the Lisbon grid area and is currently being expanded to the remaining grid areas in the country.
- **“REDIS 2007” Project** – Restructuring of EDP Distribuição in 2007, with the aim of adapting the application systems to the company’s new organisational structure. In the scope of this project, systems supporting this company’s “business processes” were modified.
- **The SGPA (Distribution Productivity Management System)**, aimed at putting into place a system that provides EDP Distribuição managerial and technical staff with management indicators. It implements work processes/ methodologies defined in the Productivity + programme. Project in development.

Generation:

- **The “SKIPPER System, Knowledge. Information, Plant. Performance, EnviRonment” Project**, for the development of a platform tool providing real time access to power station performance information that would serve as a support for strategic decision making, performance optimisation and operational management of each power station at the Iberian level. It is considered a structuring project. Project in development.
- **The SGDT (Technical Document Management System)**, which consists of a database for the digital storage of technical information (drawings and other documents in

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vectorial or raster formats) belonging to the diverse power generation units. With the necessary adjustments, this solution could be adapted to other Group companies.

UNGE

- **The “Sit – Ibérico” Project** for the implementation of an Iberian-wide system for the purchase and sale of energy in the market. This system also supports the whole fuel (gas, fuel oil and coal) value chain (purchase, transport, unloading and loading).
- **The “MDI (Iberian Data Model)” Project** for the implementation of an Iberian-wide system aimed at supporting the whole activity of demand and price forecasting. Project in development.

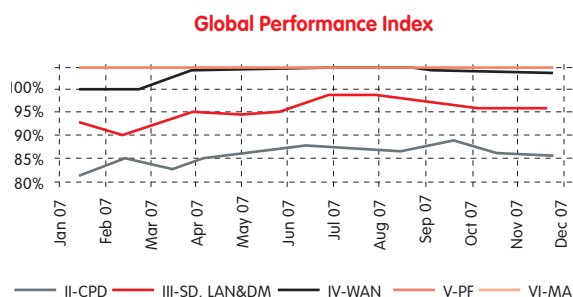
Business solutions

New business solutions were put in place with the aim of improving performance, accessibility and usability of the systems.

- **Anti-Spam** – All e-mails received and sent by EDP pass through a mail control box so that spam messages can be filtered out before they are routed to their receivers;
- **Webmail** – Here the aim is to provide access to personal mailboxes via the browser and from any PC without needing Lotus Notes;
- **Global Internet Access** – Extending Internet access to all EDP employees.

4.4. Outsourcing Contracts and Quality of Service

LogicaCMG was the strategic partner chosen in 2005 to hold a majority stake in the Edinfor share capital and manage the company and, consequently, the outsourcing contracts with EDP.

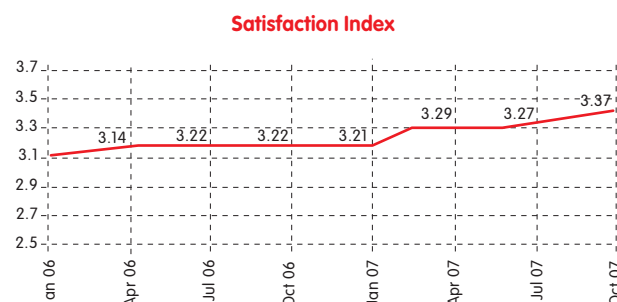


Following 32 months of these contracts entering into force, we have seen measurable positive development in all contracts.

In 2007, EDP and Edinfor made joint efforts for sustained improvement in the way the service is provided. A number of problems have since been eliminated/minimised that had affected the quality of the services provided to some systems' users.

In terms of efficiency, all objectives pertaining to reducing information technology operating costs were met. Operating costs are now fully in line with the objectives defined in the forecasts made at the time of the sale of 60% of the Edinfor share capital.

Perceived service quality was regularly assessed by telephone surveys involving a universe of 400 users chosen at random from the EDP universe and showed satisfactory results with an upwards trend.



4.5. Disaster Recovery

Following the work carried out in 2005 and 2006 for disaster recovery for the EDP Group's information system, the following developments took place in 2007:

- **Sacavém DPC:** In the scope of the profound reformulation of the Edinfor DPCs, migration of the current operation of the production environments from Sacavém to Matinha is planned, with maintenance of the minimum necessary capacity for recovery of critical applications to the EDP businesses at Sacavém.
- **Sacavém Finishing Centre:** In December, Edinfor was awarded the contract to implement a total recovery solution for the Finishing service, using a large supplier in Spain. Availability of this service is scheduled for April 2008.

The solution will enable EDP to recover its bill printing and enveloping capacity in Sacavém six days after a serious disaster.

5. RESEARCH, DEVELOPMENT AND INNOVATION

In the course of 2007, the management of EDP Group Research, Development and Innovation (RD&I) activities was marked by the launch of EDP Inovação, a new company that will take on an important role in pursuing EDP's strategic priorities and improving its operations. EDP Inovação will operate in the following three areas:

- Oriented growth – seeking the exploitation and utilisation of new energy sources in the area of waves, sun and wind;
- Superior efficiency – seeking solutions that advance the efficiency of the production processes. examples of these are: SKIPPER, in the power generation area. and InovGrid in Distribution. as well as implementation of WikiEDP, aimed at sharing knowledge in the Group;
- Controlled risk – working in the search for new “green” technology solutions, in such areas as carbon sequestration.

Parallel to the launch of EDP Inovação, Labelec has continued its normal activities, which focus on the provisions of specialised services in the areas of electricity and the environment, ensuring the use of the best practices in a wide range of technical areas of central importance to the EDP Group.

EDP Inovação began operating in early 2007 and, in the course of the year, placed the Group's innovation governance model in operation. The Innovation Committee has met regularly under the chairmanship of the Group's Executive Board of Directors' Chairman, with a view to defining the strategic lines of action for this area, analysing the portfolio of innovation projects and deciding on their priority in accordance with their strategic interest and the merit of the respective business plans.

In this context, one must highlight the consolidation of the innovation activity in Portugal: Efforts were increased in this area, making it possible to submit a candidacy to the SIFIDE scheme (Tax Incentive System for Business R&D) for the amount of EUR 10 million. In the field of Renewable Energies, the following activities in 2007 are worthy of note:

- Continuation of the work on implementing an Open Wave Energy Architecture, enabling an off-shore substation to be shared by separate machinery, allowing for the co-existence of facilities with different features to one another and in different stages of development;

- Continuation of the work on the CEODOURO – BREAKWAVE Project for an oscillating water column wave energy station, focusing in particular on finding alternatives to the Douro sea wall, following confirmation that it is impossible to build such a project on the planned site;
- Launch of a line of action on studies into the photovoltaic, thermal and thermoelectric components of solar energy, with a view to selecting technologies and suppliers;
- Studies on a number of alternatives for carbon sequestration, using algae;
- Continuation of the international project (Nanoglowa) at EDP Produção, aimed at capturing CO₂ using membranes developed from nanotechnology;
- Participation in the EDEN project for the endogenisation of knowledge on fuel cells and the use of hydrogen;
- The study of micro-wind energy solutions for the dispersed generation of energy in urban areas;
- Participation in the Berenga Sustainability Laboratory project, in which EDP is responsible for the energy component.

In terms of innovation in processes, the Group continued to seek ways of increasing productivity, nurturing a group culture that favours networked functioning, giving rise to the “EDP Way”. The search for innovative solutions continued, making use of open source software wherever possible:

- Implementation of WikiEDP, using MediaWiki open source software, as a knowledge-sharing tool;
- Test run of “Content Management System Open Source TikiWiki” as a quick and inexpensive way of placing content on the Group Intranet;
- Definition of a Unified Communication Strategy with a view to promoting the use of the workplace as a preferred point of communication, integrating voice and image with the use of VOIP technologies;
- Launch of the “Corporate TV” channel in the Group as an important tool in strategic alignment.

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In drawing a balance of the first year of operation for EDP Inovação, it was considered important to redefine its model for investment in new technologies. It was decided to establish a "Corporate Venture Capital" in 2008, as an important tool in boosting external innovation that would provide one with a privileged insight into developments in progress in the field of energy.

Labelec is an important resource in achieving innovation within the EDP Group. It is an important source of support to EDP Inovação in highly technological areas.

6. SUPPORT SERVICES

In the context of globalisation and the growing complexity that characterises the markets in the various sectors in which the Group operates, the companies are seeking to adopt organisational solutions that give them more competitive edge and improve their business sustainability

The centralisation of the support activities in specialised service provision units is a preferred model for improving the efficiency levels of organisations through recourse to specialised skills, focusing on the core activities, standardisation and optimisation of the information systems, leading to gains in efficiency through effects of scale, adoption of the best practices in the processes and reduction of costs.

It is in this context that EDP Valor operates, as the EDP Group corporate shared services unit.

Currently structured into seven areas of operation or services platforms, the EDP Valor line of action in 2007 was guided by the following strategic objectives:

- Achieving a nominal reduction in the operating costs of EDP Valor and implementing restructuring and efficiency measures that further optimisation of the cash costs of the customers in its areas of operation;
- Comprehensively preparing the company for the challenge of expansion of its activity in alignment with the expansion of the EDP Group's operations into new geographic regions;
- Remodelling and rejuvenating its human resources, accompanying the prescribed rationalisation efforts.

The first objective above also includes continuity and reinforcement of the programme of process optimisation and productivity gains, through the implementation of more than 50 new initiatives, including the following in particular:

In the financial area:

- Automation of the checking and accounting of suppliers' bills, covering:
- Electronic billing, which enables the exchange of digital data between the applications of the suppliers' accounting systems and those of EDP;

- Electronic self billing, a process that enables EDP to issue electronic bills on behalf of the supplier and automatically enter them into the accounts;
- Automatic capture of data from the suppliers' bills, with optical recognition.

In 2007, some 20,000 documents were processed through electronic self-billing and for 2008, it is expected that 50% of the more than 300,000 invoices received annually by EDP Valor will be processed automatically. The EDP target is to process 80% of all suppliers' bills automatically by the end of 2009, making it best European practice.

- Optimisation of cash flows with the launch of the bases for the migration of the cash management to a new platform, which includes, amongst other things, the priority functionalities of bank reconciliation and management of forms of payment received.

In the Human Resources area:

- Reorganisation of the Human Resources Platform (PRH), a structuring initiative aimed at centralising the local support tools, optimising the geographic distribution of the PRH resources and restructuring the way in which customers are attended to;
- Replacement of the clocking in terminals (TMP) by the introduction of a web-enabled clocking in system. This now completed initiative allowed for a reduction in administrative work in the area responsible for time management and greater reliability of the information provided to employees.

In the area of resource logistics:

- Optimisation of the Group's vehicle fleet, with a readjustment of the number of vehicles and improvement in the allocation of resources to fleet management;
- In the scope of energy management, a light bulb exchange action was carried out in the administrative buildings with a view to achieving a more adequate management of the local lighting. This action allowed for a total reduction of 131 kW in lighting consumption, through the replacement of 1,124 bulbs with energy-saving ones and the switching off of 2,714 bulbs.

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In the area of storage logistics:

- Outsourcing of the logistics operations for warehouses, an initiative in the final implementation phase aimed at adopting the best market practices, guaranteeing greater flexibility in logistical management and optimising property space allocated to storage;
- Automation of the warehouse at the Ribatejo Generation station in Carregado, and launch of the automation project for the Sines power station warehouse, through installation of an automatic parts storage system called the Vertical Automatic Warehouse;
- Completion of tests on the electronic issue of purchase documents to suppliers via the SAP server. This solution allows for greater monitoring and control of the local procurement processes for the generations stations;
- Execution of the design and building work on the Environmental Logistics Centres (CLA) in Olho-de-boi and Loulé (DRCS), with a view to improving the management process for material residues and non-reusable products from works carried out on electrical facilities. The Ruivães CLA will be built in 2008.

In what could be termed a second line of action, one can highlight the transfer of operational activities that had been the responsibility of the EDP Group Corporate Centre and the companies that are EDP Valor customers, with integration and expansion of the following services in 2007:

- In the final quarter of the year, EDP Valor took over the whole administrative process related with the beneficiaries of the Welfare Fund of the former CRGE companies, namely registration of payment, processing benefits, family and social contributions (children's allowances, sickness benefit, maternity and fatherhood benefits, etc.), which transferred from EDP Distribuição;
- In the area of Social Affairs, a structure with specialists from the various EDP Group companies was set up in the Human Resources Platform, with the aim of intervening transversally in the monitoring of situations of absenteeism due to occupational accident or illness, the training and monitoring of the various institutions, the monitoring of situations of social assistance and the areas of social responsibility and internal citizenship;
- Following the reorganisation of the Group's financial management, with the aim of guaranteeing more effective

segregation of the front office and back office cash management functions, as of the beginning of 2007, EDP Valor has taken over all the operational activities that until that date were carried out in the Financial Management department, including financial debt administrative management macro-processes and the budget and forecast management of the Group Treasury.

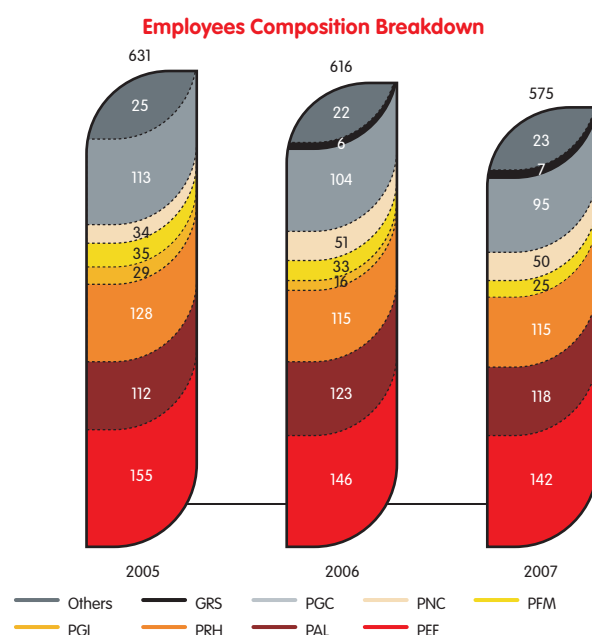
As they are considered essential elements in terms of the company's future, one should also mention the following management aspects observed in 2007:

- Revision of the EDP Valor business model was begun with a view to implementing, in 2008, a billing modality supported on the definition of prices for the various services provided by the company, in line with the best market practices. This will replace the current model based on transfer of costs;
- The process for the processing of complaints and suggestions from customers was implemented, with the provision of the respective communication channels. This is an important support tool for managing customer satisfaction and improving quality of service;
- The bases were established for the development of a Contact Centre for EDP Valor, which will help to improve the quality of service provided by the company and reduce the time spent on customer attendance by the operational areas.

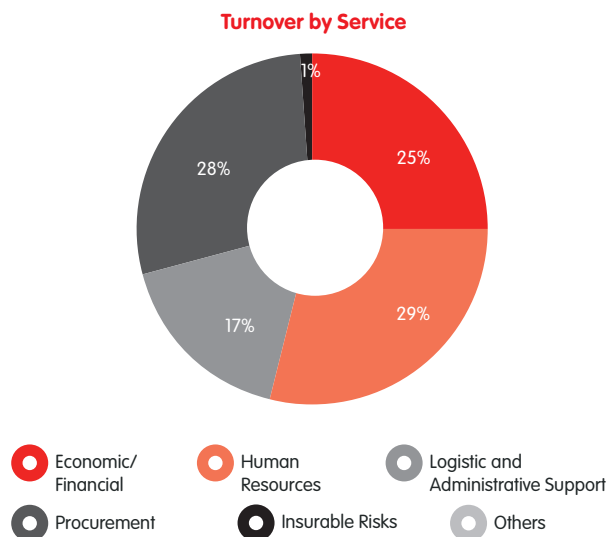
In terms of improvement of the EDP Valor human resources, one can highlight the following in 2007:

- In the context of the skills and mobilisation of the company teams, a number of actions were carried out, of which one must highlight the fulfilment of staff meetings organised by the different platforms;
- Taking as its central theme innovation and productivity, the senior managerial staff meeting was held;
- Further pursuing a culture of innovation and creativity, EDP Valor launched the first edition of the Ideias com Valor (Ideas of Value) competition, making an access tool available to all employees;
- At the level of exchange of experiences with other entities, one can highlight EDP Valor's participation in the Shared Services Club, the organisation of the first purchasing forum and, as host, the reception of various visiting groups from foreign companies, most notably from ENEL (Italy) and ENE (Angola).

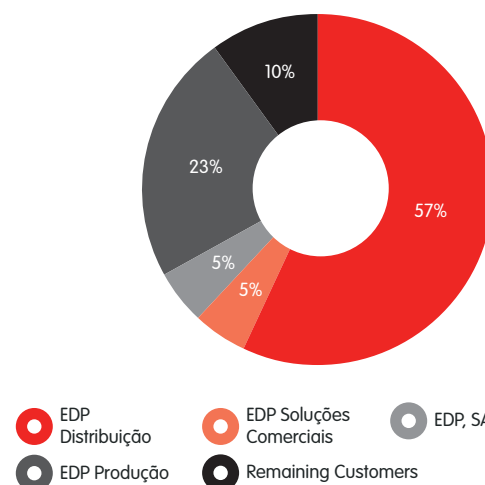
EDP Valor continued with the optimisation of the company's structure in 2007, bringing the number of employees down from 615 to 574, even with the recruitment of 17 due to expansion of operations. The following graphic shows the trend in the number of permanent staff in the last three years and their distribution by service area:



EDP Valor expanded its diversified portfolio of services, having invoiced EUR 61.8 million to group companies and shareholding companies, which make up a total of 38 customers, as the following graphics illustrate:



Turnover per Customer



Evolution of the activity of the various platforms was as follows in 2007:

Economic-Financial Platform (PEF)

The PEF carried out its activity of providing services to the EDP Group companies in Portugal in the areas of accounting and taxes, checking invoices from third parties and registering them in the accounts, payments, receipts, bank and treasury operations, support in preparing the budget and the supply of diverse accounting, economic and financial management information.

With the aim of defining functions and responsibilities in these operation areas, the PEF and the EDP Corporate Centre launched a project aimed at reorganising the Group's accounting in 2007.

The main indicators for the activities carried out by the PEF in 2007 are as follows:

- Preparation of the accounting, rendering of accounts and compliance with the fiscal obligations of more than 35 companies;
- Checking, and registering in the accounts, some 306,000 invoices issued and sent by EDP Group suppliers;
- Issue of approximately 13,500 invoices for "non-energy" customers;
- Payment of 350,000 documents;
- Bank reconciliation of around 100,000 bank account movements per month;

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- Filling out/responding to more than 250 surveys/questionnaires for official bodies.

Supply and Logistics Platform (PAL)

The PAL provided support services in the areas of works and space management, fleet management, management of premises, accident prevention and safety and other general services, namely: reception. selection. registering and forwarding correspondence. communications management. management of archives, hotels and country rest houses, canteens, printing works and other copying facilities.

The PAL activity in 2007 took the form of:

- Management of premises with an area of 473,275 m²;
- Management of 3,500 vehicles, as well as the purchase of 371 vehicles and sale of 564;
- Processing of 1.09 million documents;
- Survey and analysis of 219,800 m² gross area for later optimisation and/or rationalisation;
- Execution of building works in buildings belonging to the Pensions Fun with a value of EUR 1.25 million;
- Management of works contracts to the value of EUR 3.7 million;
- Provision of occupational health, hygiene and safety services to 3,200 employees and intervention at the level of safety in an area of 197,300 m².

Human Resources Platform (PRH)

In the last quarter of 2007, the PRH expanded the scope of its services beyond the processing and control of remunerations and pensions, taking over all administrative activities supporting the Human Resources areas, including the response to official statistics and the issue of management support reports.

In terms of PRH activities, the year 2007 ended with the following figures:

- Response to more than 1,600 surveys/questionnaires and requests for official statistics;

- Maintenance of master data on approximately 8,000 active employees and more than 18,200 retired employees/pensioners;
- Processing of more than 100,000 pay slips and almost 220,000 pensions;
- Promotion and organisation of holiday camps for 856 children (aged between 6 and 15) of employees and pensioners.

Training and Documentation Platform (PFM)

In 2007, the PFM carried out its activity in management of the Group EDP training, employee recruitment and selection for the Group companies, the implementation of an internship plan and in the management of the Group's documental assets.

Also in the area of training, the PFM continued in 2007 to carry out vocational training for external bodies working for the Group in the area of energy distribution.

In the management of the Group's documental assets, the PFM implemented the improvements identified in the study carried out in 2007 on the Documentation Centre. It also worked on cataloguing the documentation forwarded by the Group companies with the aim of rationalising space occupied.

The New Opportunities Centre received 594 enrolments. At the end of 2007, 89 adults were in evaluation and 75 in recognition. There were also 76 certifications, and 4 adults were channelled towards other training offers and 202 adults were transferred. Also in 2007, the process by which employees can earn secondary education leaving qualification was initiated.

During 2007 the PFM activity covered the following:

- A volume of 229,170 training hours, of which 211,836 were devoted to EDP-Portugal Group companies and 17,334 to outside bodies;
- Provision of 64,735 documents through the documentation service (+11% over 2006);
- Made 232,000 visits to the Virtual Library possible (+41% over 2006);
- Processing of 68 internship processes and 98 recruitment processes.

Negotiation and Procurement Platform (PNC)

The greatest challenge in 2007 for the Negotiation and Procurement Platform (PNC) was consolidating the EDP Group purchases centralisation and coordination project.

The sharing of knowledge and the search for the best practices in all the purchase structures produced, as the main leverages, Sinergie, the Negotiation and Procurement Committee and the inter-company employee mobility.

For the PNC, the year 2007 diverse operations that had a significant impact on the EDP Group activity, including:

- EDP Distribuição Continuous Contract Work – involvement at the level of qualification, consultation and negotiation;
- Lares power station – involvement at the level of consultation and negotiation;
- Travel Agency – consultation for a global travel agency service supply (Portugal, Spain and Brazil);
- ProcureCon Awards – the Sinergie Project was distinguished with the most innovative project prize in the area of procurement at the international conference organised by World Business Research;
- Sharing of suppliers – implementation of a process of registration of suppliers to all EDP Group companies, using the websites of each company.

The following are the main activity indicators for the PNC in 2007:

- Execution of 912 consultations/contracts;
- Contracts made for an estimated value of EUR 1.159 billion;
- Contracts awarded to the value of EUR 1.049 billion;
- Savings of EUR 66 million made on the suppliers' best offers;
- Savings of EUR 12.2 million achieved on customer budgets;
- Processing of 36,213 purchase requests (SAP and Ariba);
- Processing of 537 suppliers involved in qualification processes;
- Interaction on catalogues in 132,451 SAP operations (EDP and NEO);

- Processing of 89,207 references in materials catalogues (EDP and NEO).

Platform for Contractual Management of Technical Supplies (PGC)

The Platform for Contractual Management of Technical Supplies (PGC) is responsible for managing services and materials contracts, the administrative aspects of purchases, the local purchasing processes for materials for EDP Produção, assessment of suppliers and stocks and warehouse management.

In the context of restructuring of EDP Distribuição, the Department for Management of Distribution Services Contracts (PGC-ED) was abolished and the Suppliers Assessment Department (PGC-AF) was reorganised and is now an Activity Group. As a result of this organisational alteration to PGC, 8 employees returned to EDP Distribuição.

The activities of the PGC in 2007 are reflected in the following indicators:

- Purchases of materials under supply contracts to the value of EUR 156.1 million;
- Management of 102,257 articles in storage;
- Processing of 27,044 purchase requests;
- Processing of 1,335,066 warehouse in/out movements (111,255 movements/month).

Insurable Risks Office (GRS)

Continuing the success achieved by the GRS the previous year in contracting insurances for the EDP Group, the negotiations were once again carried out in 2007, on the basis of pre-defined strategic objectives, for various insurance programmes, achieving important reductions in premiums. This once again confirms the success of the "insurable risks management" model created in §2006.

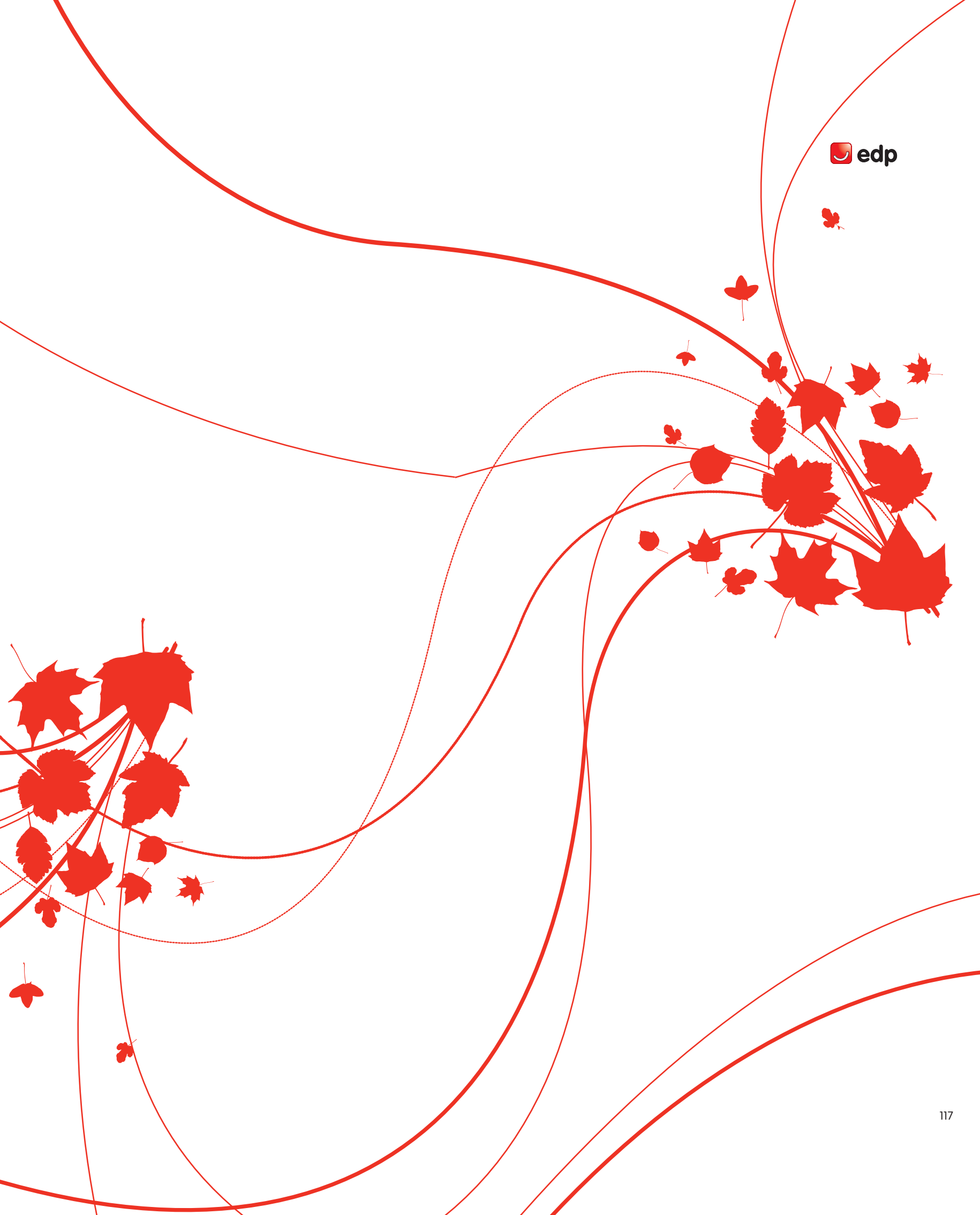
Of the other activities carried out in 2007, one can highlight the drawing up of an Insurance Manual, with the aim of systematising and disseminating information on the EDP Group insurances under GRS management. The manual covers the various geographic regions in which the Group operates, with the exception of Brazil and the USA.

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The two-tier model of governance, in force at EDP since 30 June 2006, involves a managerial and supervisory structure that consists of the following three bodies:

- The Executive Board of Directors;
- The General Supervisory Board;
- Statutory Auditor.

EDP's Articles of Association, which were entirely reformulated in 2006 to include the main recommendations on transparency and efficiency applicable to corporate governance, and include modern guidelines such as:

- The introduction of the 1 share / 1 vote principle;
- The reduction to 5 working days of the period of time in which proof of ownership of shares must be provided in advance for the purpose of participating in a General Meeting;
- The application of independent criteria when constituting the following corporate bodies:
 - * The supervisory body, the majority of whose members must be independent;
 - * The Audit Committee, which must be composed entirely of independent members.
 - * The Remuneration Committee, elected by the General Meeting, composed of a majority of independent members.

In 2007, EDP was one of the security-issuing companies listed on Euronext Lisbon with the largest number of market communications, publishing 53 privileged information disclosures and 34 other communications.

In fact, EDP, as an issuing body which maintains a highly transparent relationship with investors and the capital market, has maintained a policy of continuous communication with the market, whilst also attributing particular importance to adopting the best organisational models and best practices and conduct guidelines relating to corporate governance, by closely monitoring the evolution of international trends and promoting internal reflection on these matters.

For this reason, EDP has been an issuer of securities listed on Euronext Lisbon with one of the highest rates of compliance

with CMVM recommendations on corporate governance and, in addition, a pioneer in adopting organisational and internal operational measures aimed at promoting best practices in this area.

EDP remains dedicated to encouraging the participation of shareholders in the General Meeting. To this effect, since the 2005 General Meeting, EDP has covered both the cost of issuing declarations of ownership of shares and the costs of freezing shares to allow shareholder participation.

1. DECLARATION OF COMPLIANCE

1.1. The list below describes the CMVM recommendations on the governance of listed companies, as well as indicating whether each of these has been adopted by EDP, while taking into account CMVM Regulation 7/2001 (amended by CMVM Regulations 11/2003, no. 10/2005 and 3/2006).

- Recommendation I-1. (Disclosure of information – Contact with investors): ADOPTED
- Recommendation II-2, sub-paragraphs b), c) and d) (Exercise of voting rights and shareholder representation): ADOPTED
- Recommendation III-3. (Corporate regulations – Internal control system): ADOPTED
- Recommendation III-4. (Corporate regulations – Defensive measures against takeover bids): ADOPTED
- According to the CMVM, the fact that EDP's Articles of Association provide for the existence of category A shares whose voting rights are limited to 5% of the share capital means that this recommendation has not been adopted.
- Recommendation IV-5. (Managing Body – Composition of the managing body): ADOPTED
- Recommendation IV-5A (Managing Body – Number of non-executive members): NOT ADOPTED

The two-tier model of corporate governance, in force at EDP since 30 June 2006, involves a managerial and supervisory structure that consists of an Executive Board of Directors, a General Supervisory Board and a Statutory Auditor. As such, this recommendation is not applicable, given that the governance model adopted does not provide for the role of non-executive director.

- Recommendation IV-6. (Managing Body – Independent status of the managing body): ADOPTED
- Recommendation IV-7. (Managing Body – Internal control committees): ADOPTED
- Recommendation IV-8. (Managing Body – Remuneration of members of the managing body): NOT ADOPTED

EDP discloses the individual remuneration of the Chairman of the Executive Board of Directors on an annual basis, as well as

that of the Chairman of the General Supervisory Board, even though the latter is not stipulated in this recommendation. As for the other members of the Executive Board of Directors, their remuneration is disclosed as a whole, given that there appears to be no advantage in listing their salaries individually. In fact, EDP considers that the disclosure of individual directors' salaries could be a potential source of conflict in cases of differences in remuneration, even if such differences are justified on the basis of different roles performed (as provided for in Article 399 of the Portuguese Companies Code).

- Recommendation IV-8A. (Managing Body – Governing bodies' remuneration policy): NOT ADOPTED

Under the governance model currently in force at EDP, there are two remuneration committees: a Remuneration Committee appointed by the General Supervisory Board, responsible for setting directors' salaries, and a Remuneration Committee elected by the General Meeting of Shareholders, responsible for setting salaries for the remaining managing bodies. Under the terms of Article 27 of EDP's Articles of Association, only the Remuneration Committee appointed by the General Supervisory Board is required to submit a declaration to the Annual General Meeting of Shareholders concerning the remuneration policy adopted for the members of the Executive Board of Directors and approved by this body, at least in the years in which such a policy is established or amended.

- Recommendation IV-9. (Managing Body – Independent status of the Remuneration Committee): ADOPTED

The members of the Remuneration Committee appointed by the General Supervisory Board are independent of the managing body, given that they are members of this Board and thus forbidden from exercising any management role at EDP or any other companies in the Group. In addition, no member of the Remuneration Committee is a spouse, relative or relation by marriage up to the 3rd degree, inclusive, of any member of the managing body.

- Recommendation IV-10. (Managing Body – Plans to allot shares): ADOPTED
- Recommendation IV-10. (Managing Body – Policy for communication of irregularities): ADOPTED

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1.2. Regarding the CMVM recommendations adopted, the following table summarises the most important elements:

MEASURES ADOPTED FROM CMVM RECOMMENDATIONS	
CMVM RECOMMENDATION	MEASURES ADOPTED
I. – Disclosure of information	
1. The company should ensure permanent contact with the market, respecting the principle of shareholder equality and preventing asymmetries in investors’ access to information. To this end, the company should set up an investor support office.	Existence and development of the following channels of communication with investors: <ul style="list-style-type: none">Investor Relations Department (DRI);Open-access website (www.edp.pt).
II. – Exercise of the Right to Vote and Shareholder Representation	
2. The active exercising of voting rights must not be restricted, either directly, in particular by postal vote, or by representation. For this purpose the following are considered to be a restriction on the active exercise of voting rights: <ul style="list-style-type: none">The imposition of a deadline for depositing or blocking shares of over 5 working days prior to participation in the General Meeting.Any restriction in the Articles of Association on postal voting.The imposition of a deadline of more than five working days for the reception of the declaration to vote issued by post.The non-availability of voting ballots at the disposal of shareholders for postal voting.	<ul style="list-style-type: none">In accordance with EDP’s Articles of Association, the deadline for blocking shares for participation in the General Meeting is five working days prior to the meeting;Express provision and regulation of statutes on the exercise of postal voting, with no imposition of restrictions;EDP’s Articles of Association allow for reception of the declaration to exercise a postal vote up to five working days prior to a General Meeting;The right to a postal vote may also be exercised by e-mail;Availability of ballot papers for the exercise of voting rights by postal vote (on the EDP website, at the company’s head office or by post at the shareholders’ request);Vote by proxy accepted without any restrictions. Its exercise is facilitated through the assistance the DRI provides to all interested shareholders, namely through the supply of proxy letter forms, which are also available on the EDP website;Payment of banking costs for the issue of declarations of ownership and the blocking of shares permitting shareholders to participate in the Annual General Meetings, since 2005.
III. – Corporate Rules	
3. The company should create an internal control system to ensure that risks associated with the company’s activities are effectively identified, so as to safeguard its assets and aid transparency in corporate governance.	<ul style="list-style-type: none">Definition of a corporate policy for risk management, adopting a well-coordinated and efficient internal control system to detect and mitigate the risks inherent in the company’s activities.Existence of a Risk Management Department in the corporate centre to monitor the implementation of the risk management policy defined by the company.

4. The measures adopted to prevent the success of takeover bids should respect the best interests of the company and its shareholders. Defensive clauses considered contrary to these interests include those whose effect might cause an automatic erosion of company assets in the event of the transfer of control or of a change in the composition of the managing body, thus placing limitations on the free transmissibility of shares and the free examination by shareholders of the performance of members of the managing body.	<ul style="list-style-type: none"> No defensive clauses whose effect might cause an automatic erosion of company assets in the event of the transfer of control or of a change in the composition of the managing body (without prejudice to the usual change in control clauses that are not defensive in nature, aimed at protecting counterparts in accordance with international practices).
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IV. – Managing Body

5. The managing body should be composed by a diversity of members who provide effective guidance to the company's management.	<ul style="list-style-type: none"> Notwithstanding the powers of the Executive Board of Directors as a collegiate body, each of its members has been appointed specific areas of management in order to create a more effective and efficient form of corporate management; Separation of the control and supervisory components of management through the creation of an Executive Board of Directors and a General Supervisory Board, the majority of whose members are independent.
7. The managing body should set up internal control committees with powers to evaluate corporate structure and governance.	<ul style="list-style-type: none"> Notwithstanding the powers of the Executive Board of Directors to define and evaluate corporate structure and governance, within the context of the current EDP governance model and under the terms of Article 23, paragraph 1 of the Articles of Association, the General Supervisory Board has created a Corporate Governance and Sustainability Committee with the power to monitor issues concerning corporate governance.
8. The remuneration of the members of the managing body should be structured so as to permit their interests to be aligned with the interests of the company and they should be the object of annual disclosure in individual terms.	<ul style="list-style-type: none"> Annual disclosure of the total amounts of remuneration allotted to the members of the managing body, specifying both the fixed and the variable components of directors' remuneration and the individual disclosure of those of the Chairman of the Executive Board of Directors.
9. The members of the remuneration committee or equivalent should be independent of the members of the managing body.	<ul style="list-style-type: none"> The remuneration of the members of the Executive Board of Directors is established by a Remuneration Committee consisting of three members of the General Supervisory Board under the terms of Article 27, paragraph 1 of the Articles of Association. As members of this Board, they must be independent of the managing body.
10. Proposals regarding the approval of plans to allot shares and/or stock options to the members of the managing body and/or employees, or plans based on variations in the share price, must be submitted to the General Meeting. These proposals should contain all the information necessary for a proper appraisal of the plans and should be accompanied by their regulations, or if these have yet to be drafted, by the general conditions that will govern them.	<ul style="list-style-type: none"> Plans to allot shares or stock options are approved by the General Meeting in accordance with the CMVM recommendation.
10-A. The company should adopt a policy for communicating irregularities.	<ul style="list-style-type: none"> EDP has internal means of communication that allow direct contact with the Audit Committee of the General Supervisory Board, in order to allow employees to inform them, in confidence, of any accounting, financial or other irregularities that may have occurred in the company.

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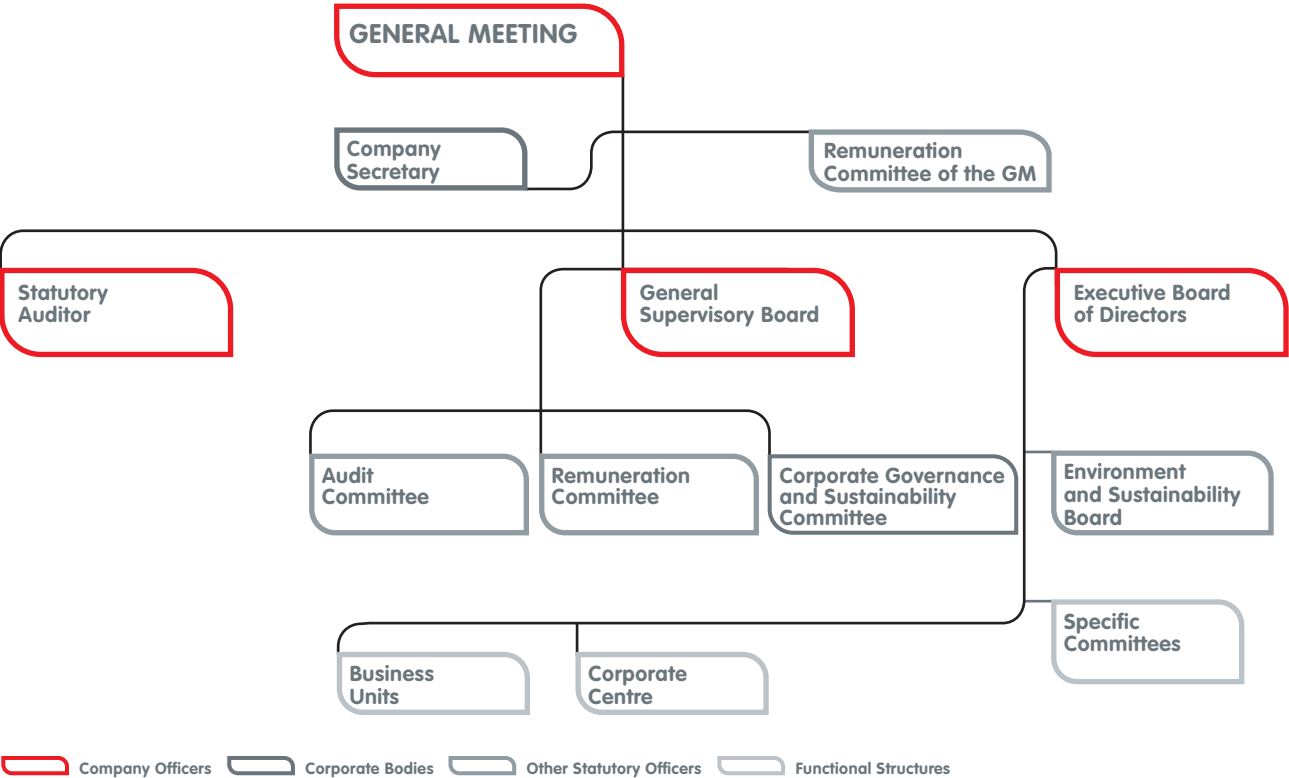
Corporate Governance

2. DISCLOSURE OF INFORMATION

In 2006, EDP adopted a two-tier model involving an Executive Board of Directors responsible for the management of the

company, supervised by the General Supervisory Board. These changes came into effect on 30 June 2006, at the same time as EDP's new Articles of Association and the amendments made to the Companies Code by Decree-Law no. 76-A/2006 of 29 March.

2.1. Company Structure



2.2. Corporate Bodies

2.2.1. General Meeting

The General Meeting of Shareholders is the body that represents the shareholders and has the following duties:

- To examine the Executive Board of Directors' annual report, discuss and vote on the balance sheet, the accounts and the opinion of the statutory auditor, the General Supervisory Board and the Audit Committee, and discuss the appropriation of profits for the year;
- Appointing or dismissing officers of the General Meeting, members of the Executive Board of Directors and the General Supervisory Board, as well as their respective chairmen and vice-chairmen, where applicable, the statutory auditor, on the

basis of a proposal from the General Supervisory Board or, if so delegated, the Audit Committee, as well as the members of the Environment and Sustainability Board;

- Deliberating on any statutory amendments , including share capital increases;
- Appointing a Remuneration Committee responsible for establishing the remuneration of the members of the corporate bodies, the majority of whom should be independent;
- Assessing the annual company report produced by the General Supervisory Board;
- Dealing with any other matters brought before it;
- Exercising any other powers that may be conferred by law.

Board of the General Meeting

The officers of the General Meeting are the Chairman and Vice-Chairman, elected by the General Meeting, and the Company Secretary.

Board of the General Meeting	
Chairman	Rui Eduardo Ferreira Rodrigues Pena
Vice-Chairman	António Bernardo de Menezes e Lorenas de Sêves
Company Secretary	Maria Teresa Isabel Pereira

2.2.2. General Supervisory Board

Under the terms of the Articles of Association, the current General Supervisory Board, which took office on 30 June 2006, has a mandate of 3 years. The Board is composed of 14 members, a majority of whom are independent, and who fulfil the qualification and experience requirements set forth in the legislation or regulations applicable to EDP. The work of the General Supervisory Board is governed by internal regulations.

The EDP General Supervisory Board monitors and oversees, on a permanent basis, the activities of the EDP management, cooperating with the Executive Board of Directors and the various other corporate bodies and officers to pursue the interests of the company, under the terms stipulated in the Companies Code and in its Articles of Association, namely to:

- Oversee on a permanent basis the work of the management of the company and of its subsidiaries and, in this regard, offer advice and assistance to the Executive Board of Directors, particularly in relation to strategy, achievement of goals and compliance with applicable legal regulations;
- Giving opinions on the annual report and accounts;
- Oversee, on a permanent basis, the work of the statutory auditor and the external auditor and, with regard to the former, to issue pronouncement on the respective election or appointment, removal from office, independent status and other relations with the company;
- Overseeing on a permanent basis and evaluating internal procedures for accounting and auditing, as well as the efficacy of the risk management system, the internal control system and the internal auditing system, including the way in which complaints and queries are received and processed, whether originating from employees or not;

- Proposing to the General Meeting the removal from office of any member of the Executive Board of Directors;
- Monitor the definition of criteria and responsibilities required or appropriate for the structures and internal bodies of the company or Group and their impact, in addition to drawing up follow-up plans;
- Arrange, in accordance with the law, for the replacement of members of the Executive Board of Directors in the event of absence or temporary impediment;
- Provide, on its own initiative or when requested by the Chairman of the Executive Board of Directors, an opinion on the annual vote of confidence in directors referred to in Article 455 of the Companies Code;
- Monitoring and assessing matters relating to corporate governance, sustainability, internal codes of ethics and conduct and compliance with these codes, systems for appraising and solving conflicts of interest, including those associated with the company's relations with its shareholders, and giving opinions on these matters;
- Obtaining the financial or other means which it reasonably believes necessary for its work and requesting the Executive Board of Directors to adopt the measures or corrections it deems appropriate, being authorised to use the necessary means to obtain independent advice, if required;
- Receive regular information from the Executive Board of Directors on significant commercial relations between the company or controlled companies and shareholders with a qualified stake and related persons;
- Appointing the Remuneration Committee and Audit Committee;
- Represent the company in its relations with directors;
- Overseeing the activities of the Executive Board of Directors;
- Monitor compliance with the law and the Articles of Association;
- Select and replace the company's external auditor, giving the Executive Board of Directors instructions for the engagement or dismissal of the same;

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- Monitor, when and how it deems appropriate, the bookkeeping, accounts and supporting documents, as well as the status of any assets or securities held by the company;
- Overseeing the preparation and release of financial information;
- Convening the General Meeting when it deems appropriate;
- Approving its internal regulations, including rules on relations with the other corporate bodies;
- Exercise any other powers that may be conferred upon it by law.

Within the context of the new EDP corporate governance model, the General Supervisory Board is also attributed particularly significant powers, for even though it has no managerial powers, under the terms of Article 442.1 of the Portuguese Companies Code, the company's Articles of Association establish that the approval of certain acts, namely the following, requires the prior favourable opinion of this corporate body:

- The corporate strategic plan;
- Purchasing or selling assets, rights or shareholdings of significant monetary value;
- Contracting substantial loans;
- The opening or closing of establishments or important sections of establishments and important extensions or reductions in activity;
- Conducting other business or operations of significant monetary or strategic value;
- Establishing or terminating strategic partnerships or other lasting forms of cooperation;
- Planning splits, mergers or restructuring;
- Alterations to the Articles of Association, including moving the registered office and increasing the share capital, if on the initiative of the Executive Board of Directors.

Ordinary meetings of the General Supervisory Board are held at least once every quarter and extraordinary meetings take place whenever convened by the Chairman, either on his own initiative

or at the request of any of its members, the Executive Board of Directors or its Chairman. In 2007, the General Supervisory Board met 8 times.

General Supervisory Board

Chairman	António de Almeida	
Vice-Chairman	Alberto João Coraceiro de Castro	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 (em representação da Sonatrach)	
	Rui Eduardo Ferreira Rodrigues Pena	Independent
	Vasco Maria Guimarães José de Mello	
	Vital Martins Moreira	Independent
	Vitor Domingos Seabra Franco	Independent
	Vitor Fernando da Conceição Gonçalves	Independent

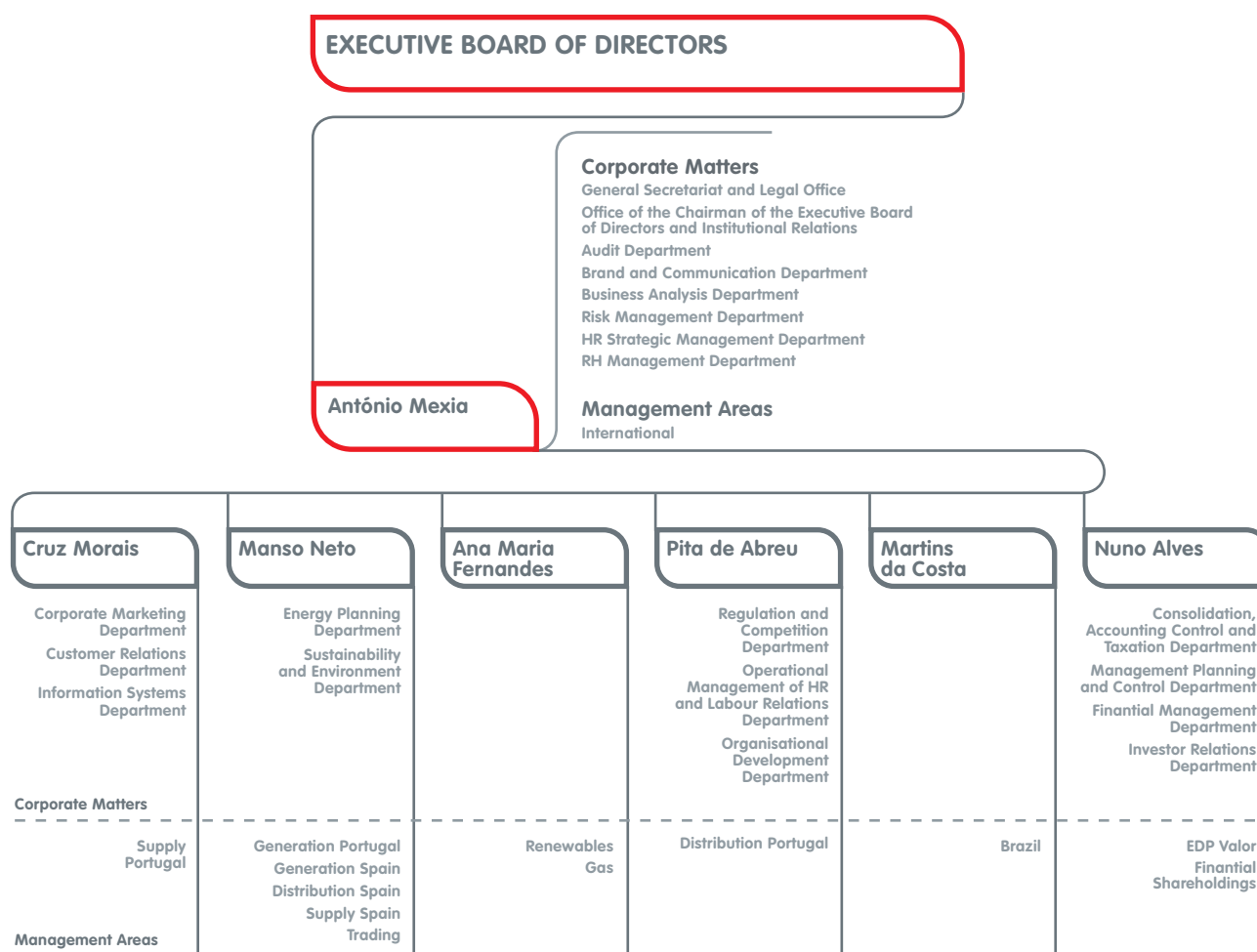
During 2007, Carlos Jorge Feijóo Pereira Ribeiro, Paulo Jorge de Assunção Rodrigues Teixeira Pinto and Carlos Jorge Ramalho dos Santos Ferreira resigned as members of the General Supervisory Board, on 22 February, 31 August and 27 December, respectively.

2.2.3. Executive Board of Directors

The Executive Board of Directors is responsible for managing corporate affairs under the terms of the Portuguese Companies Code and the Articles of Association and is elected by shareholders at the General Meeting. The Executive Board of Directors is composed of 7 members.

A description of the duties and operational procedures of the Executive Board of Directors can be found in point 5.2.

The Executive Board of Directors is organised according to the following management areas and corporate themes:



2.2.4. Remuneration Committee of the GM

The Remuneration Committee, elected at the General Meeting, is responsible for setting the remuneration of members of the corporate bodies, with the exception of the members of the Executive Board of Directors. (see point 2.8).

2.2.5. Environment and Sustainability Board

The Environment Board was formed as a corporate body in 1991 and its name was changed to the Environment and Sustainability Board at the Annual General Meeting of 30 March 2006.

The Environment and Sustainability Board has certain consultative powers, especially in terms of providing the Executive Board of Directors with advice and support to define the company's environmental and sustainability strategy and issuing opinions

and recommendations on the environmental impact of projects planned by the EDP Group.

Environment and Sustainability Board

João Ferreira do Amaral
 Miguel St. Aubyn
 Madalena Presumido
 Graça Martinho

In 2007, Prof. José de Azevedo Pereira submitted his resignation as a member of the Environment and Sustainability Board.

2.2.6. Statutory Auditor

The company's Statutory Auditor is responsible for examining the reporting of accounts and is elected by the General Meeting.

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In accordance with the Companies Code and the Articles of Association, the Statutory Auditor is responsible for:

- Checking the bookkeeping, accounts and supporting documents;
- Checking, as and when deemed appropriate, the amount of cash and the value of any assets or securities owned by the company or received by it as guarantee, deposit or other security;
- Checking the accuracy of the reporting of accounts;
- Checking that the accounting policies and valuation criteria adopted by the company lead to a correct assessment of its assets and profit.

Statutory Auditor	
Permanent	KPMG & Associados, SROC, S.A., represented by Jean-éric Gaign, ROC
Deputy	Vitor Manuel da Cunha Ribeirinho, ROC

2.2.7. Company Secretary

The Company Secretary and his/her deputy are appointed by the Executive Board of Directors, exercise the powers set forth for them in the law and complete their terms at the same time as the Executive Board of Directors that appointed them.

Company Secretary	
Permanent Secretary	Maria Teresa Isabel Pereira
Deputy Secretary	Maria Virginia Bastos dos Santos

2.2.8. EDP Foundation

The EDP Foundation was founded in 2004 to engage in patronage activity, with the objective of promoting the EDP Group's involvement in social and cultural activities and managing the Electricity Museum.

The EDP Foundation's Board of Directors is composed as follows:

EDP Foundation	
Chairman	Francisco de la Fuente Sánchez
	Fernando Ivo Gonçalves
	Humberto da Costa Biu
	Miguel Nuno Setas
	Sérgio Paulo Figueiredo (Executivo)

2.2.9. Specialised Committees of the General Supervisory Board

Audit Committee

The Audit Committee is responsible for financial matters, the creation of such a body being mandatory for security-issuing companies listed on Euronext Lisbon, in accordance with Article 444.2 of the Companies Code.

In accordance with the model of corporate governance adopted by EDP, the Audit Committee forms part of the General Supervisory Board. It is composed of a minimum of three suitably qualified and experienced independent members, including at least one member with an advanced degree in auditing or accounting.

The current members of this committee are:

Audit Committee	
Chairman	Vitor Fernando da Conceição Gonçalves
	António Francisco Barroso de Sousa Gomes
	Manuel Fernando de Macedo Alves Monteiro
	Vitor Domingos Seabra Franco

The Audit Committee has the following duties:

- Giving opinions on the annual report and accounts;
- Overseeing on a permanent basis and evaluating internal procedures for accounting and auditing, as well as the efficacy of the risk management system, the internal control system and the internal auditing system, including the way in which complaints and queries are received and processed, whether originating from employees or not;
- Monitor, when and how it deems appropriate, the bookkeeping, accounts and supporting documents, as well as the status of any assets or securities held by the company;
- Overseeing the preparation and release of financial information;
- Exercising any other powers that may be conferred by law.

Since it was formed in 2003, under the previous model of governance, the Audit Committee has always taken into account criteria related to the independence of its members, such as the inexistence of any employment relationship or contractual tie with EDP and its subsidiaries, or with shareholders with a holding of 2 percent or more, or with entities in a subsidiary or group relationship with such shareholders.

These characteristics and functions of the Audit Committee have been in place at EDP for around 5 years, and are in keeping with the principles proposed by the European Commission with respect to the independence of directors in Recommendation of 15 February 2005. This deals with the role of non-executive directors or members of the supervisory board of listed companies and committees of the Board of Directors or supervisory board, and is today included in the Companies Code following the reforms introduced by Decree-Law 76-A/2006 of 29 March.

In line with this European Commission Recommendation, the Audit Committee is composed exclusively of members of the General Supervisory Board whose independence profile corresponds, in general, to that proposed by the European Commission. Similarly, the duties allocated to the Audit Committee are in line with the role proposed by the European Commission for the audit committee of listed companies in the areas of internal procedures and auditing.

The formation of the Audit Committee, a pioneering experiment in corporate governance in Portugal, has helped to strengthen internal mechanisms of control at EDP, by virtue of the effective supervisory powers exercised by its members. As international experience shows, the work of this committee is important in strengthening the mechanisms for the internal control of management, through a prior intervention that helps to eliminate and prevent potential conflicts of interest and to enhance the transparency of the management.

The Audit Committee met 17 times in 2007.

Remuneration Committee

The Remuneration Committee is a specialised committee of the General Supervisory Board whose duties involve setting the remuneration policy for the Chairman and other members of the Executive Board of Directors. It is separate from the Remuneration Committee appointed by the General Meeting, which is responsible for setting the remuneration policy for the remaining corporate bodies. The work of the Remuneration Committee is governed by internal regulations.

The Remuneration Committee, in its capacity as a consultative body, should submit to the Annual General Meeting a declaration on the remuneration policy it has approved for the members of the Executive Board of Directors, at least in the years in which such a policy is established or amended.

The Remuneration Committee is composed of suitably qualified and experienced members of the General Supervisory Board, a majority of whom are independent.

Remuneration Committee

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

Corporate Governance and Sustainability Committee

The Corporate Governance and Sustainability Committee is a specialised committee of the General Supervisory Board.

In 2007, the Selection Committee was integrated into the Corporate Governance and Sustainability Committee, with the latter body taking over its duties.

The role of the Corporate Governance and Sustainability Committee is to permanently monitor and supervise issues related to the following:

- Corporate governance;
- Strategic sustainability;
- Internal codes of ethics and conduct;
- Systems of evaluation and resolution of conflicts of interest, in particular regarding 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 Corporate Governance and Sustainability Committee is composed of suitably qualified and experienced members of the General Supervisory Board, a majority of whom are independent. The work of the Corporate Governance and Sustainability Committee is governed by internal regulations.

2.2.10. EDP Shareholder Structure

It is the responsibility of the Executive Board of Directors to define the Group's organisational model and the breakdown of functions between the various Business Units, the Shared Services Unit – EDP Valor – and the central structure. This is composed of a Corporate Centre, which plays an instrumental role in supporting the Executive Board of Directors in terms of defining and controlling the execution of the strategies, policies and objectives defined for its various areas of operation.

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The Corporate Centre is organised by departments and business units to ensure a greater degree of optimisation and efficiency in the organisational structure.

The present configuration of the central support structure for decision-making processes is as follows:

The powers and duties of the **Departments** currently in operation are as follows:

The **General Secretariat and Legal Office** supports the activity of the Executive Board of Directors on an administrative and logistical level, ensuring that the Corporate Centre functions effectively. It also provides legal advice to the Group in order to guarantee compliance with the applicable legislation. In addition, it provides administrative support for meetings of the Executive Board of Directors, including communication of their decisions.

The **Office of the Chairman of the Executive Board of Directors and Institutional Relations** supports the Chairman of the Executive Board of Directors in all matters defined by them, guarantees institutional representation capacity, participates in internal projects or initiatives on behalf of the Chairman, coordinates management of the diary and the Office's support work, and represents the Chairman at events and meetings when so required.

The main role of the **Internal Audit Department (DAI)** is to systematically and independently evaluate the Group's activities, in order to guarantee the effectiveness of management systems and processes, as well as the internal control system. The main duties of the DAI include initiating and managing the systematic planning of internal audits for the Group in matters of finance, information technology, operations and management. and monitoring the definition and implementation of corrective and improvement actions resulting from the audits. In addition, it is responsible for monitoring the implementation and maintenance of the Internal Control System, ensuring methodological support and guaranteeing internal consistency and coherence, as well as reporting on its performance.

The **Energy Planning Department (DPE)** is responsible for supporting the Executive Board of Directors in the processes of making changes in the Group's energy portfolio, contributing to the integrated strategy and planning of its development for the various geographical areas of EDP activity. With this purpose in mind, the DPE represents a platform for liaising between the Group's various electricity and gas business departments in order to achieve the necessary integrated view of the market and the performance of the EDP Group.

The mission of the **Business Analysis Department (DAN)** is to contribute to the definition and development of the Group's strategy by promoting and developing analyses and studies, realising new business opportunities and optimising EDP's business portfolio. Its main areas of activity concern the evaluation of projects, the identification of business opportunities, the analysis and execution of mergers, acquisitions or sales of assets and strategic partnership options, as well as contributing to the Group's strategic planning through analyses and studies.

The functions and responsibilities of the current **Departments** are as follows:

The function of the **Risk Management Department (DGR)** is to support the Executive Board of Directors in modelling and monitoring the identification of risks for the Group, with a view to guaranteeing their control and mitigation. The use of the Integrated Risk Management System represents a source of comparative advantages for EDP by enabling the risk factor to be included in the Group's strategic and operational decisions. In effect, uncertainties are always associated with the opportunities that are constantly presented to a Group the size of EDP and the fact that these can be quantified by determining the corresponding risks represents a decisive contribution towards correct decision-making. The section on risk management (Institutional Report) contains a more detailed description of the risk control system in place at EDP.

Investor Relations Department (DRI) (see point 2.7.2)

A **Consolidation, Accounting Control and Taxation Department (DCF)** is organised into three areas of activity: i) Consolidation, whose main function is the consolidation of Group accounts and reporting, (ii) Corporate Accounting Standardisation (national, international and environmental), (iii) Group Taxation. Its mission is to assure the Group's reporting of accounts, by defining, implementing, monitoring and coordinating accounting, internal control, tax, consolidation and reporting rules, directives, policies and proceedings for all the Group's companies in Portugal, Spain, Brazil and other countries, on a local and international (IFRS-IAS) basis and in a standardised and consistent manner.

The main duties of the **Management Planning and Control Department (DCG)** are to support the Executive Board of Directors in the Group's Corporate Planning process and to drive the performance of the Business Units, ensuring their alignment with the Group's strategic objectives. It is responsible for coordinating the EDP Group's business plan and budget, and controlling corporate management.

Executive Board of Directors

Corporate Centre • Business Units

DEPARTMENTS

SUPPORT TO GOVERNANCE AREA

General Secretariat and Legal Office

Office of the Chairman of the Executive Board of Directors and Institutional Relations

Audit Department

Maria Teresa Isabel Pereira

João Paulo Mateus

Azucena Viñuela Hernández

FINANCIAL AREA

Energy Planning Department

Sustainability and Environment Department

Risk Management Department

Pedro Neves Ferreira

Miguel Stilwell de Andrade

José Alberto de Baptista Allen Lima

FINANCIAL AREA

Investor Relations Department

Consolidation, Accounting Control and Taxation Department

Management Planning and Control Department

Financial Management Department

Miguel Henriques Viana

Miguel Ribeiro Ferreira

Nuno Miguel Chung

Magda Abdool Magid Vakil

MARKETING AND COMMUNICATION AREA

Corporate Marketing Department

Brand and Communication Department

Customer Relations Department

Miguel Nuno Setas

Paulo Campos Costa

Paula Pinto da Fonseca

SYSTEMS AND ORGANISATIONAL AREA

Information Systems Department

Organisational Development Department

José Salas Orta

Rui Maria Ribeiro Ferin Cunha

HUMAN RESOURCES AREA

HR Strategic Management Department

RH Management Department

Operational Management of HR and Labour Relations Department

Nuno Manuel Brito

Maria Adília Pina Pereira

Eugénio André da Purificação Carvalho

SUSTAINABILITY AND REGULATION AREA

Regulation and Competition Department

Sustainability and Environment Department

Maria Joana Mano Pinto Simões

António Manuel Neves de Carvalho

BUSINESS UNITS

Energy Management Business Unit

Carlos Alves Pereira

The mission of the **Financial Management Department (DFN)** is to optimise the Group's consolidated financial processes and ensure control of the financial responsibilities in harmony with approved policy. It is the responsibility of the DFN to propose and implement the Group's financial management policy. Its main responsibilities include to i) Negotiate, manage and control financing, credit lines, banking and financial products and services. ii) Optimise the Group's cash management. iii) Propose financial risk management policy, specifically with regards to interest and exchange rates, executing them on the market. iv) Assure the relationship with the debt capital and banking markets and with the rating agencies. and v) Manage EDP's Pension Fund.

The **Corporate Marketing Department (DMK)** plans, develops and controls the group's marketing strategy, so as to place it in the market competitively and maximizing the Businesses' profits.

The **Brand and Communication Department (DMC)** plans, develops and controls the Group's communication strategy, so as to maximise the value of its brands, generate goodwill among stakeholders and promote internal communication.

The mission of the **Customer Relations Department (DRE)** involves planning, developing and controlling a customer relations strategy, increasing understanding and promoting

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a culture focused on the market, with the aim of improving customers' satisfaction and loyalty levels.

The **Regulation and Competition Department (DRC)** supports the EBD in decision-making regarding regulation and competition and in its relations with the sector's different supervisory bodies. The DRC monitors the development and implementation of new European internal market and competition directives for the electricity and natural gas sectors and studies the impact of the MIBEL. It monitors legislative, regulatory and organisational changes in the energy sector that have repercussions on the profitability of the companies, specifically through the development of economic/financial models and tariff studies.

The **Information Systems Department (DSI)** is responsible for ensuring that the Group's information systems are aligned with its business strategies, creating value by providing solutions that support the Group's effectiveness, efficiency and innovation. The DSI's duties include proposing and planning the Group's information systems strategy in the medium- and long-term, ensuring that it is subject to regular review, and studying and proposing an architecture for the Group's information systems that will provide adequate support for its businesses.

The **Organisational Development Department (DDO)** is responsible for ensuring the definition and implementation of an organisation that is permanently aligned with the Group's strategy, backed by adequate business process management practices, and coordinating projects.

The **Operational Management of Human Resources and Labour Relations Department (DORH)** is to support the development of the organisation and its personnel by drafting policies and strategies that are aligned with the Group's objectives and values. Its main responsibilities include to (i) Coordinate the operational management of human resources throughout the Group. (ii) Ensure the negotiation and implementation (or monitoring if outside of Portugal) of collective work agreements and the suitability of HR administrative practices. (iii) Work towards implementing an integrated HR Management Model, aligned with the Group's strategic objectives.

The aim of the **Human Resources Strategic Management Department (DERH)** is to support the EBD in defining and implementing a human resources strategy that promotes the personal and professional development of all employees, in order to meet the strategic and operational needs of the Business Units and contribute to the EDP Group's corporate values.

The Top-end **Human Resources Management Department (DRHT)** was formed in order to contribute to the definition and implementation of the Group's HR strategy and to the drafting of policies for Potential and Performance Assessment, Wages, Skills Development, Career and Mobility Management, especially those applicable to Top Management and High Potential Staff and Young Staff Members. The DRHT also works to coordinate the identification and development of the Group's pool of talent in the different geographical areas.

The main duties of the **Sustainability and Environment Department (DSA)** include supporting the EBD in defining sustainability and environment policy and objectives, cooperating with the Businesses in order to reinforce mutual benefits and synergies in these areas and contributing, in particular, to the implementation of the Group's environmental management policies and the initiatives.

The **Energy Management Business Unit (UNGE)** is responsible for negotiating the physical and forward purchases of fuel, and contracting its maritime transport in the name of, and on behalf of, the relevant EDP companies. It is also responsible for carrying out spot and forward purchases and sales in the electricity market, of a physical or financial nature, namely energy by-products and foreign exchange operations. It also decides on operational and supply programmes of the EDP Group electricity generating plants where the energy output is under its responsibility, with the aim of optimising the portfolio and supplying energy to the customers of the EDP Group's sellers. In addition, it is responsible for managing operations relating to the EDP Group's CO₂ emission licences and green certificates.

2.2.11. EDP's Special Committees (Functional Structures)

With a view to providing more effective, efficient and supportive monitoring of corporate management, the following special committees have been formed:

Ethics Committee (see point 4.5)

Innovation Committee

The Innovation Committee has the following responsibilities:

- Defining strategic areas in innovation within the EDP Group and submitting them for the approval of the EBD;
- Identifying a range of projects to be implemented within the area of innovation and submitting them for the approval of the EBD;

- Monitoring Group initiatives and projects already in progress in the area of innovation and proposing corrective measures whenever necessary;
- Analysing the conclusions reached by technological surveys;
- Supporting the Energy Planning Committee in the analysis of new technological options;
- Preparing meetings of the Innovation Board.

The Innovation Committee, which meets on a six-monthly basis, is headed by the Chairman of the EBD and is composed of the directors of the business areas for production, distribution and support services, as well as the heads of department for Business Analysis, Brand and Communication, Energy Planning, Information Systems and Organisational Development.

Disclosure of Information, Control and Procedures Committee (CDI)

The CDI has three primary functions:

- To identify and analyse information that periodically has to be made public by the company;
- To participate in the review of information periodically provided by EDP within the context of preparing reports and other communications for the market;
- To make quarterly assessments of control and disclosure of information mechanisms.

The committee represents an organisational structure responsible for monitoring and evaluating control mechanisms and disclosure of information procedures and is included in the EDP Group Information Certification Project directed by the Internal Audit Department, which also includes a project working party that is led by the Internal Audit Department in close cooperation with the Executive Board of Directors and the Business Area Teams responsible for the control procedures of each business sector. This committee meets quarterly.

The CDI is composed of the Chief Financial Officer and the heads of department for Investor Relations, Internal Audit, Management Planning and Control, Consolidation and Taxation, Brand and Communication, and the General Secretariat of the Executive Board of Directors, who are involved in the preparation of information.

Risk Committee

The Risk Committee is headed by the Chairman of the Executive Board of Directors and its permanent members include the Chief Financial Officer (CFO), the Chief Risk Officer and the heads of the Financial Management Department and the Iberian Trading Unit.

The Risk Committee is responsible for:

- Monitoring significant risks and the EDP Group's risk profile;
- Approving the periodic report model to be presented by the business units or by the Risk Management Department, as well as that of other mechanisms for reporting and monitoring EDP's risks;
- Approving or defining recommendations on the EDP Group's significant risks and on extraordinary situations in terms of risk, for examination by the EBD;
- Approving or defining recommendations on policies, procedures and risk limits for the EDP Group, for examination and approval by the EBD.

This committee holds quarterly meetings in which non-permanent members invited on the basis of the specific agenda may participate. It also meets when required to do so by the emergence of an unexpected risk situation.

Prevention and Safety Committee (CPS)

The CPS has the following main responsibilities:

- To support the Executive Board of Directors in drawing up proposals for the definition of the EDP Group's strategic objectives with regard to prevention and occupational safety, appraising the degree of application and effectiveness thereof and reporting on progress;
- To provide a critical analysis of the annual report and to give an opinion on the EDP Prevention and Safety Action Plan;
- To monitor the evolution of the main occupational safety indicators and to draw up proposals for improvements;
- To examine and standardise the safety management system regulations that apply to the EDP Group as a whole or across several sectors of activity.

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This committee is headed by the member of the EBD with responsibility for Human Resources and by the directors of the business areas of generation, supply and support activities.

Energy Planning Committee

The main responsibilities of the Energy Planning Committee are as follows:

- To forecast the market's structural development on a 5-year horizon;
- To define a baseline scenario for the effects of the Business Plan;
- To identify the production portfolio to adopt on a 5-year horizon;
- To propose a vision of the Group's quantities portfolio that integrates generation, gas and the retail market;
- To identify gas and CO₂ needs for the next 5 years;
- To analyse action priorities in terms of new technologies and innovation, in coordination with the Innovation Committee;
- To identify attractive areas of business throughout the value chain and in different geographical areas.

This committee is composed of the directors of the business areas of generation, supply, gas and renewable energies, and the directors of the areas of Energy Planning, Risk Management, Regulation and Competition, and Management Planning and Control.

Investments Committee

The Investments Committee is responsible for:

- Analysing, challenging, filtering and issuing opinions on investment projects for organisational expansion that are either in the budget or represent adjustments to the budget, according to the corresponding amounts and profitability they involve.

This committee is composed of the Chief Financial Officer, the directors of the business areas and heads of department for Business Analysis, Management Planning and Control and Energy Planning.

Careers, Mobility and Training Committee

The main responsibilities of the Careers, Mobility and Training Committee are:

- To approve measures to promote staff development and/or mobility, in particular employees in the main structure of the organisation, high-potential staff and performers with potential;
- To ensure the implementation of succession plans for critical positions in the EDP Group;
- To monitor the career development of employees in the main structure of the organisation, high-potential staff and performers with potential, by analysing expectations and potential constraints;
- To approve the EDP Group's Training Plan and monitor its implementation.

This committee is composed of all of the members of the EBD, the directors of the business areas and heads of department for Human Resources Strategic Management, Top-end Human Resources Management and Operational Management of Human Resources and Labour Relations.

Remuneration Committee

- To approve the remuneration model (fixed, variable and incentives) for all employees in the EDP Group, to be proposed by the Human Resources Strategic Management Department;
- To approve measures to promote staff development and/or mobility, in particular employees in the main structure of the organisation, high-potential staff and performers with potential;
- To make regular analyses of benchmarks on both national and international level, in order to determine appropriate levels of remuneration (fixed and variable) and additional benefits for all employees in the main structure of the organisation, high-potential staff and performers with potential, namely the structure of the "pay packet" in the main structure of the organisation, and to design the salary strategy for all employees;
- To report the remuneration policy to stakeholders.

This committee is composed of all the members of the EBD and by the heads of department for Human Resources Strategic Management, Top-end Human Resources Management and

Operational Management of Human Resources and Labour Relations.

Information Technologies Committee

The Information Technologies Committee has the following responsibilities:

- To develop guiding principles for the strategic planning of information systems;
- To approve the annual plan and budget for information systems (application and infrastructure projects), to be submitted to the EBD for approval;
- Allocates funds and resources for large-scale initiatives;
- To define priorities for strategic projects;
- To forecast budget allocations for unplanned projects;
- To resolve conflicts such as distribution of scant resources, or issues related to unplanned requirements for strategic projects.

It is composed of the director with responsibility for information systems, the company directors with responsibility in the same area and by the head of the Information Systems Department.

Regulation Committee

The main responsibilities of the Regulation Committee are as follows:

- To monitor the development of European Commission energy policies and the implementation of internal market and competition directives for the electricity and natural gas sectors, and to study the impact of these on the Iberian Market;
- To monitor changes in terms of policies, legislation, regulations and organisation of the energy sectors in Portugal and Spain (in the context of the Iberian Market), forecasting the structural implications on energy prices and tariffs, the profitability of the companies and any potential needs or obligations for organisational changes, by identifying and monitoring the most significant regulatory risks;
- To provide support to the EBD in the drafting of proposals that define the positions to be defended by the EDP Group in the Iberian Market;

- To promote the exchange of experiences on regulatory practices in Europe and Iberia, and those in force in Brazil;
- To monitor changes in prices and subsequent implications for tariff policies and decisions (per se and comparatively).

This committee is composed of the director with responsibility for regulation, directors of the companies with responsibility in the same area and by the head of the Regulation and Competition Department.

Environment and Sustainability Committee

The Environment and Sustainability Committee has the following responsibilities:

- Producing and annually updating the EDP Group medium/ long-term strategic plan for approval by the Executive Board of Directors;
- Approving annual action plans and defining the objectives and targets to be met by the Group, for approval by the Executive Board of Directors;
- Monitoring the development of approved plans of action;
- Monitoring the activities of the sustainability and environmental management structures of group companies.

This committee includes the director with responsibility for the environment and sustainability, the directors of the business areas of generation, distribution, gas and renewable energies, the individual in charge of environmental issues at HC Energia, a representative from EDP Brasil and the heads of department for Human Resources, Investor Relations, Risk Management, and Brand and Communication.

Given the specific responsibilities of this committee, its work is monitored by the Chairman of the Executive Board of Directors, who monitors its work and attends meetings whenever deemed appropriate. The committee meets at least every quarter.

Procurement Committee

The main responsibilities of the Procurement Committee are:

- To support the EBD in the strategic coordination of group procurement activities;

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- To ensure top-level coordination of the various businesses in their procurement activities;
- To actively drive and continuously analyse the performance of the units involved;
- To monitor the major indicators for group procurement in terms of volumes and savings;
- Closely follow the most important negotiations carried out by the group's procurement units.

This committee is composed of the Chief Financial Officer, the director of EDP Valor with responsibility for procurement and the directors associated with this area.

Prices and Volumes Committee

The primary aim of the Prices and Volumes Committee is to guarantee that the Group has access to the best information and outlook on market trends at any given moment. The committee is therefore responsible for:

- Sharing relevant and up-to-date market information;
- Deciding on what should be considered relevant information on the evolution of key variables to be made available to the Group;
- Defining the forward curve that represents the Group's best estimate of market developments;
- Providing an up-to-date database containing historical data and estimates for key market variables;
- Guaranteeing standardisation amongst business areas with regard to shared information;
- Establishing itself as a forum for ongoing discussion, and for sharing and standardising market perspectives and information.

This committee is composed of the director with responsibility for energy planning, the directors of the business areas of generation, gas and renewable energies and the heads of department for planning and supply at HC Energia.

Generation Committee

The main responsibility of the Generation Committee is to coordinate the Iberian-wide management of generation, ensuring

the coordination and standardisation of the activities of EDP Produção and HC Energia (Generation).

- To exchange information on business developments in each geographical area, including on a regulatory level;
- To promote best practices in electricity generating operations, with a view to identifying and taking advantage of synergies;
- To take joint decisions with regard to defining objectives (especially concerning the development of electricity generation infrastructure);
- Wherever necessary, to extend the committee's activity to include other geographical areas.

This committee includes the director responsible for generation and the directors of companies in the energy generation business.

Distribution Committee

The main responsibility of the Distribution Committee is the Iberian-wide coordination of distribution, ensuring the coordination and standardisation of the business activities of EDP Distribuição, HC (Distribution) and EDP Brasil.

- To draft joint proposals regarding strategic objectives for the EDP Group's distribution activity, to evaluate the extent of their fulfilment effectiveness and to report on progress;
- To monitor developments in the main indicators of activity and propose ways of improvement;
- To review the periodic report model, as well as other reporting, control and information disclosure mechanisms;
- To make regular analyses of benchmarks on both national and international level;
- To promote the exchange of experiences on regulatory practices in different geographical areas, to establish guidelines for regulating matters for which it is responsible, and to monitor the impact of changes in terms of policies, legislation, regulations and organisation of the energy sectors;
- To disclose and share information on developments in distribution activities in each geographical area, and on best practices, with a view to identifying projects of mutual interest so as to improve the efficiency and effectiveness of operations, as

well as identify synergies. To share information concerning the management of high-impact events;

- To analyse and issue opinions on evaluation criteria for investment projects and planning models;
- To ensure coordination in terms of standardising projects and common-used equipment, and analysing new technological options. To identify action priorities in terms of new technologies and innovation.

This committee includes the director responsible for generation and the directors of companies in the energy distribution business.

Supply Committee

The main responsibility of the Supply Committee is the Iberian-wide coordination of supply, ensuring the coordination and standardisation of the activities of EDP Comercial and HC Energía (Marketing and Supply).

- To exchange information on business developments in each geographical area, including on a regulatory level;
- To promote best practices in the area of energy supply services, with a view to identifying and taking advantage of synergies;
- To take joint decisions concerning business with an Iberian-wide impact, in terms of establishing objectives, implementing a marketing plan and setting conditions for energy purchasing.

This committee includes the director responsible for supply and directors of the companies in the energy supply business.

2.3. System of Internal Control over Financial Reporting

The strategic decision taken by the EDP Group to implement a System of Internal Control over Financial Reporting (ICFR) that is robust and meets the quality standards for internal control used by major international companies, followed on from work the Group had been undertaking in Portugal, Spain and Brazil.

To this effect, the scope of the FRICS was revised based on information from the 2006 financial statements, business risk analysis, structural modifications and the changes in regulations in the sector. The following revisions were made:

- The redesign and drawing up of new processes and controls, with a view to ensuring the effectiveness and efficiency of these processes;
- The implementation of new anti-fraud controls. and
- Improvements to the precision and quality of financial information.

The implementation of an appropriate model of responsibilities, support tools, revision instruments and control mechanisms for the FRICS will consolidate the internal control system, giving it a credibility and sustainability that is compatible with the Group's domestic and international responsibilities.

2.4. EDP on the Capital Market

Shares representing EDP's share capital were initially listed on the official market of Euronext Lisbon (called, at the time, the Lisbon Stock Exchange) on 16 June 1997. Since then, more shares have been listed on the Euronext, following five subsequent reprivatization phases:

Phases of EDP's Admission to Trading

Admission Phases	Date
1 st Phase of Privatisation/IPO	16 June 1997
2 nd Reprivatisation Phase	26 May 1998
3 rd Reprivatisation Phase	28 June 1998
4 th Reprivatisation Phase	23 October 2000
5 th Reprivatisation Phase/Share Capital	7 December 2004
6 th Reprivatisation Phase	27 December 2005
7 th Reprivatisation Phase	13 December 2007

EDP has 3,096,222,980 ordinary shares listed for trading on Euronext Lisbon, each with a face value of EUR 1, representing 85% of the company's share capital. The free float in 2007 was 51%.

With the announcement of its withdrawal of its American Depositary Shares ("ADSs") from trading on the New York Stock Exchange (NYSE), as well as the cancellation of its registration and the end of its obligations to disclose information under the U.S. Securities Exchange Act of 1934, the only securities representing EDP's share capital were those listed on Euronext Lisbon.

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Issue / ISIN	Date		Coupon	Stock Exchange	Sum	
	Issue	Maturity			Issue	Outstanding ⁽²⁾
25 th Issue PTEDPKOE0000	23-11-1998	23-11-2008 ⁽⁴⁾	Half-yearly Euribor 6m + 22,5bp	Euronext Lisbon	299.278.738	99.360.541
26.ª Issue PTEDPAOE0002	26-03-2003	26-03-2013	Half-yearly Euribor 6m + 50,0bp	Not listed	150.000.000	150.000.000
1 st Issue EMTN ⁽¹⁾ XS0103383286	29-10-1999	29-10-2009	Annual fixed rate EUR 6,400%	London, Switzerland, Euronext Paris	1.000.000.000	1.000.000.000
2 nd Issue EMTN ⁽¹⁾ XS0126990778	28-03-2001	28-03-2011	Annual fixed rate EUR 5,875%	London, Frankfurt	1.000.000.000	747.352.000
4 th Issue EMTN ⁽¹⁾ XS0139081763	26-11-2001	27-11-2009	Zero Coupon – EUR	London	22.455.000	22.455.000
6 th Issue EMTN ⁽¹⁾ XS0152784715	09-08-2002	09-08-2017	Annual fixed rate GBP 6,625%	London	200.000.000 ⁽⁵⁾	200.000.000 ⁽⁵⁾
7 th Issue EMTN ⁽¹⁾ XS0159585453	16-12-2002	20-03-2008	Annual fixed rate EUR 5,000%	London	500.000.000	355.024.000
8 th Issue EMTN ⁽¹⁾ XS0160258280	23-12-2002	23-02-2022	Annual fixed rate EUR 2,661%	Não listada	93.357.000	93.357.000
9 th Issue EMTN ⁽¹⁾ XS0221295628	22-06-2005	22-06-2015	Annual fixed rate EUR 3,75%	London	500.000.000	500.000.000
10 th Issue EMTN ⁽¹⁾ XS0223447227	29-06-2005	29-06-2020	Annual fixed rate EUR 4,125%	London	300.000.000	300.000.000
11 th Issue EMTN ⁽¹⁾ XS0256997932	12-06-2006	14-06-2010	Quarterly Euribor 3m + 15,0bp	London	500.000.000	500.000.000
12 th Issue EMTN ⁽¹⁾ XS0256996538	12-06-2006	12-06-2012	Annual fixed rate EUR 4,25%	London	500.000.000	500.000.000
13 th Issue EMTN ⁽¹⁾ XS0256997007	12-06-2006	13-06-2016	Annual fixed rate EUR 4,625%	London	500.000.000	500.000.000
1 st Issue 144A/REGS US26835PAA84	02-11-2007	02-11-2012	Annual fixed rate USD 5,375%	London	1.000.000.000 ⁽⁶⁾	1.000.000.000 ⁽⁶⁾
2 th Issue 144A/REGS US26835PAB67	02-11-2007	02-02-2018	Annual fixed rate USD 6,000%	London	1.000.000.000 ⁽⁶⁾	1.000.000.000 ⁽⁶⁾

(1) EMTN – Euro Medium Term Notes (2) Outstanding – Debt as 30 Dec 2006 (3) 4 annual payments from 20 Dec 2008

(4) 6 half-yearly payments from 23 May 2006 (5) Amount in GBP (6) Montante em USD

EDP – Energias de Portugal, S.A.

Shares

Share Capital	€ 3.656.537.715
Nominal Value	€ 1.00
N.º of Shares	3.656.537.715
Date	16 June 1997
Euronext Lisbon	Shares
Reuters RIC	EDPLS
Bloomberg	EDP PL
ISIN	EDP0AM0009

EDP shares also act as underlying assets for futures and warrants contracts traded on the Lisbon market.

On 20 June 2007, EDP effected the early repayment of its 23rd bond issue. The following EDP bond loans are still listed for trading:

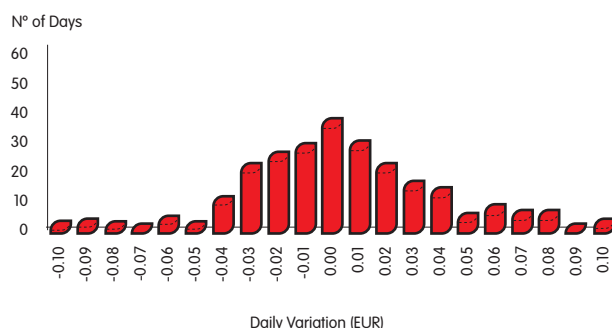
In 2007, EDP was the largest company on the PSI-20, the Euronext Lisbon index, representing around 16.25% of this index. EDP is one of the six Portuguese companies represented on the Euronext 100 index with a share in the order of 0.786%. EDP shares are also included on several European indices, such as the Dow Jones Eurostoxx Utilities, which is based on the market performance of the principal and most representative European companies in the utilities sector.

In 2007, EDP shares rose in value by 16.4% from EUR 3.84 to EUR 4.47 which, added to the gross dividend per share of EUR 0.11 paid on 4 May 2007, resulted in a total gross return of 19.3% during this period. This performance was in line with the returns offered by the main reference indices, namely the PSI-20, which went up 16.3% in the period, and the Dow Jones Europe STOXX Utilities, whose performance was +17.9% in 2007.

The market value of the EDP Group in 2007, calculated on the basis of its market capitalisation (no. shares issued x price per share), rose to EUR 16.345 billion, equivalent to 6.4% of the total capitalisation of Euronext Lisbon, which grew to EUR 255.345 billion in the same period. In 2007, EDP was one of the companies with the largest volume of transactions recorded on Euronext Lisbon. Around 5.079 billion EDP shares were traded on this official market, representing a daily average of 19.9 million shares at an average price of EUR 4.17, about 140% percent of the total number of EDP shares listed on this market. In terms of turnover, EDP shares accounted for the equivalent of 21.5% (EUR 21.241 billion) of the total volume of shares traded on the regulated Lisbon market (EUR 98.674 billion).

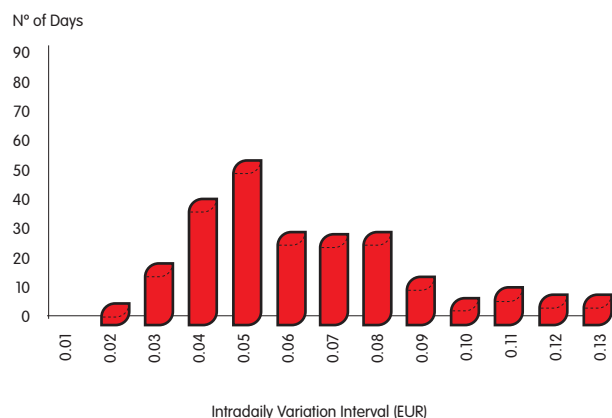
The two graphs below show the daily an intra-daily variation of EDP shares on Euronext Lisbon, illustrating the securities' low volatility. The third chart shows the return vs. volatility matrix revealing the various consolidation phases in the sector in the Iberian Peninsula.

Histogram of Daily Variation
52 Weeks (Jan07–Dec07)



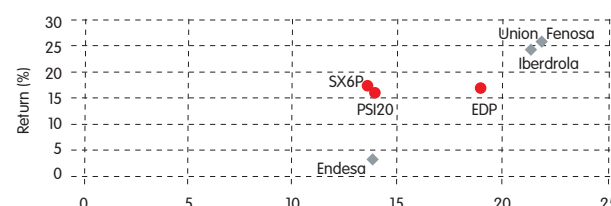
Source: Bloomberg

Histogram of Intradaily Variation
52 Weeks (Jan07–Dec07)



Source: Bloomberg

Volatility (%)



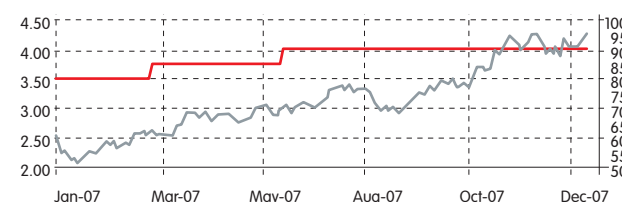
Source: Bloomberg

2.4.1. Factors influencing the change in EDP share price

In 2007, the main European stock market indices closed the year with lower returns compared to the significant rises in 2006, with the DJ STOXX 600 closing at exactly the same level as at the end of 2006. Stock market performance was not consistent throughout the year, recording very positive results in the first half of the year, while the second half was marked by the sub-prime real estate crisis in the USA and the cuts in interest rates by the FED to deal with the crisis. The European utilities sector recorded figures clearly above the overall market average, with the DJ STOXX Utilities index rising in value by 17.7% in the period.

The period under review was marked by a rise in interest rates for both short-term loans, with the 6-month Euribor rising 90 basis points, and long-term loans, with the 10-year yield on German treasury bonds rising 50 basis points, a trend that does not favour a capital-intensive sector such as utilities.

Brent Crude Index and Interest Rate



Source: Bloomberg

On the other hand, the first half of 2007 saw electricity prices on the major European wholesale markets drop significantly, due to mild temperatures and the fall in the price of CO₂ emissions. However, the price of oil went up significantly and the prices of CO₂ emissions for 2008 remained at around EUR 20/ton. The fears concerning reductions in the level of CO₂ emissions materialised in February 2007, with the European Union environment ministers announcing a new target to reduce CO₂ emissions by 20% by 2020, while in the USA several legislative initiatives remain under way to promote the development of electricity generation from renewable sources of energy.

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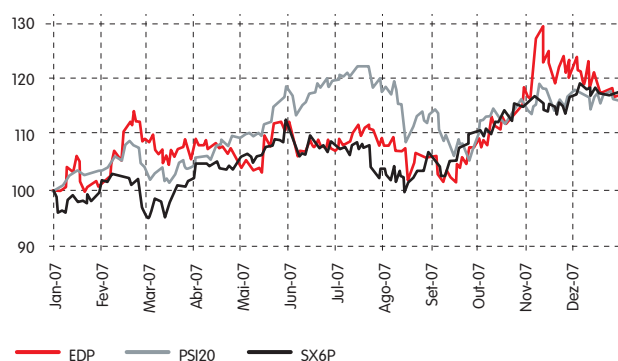
Movements towards consolidation in Europe continued to affect stock market performance in the sector, with the announcement of the Suez/GdF merger and the strengthening of several of Iberdrola's shareholder positions.

In terms of mergers and acquisitions, the first half of 2007 was marked by the success of Acciona/Enel's takeover bid for Endesa, the conclusion of Iberdrola's takeover of Scottish Power, the expected purchase of Viesgo by EoN, EDP's acquisition of the American wind power operator Horizon and Iberdrola's launch of a takeover bid for the American company Energy East. This period was very active in the primary equity market, showing how attractive the sector is for investors. Reference should be made to the Iberdrola Renováveis IPO in December 2007, with a 25% share offering worth EUR 4 billion, Iberdrola's increase in share capital of EUR 3.37 billion via accelerated book-building in June 2007, Veolia's increase in share capital of EUR 2.6 billion in June 2007, Solaria's IPO worth EUR 222 million and REN's IPO, with a 24.9% offering of share capital worth EUR 366 million in July 2007.

Domestically, the PSI-20 index rose in value by 16.2%, one of the best results in Europe, supported by the good performance in the oil and retail sectors.

It was in this context that EDP's listed shares rose in value by 16.4% in 2007 which, together with the dividends payment of EUR 0.11 per share on 4 May 2007, resulted in a total return for the shareholder of 19.2% in the period.

EDP vs PSI20 vs DJ Euro Stoxx Utilities



Source: Bloomberg

EDP's shareholder structure underwent some changes in terms of company structure: On 21 February 2007, UBS AG announced a reduction of its holding in EDP to 1.75%. on 23 February 2007, Pictet Asset Management announced a holding of 2.85% in EDP. on 2 April 2007, Sonatrach announced its holding of 2.03%. and

in December, the Banco Comercial Português Group reduced its holding to 3.4% and Caixa Geral de Depósitos increased theirs to 5.25%.

In December, Parpública announced its issue of bonds exchangeable for EDP shares maturing in 2014, in execution of Decree-Law 382/2007 of 15 November, which approved the 7th phase of the EDP privatisation process.

As part of its strategic plan, in January 2007 EDP presented its business plan for 2007-2010. This is governed by the strategic guidelines presented to the market in July 2006, with a focus on creating value for the shareholder through three pillars: controlled risk, greater efficiency and steered growth.

One of the tactics for the Group's expansion is based on investments in renewable energies. The acquisition of Horizon Wind Energy LLC, a leading company in the development, management and operation of wind farms in the United States of America, was concluded in July 2007. This company closed 2007 with a gross wind-generating capacity of 1,490 MW, and an attractive pipeline of projects in different stages of development in 15 states, with a potential generation capacity of over 10,500 MW. In order to finance this acquisition, EDP made its first issue on the American market of type 144 A/ Reg S bonds, to the sum of USD 2 billion. There was large demand for these from investors, by far exceeding the value of the issue. This acquisition led to a downward review in 2007 of EDP's ratings by Standard & Poors and Fitch, while its Moody's rating remained the same.

In pursuit of its strategy, in December EDP acquired a set of projects for the development of wind farms in Poland, with a total gross capacity of 1,022 MW. These are in different stages of development, with the first wind farm due to have an installed capacity of 120 MW and commence operations at the end of 2009.

In the hydroelectric sector, it should be highlighted that EDP will keep its contracts to operate hydroelectric power stations for an average period that extends to 2047. In addition, construction work to increase the potential of the Picote dam has begun, and EDP has been awarded rights for the operation and private use of the Alqueva hydroelectric power stations (240 MW) for a period of 35 years, under a market regime, and at Pedrógão (10 MW), under a special regime. It also acquired, in partnership with Banco Espírito Santo de Investimento, eleven mini-hydroelectric power stations with a capacity of 89.1 MW, operating under a special regime with operating licences that end between 2025 and 2040.

In the gas sector, EDP's objective is to pursue an integrated strategy for natural gas and the construction of new natural gas combined cycle power stations in the Iberian Peninsula. To this end, EDP signed a strategic partnership agreement with Sonatrach at the end of October, which includes the supply of up to 1.6 bcm per year of natural gas from Algeria, through highly-flexible long-term contracts that are suited to the profile of natural gas demand in the region. The partnership involves the supply of a suitable annual volume of natural gas for the operation of each natural gas combined cycle power station (CCGT), in which Sonatrach will own a minority financial holding of 25% of the share capital of the operating companies. The supply of natural gas by Sonatrach to EDP will include a maximum annual volume of 0.7 bcm, which will allow for the competitive expansion of EDP's natural gas supply activity on the liberalised Iberian market. With a view to consolidating Naturgas as an integrated energy operator and leader in the gas sector in the Basque Country, its holding was increased by another 9.39%, purchased from Gás Natural SGD.

With regard to investments in Brazil, at an auction held by the Brazilian regulatory authorities in October, Energias do Brasil, in a 50% partnership, won the contract for the long-term sale of electricity under a LTSC regime from the coal-fired Pecém power station, which is currently under construction in the state of Ceará and due to commence operations in 2012. In terms of regulation, 2007 saw the start of a new cycle of tariff reviews, with those for Escelsa and Bandeirante, occurring in August and October respectively, falling in line with EDP's expectations. The tariff readjustment process for Enersul took place in April, with the regulator approving an average annual tariff readjustment rate of 8.05% for the period April 2007 to March 2008. However, in December, the Brazilian regulator decided to retroactively review downwards Enersul's tariffs, which had previously been approved at the April 2003 tariff review, as a result of the re-analysis of the assessments for its Regulatory Remuneration Base.

In line with the company's strategic guidelines, in 2007 EDP continued its policy of selling its non-strategic assets, including: the sale of electricity transmission assets the company owned in Valencia to REE, and the sale of 5% of REN to the same company.

In terms of tariffs and regulations, ERSE published the parameters, prices and tariffs for the Portuguese electricity business in 2008, with an average increase of 2.9% in tariffs. In Spain, the new price system for renewable energies was approved, with a 'cap' and 'floor' system defined for wind power under the variable regime, and in December the Spanish government approved RD 11/2007, which aims to 'claw-back' the revenues associated with the increase in CO₂ prices.

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Main events affecting EDP's share price in 2007



Date	Description
1 22-Jan	Presentation of the 2007-10 Business Plan
2 15-Feb	EDP and Caja Madrid strengthen their cooperation in renewable energies in Spain
3 16-Feb	Announcement of a legislative package for the electricity sector
4 6-Mar	EDP sells a 5% stake in REN
5 27-Mar	Acquisition of Horizon Wind Energy
6 2-Apr	Sonatrach acquires 1,639,699 shares representative of EDP's share capital
7 4-Apr	ANEEL approves Enersul's annual tariff readjustment of 8.05%
8 12-Apr	General Meeting of EDP shareholders
9 4-May	Dividend payment (2006 financial year)
10 18-May	EDP withdraws its American Depositary Shares from trading on the NYSE
11 18-May	Acquisition of 9.39% of the share capital of Naturgas
12 31-May	EDP awards construction of the Lares CCGT power station
13 15-Jun	Early termination of PPAs
14 3-Jul	Fitch lowers EDP's rating to 'A-'
15 3-Jul	Completion of the purchase of Horizon Wind Energy
16 10-Jul	Horizon agrees to indicative terms for a deal with institutional investors
17 18-Jul	Standard & Poor's lowers its rating of EDP to 'A-'
18 7-Aug	ANEEL approves a tariff review of Escelsa
19 17-Oct	Energias do Brasil agrees to purchase power agreements for the construction of coal-fired power stations in Brazil
20 19-Oct	Moody's maintains its rating of EDP at 'A2'
21 24-Oct	ANEEL approves a tariff review of Bandeirante
22 24-Oct	EDP enters into an agreement to operate the hydroelectric power stations at Alqueva and Pedrógão
23 26-Oct	EDP issues bonds in the amount of USD 2 billion
24 31-Oct	EDP enters into a strategic partnership with Sonatrach
25 4-Dec	ANEEL orders a reduction in Enersul's regulatory remuneration base
26 13-Dec	Parública concludes the issue of bonds which can be exchanged for EDP shares as part of its seventh phase of reprivatisation
27 19-Dec	NEO acquires 1,022 MW of wind farm projects to be developed in Poland
28 21-Dec	EDP acquires mini-hydroelectric power stations in Portugal
29 27-Dec	Caixa Geral de Depósitos holds 5.24% of EDP's share capital

Capital Market Indicators

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
EDP Shares on Euronext Lisbon (euros)											
Opening price					1.58	2.43	3.52	3.50	3.79	3.49	3.49
Closing price					2.09	1.59	2.44	3.52	3.47	3.75	3.48
Peak price					2.14	2.50	3.64	4.22	4.36	4.99	4.04
Minimum price					1.38	1.47	2.29	3.10	2.82	3.40	2.64
EDP share price adjusted for share capital increase (euros)⁽¹⁾											
Opening price	3.84	2.60	2.22	2.01	1.52	2.33	3.38	3.36	3.64	3.35	3.35
Closing price	4.47	3.84	2.60	2.23	2.01	1.53	2.34	3.38	3.33	3.60	3.34
Peak price	5.00	3.86	2.68	2.42	2.06	2.40	3.50	4.05	4.19	4.79	3.88
Minimum price	3.79	2.58	2.04	1.93	1.33	1.41	2.20	2.98	2.71	3.26	2.54
Variation in share price and reference indices											
EDP Shares ⁽¹⁾	16%	48%	17%	11%	31%	(35%)	(31%)	2%	(8%)	8%	12%
PSI20	16%	30%	13%	13%	16%	(26%)	(25%)	(13%)	9%	25%	20%
Dow Jones Eurostoxx Utilities	18%	36%	26%	25%	10%	(27%)	(11%)	7%	(5%)	32%	19%
Euronext 100	3%	19%	23%	8%	13%	(33%)	(20%)	-	-	-	-
Liquidity of EDP shares on the markets											
Volume on Euronext Lisbon (EUR million)	21,256.5	12,812.5	5,639.4	5,470.9	2,800.2	2,489.5	3,475.5	4,535.4	3,450.1	4,364.0	2,226.1
Mean daily volume (EUR million)	83.4	50.2	21.9	21.1	11.0	10.1	14.1	18.4	13.9	17.6	16.4
Número de Acções Transaccionadas (M.) ⁽²⁾	5,079.7	4,080.9	2,505.2	2,477.2	1,587.5	1,294.2	1,228.9	1,308.4	1,024.2	1,078.0	726.7
Total number of shares issued (million)	3,656.5	3,656.5	3,656.5	3,656.5	3,000.0	3,000.0	3,000.0	3,000.0	3,000.0	3,000.0	3,000.0
Privatised shares at the end of the year (million)	3,096.2	3,096.2	3,096.2	2,936.2	2,099.1	2,099.1	2,099.1	2,099.1	1,499.1	1,499.1	899.8
% of capital already privatised	85%	85%	85%	80%	70%	70%	70%	70%	50%	50%	30%
Number of own shares held (treasury stock) as at 31 Dec (million)	15.5	7.1	17.3	14.3	21.4	17.4	11.7	2.4	1.8	0.0	0.0
Annual rotation of capital (privatised shares)	164.1%	131.8%	85.0%	84.4%	75.6%	61.7%	58.5%	62.3%	68.3%	71.9%	80.8%
EDP Market Value (EUR million)											
Market appreciation at the end of the financial year	16,344.7	14,041.1	9,507.0	8,154.1	6,270.0	4,770.0	7,320.0	10,560.0	10,398.0	11,250.0	10,431.0
Total shareholder profitability											
Annual variation in share price ⁽¹⁾	0.63	1.24	0.37	0.22	0.48	(0.82)	(1.04)	0.05	(0.27)	0.26	(0.01)
Gross dividend distributed per share in the year	0.110	0.100	0.092	0.090	0.090	0.113	0.140	0.140	0.140	0.130	-
Total shareholder profitability	19%	52%	21%	16%	37%	-30%	-27%	6%	-4%	12%	12%
Dividends											
Dividend per share	0.125	0.11	0.10	0.092	0.090	0.090	0.113	0.140	0.140	0.140	0.130
Dividend yield	2.8%	2.9%	3.8%	4.1%	4.3%	5.7%	4.6%	4.0%	4.0%	3.7%	3.7%

(1) In order to ensure comparability, prices for EDP shares prior to 9 November 2004 have been adjusted to show EDP share capital increase rights in 2004.

(2) The number of shares traded has been adjusted to keep the Daily Business Volume unchanged after the adjustment of the share price referred to in (1)

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2.4.2. EDP Shareholder Structure

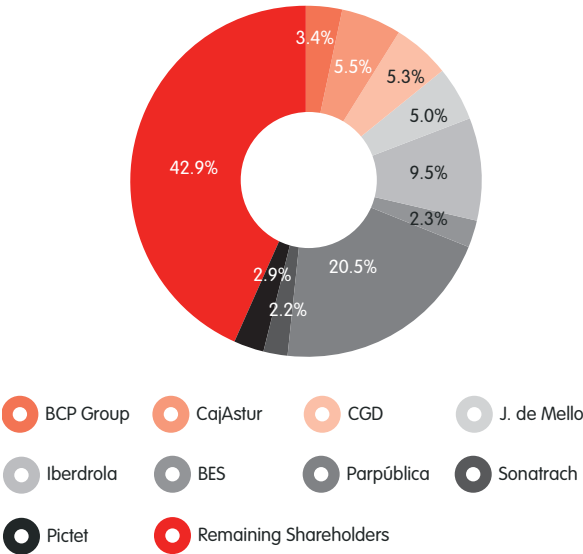
Qualifying holdings

In accordance with Article 8.1e) of CMVM Regulation 4/2004, the following information is provided on the qualifying holdings of EDP shareholders in 2007:

EDP Shareholders Structure	N.º of Shares	% Capital	% Vote
PARPÚBLICA – Participações Públicas, SGPS, S.A.	749,323,856	20.49%	20.41%
IBERDROLA – Participações, SGPS, SA	347,371,083	9.50%	5.00%
Caja de Ahorros de Asturias (CajAstur)	202,250,158	5.53%	5.00%
Caixa Geral de Depósitos, S.A.	192,149,288	5.25%	5.00%
José de Mello – Soc. Gestora de Particip. Sociais, S.A.	181,975,120	4.98%	5.00%
Grupo BCP + Fundo de Pensões do Grupo BCP	124,347,479	3.40%	3.42%
Pictet Asset Management	104,396,422	2.86%	2.87%
Banco Espírito Santo, S.A.	84,831,095	2.32%	2.33%
Sonatrach	81,713,076	2.23%	2.25%
EDP (Treasure Stock)	15,511,685	0.42%	-
Remaining Shareholders	1,572,668,453	43.01%	
Total	3,656,537,715	100.00%	

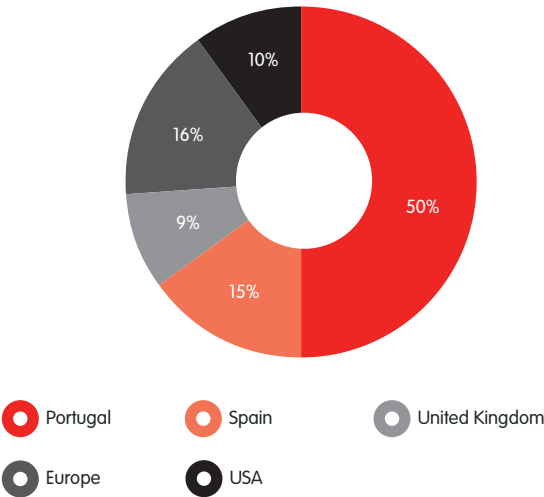
Note: In accordance with the made use one in nº 3 of the Art. 14º of the Partnership contract of the EDP will not be considered the inherent votes to the category shares, emitted for a shareholder, in proper name or as representative of another one, that 5% of the totality of the corresponding votes to the capital stock exceed

Shareholder Structure

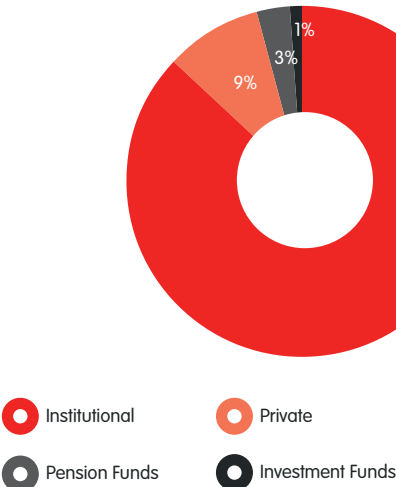


The breakdown of the EDP shareholder structure by geographical area and investor type was as follows in 2007:

Geographical Breakdown of Shareholder Structure



Breakdown of Shareholder Structure by Investor Type



Allocation of voting rights pursuant to Article 20 of the Portuguese Securities' Code

Shareholders	N.º of Shares	% Capital	% Vote
Grupo Caixa Geral de Depósitos			
Caixa Geral de Depósitos	187.178.468	5,12%	-
Fundo de Pensões da CGD	2.033.306	0,06%	-
Companhia de Seguros Fidelidade Mundial, S.A.	2.687.106	0,07%	-
Fundo de Pensões da Comp. Seg. Fidelidade	39.061	0,00%	-
Império Bonança – Companhia de Seguros, S.A.	167.281	0,00%	-
Via Directa – Companhia de Seguros, S.A.	13.490	0,00%	-
Cares – Companhia de Seguros, S.A.	19.893	0,00%	-
Multicare – Seguros de Saúde, S.A.	10.683	0,00%	-
Total	192.149.288	5,25%	5,00%

Caixa Geral de Depósitos holds 100% of the share capital and voting rights of Caixa Seguros, SGPS, S.A., which in turn holds: i) 100% of the share capital and voting rights of Companhia de Seguros Fidelidade-Mundial, S.A., which in turn holds 100% of the share capital and voting rights of Via Directa – Companhia de Seguros, S.A.; ii) 70% of the share capital and voting rights of Império Bonança, SGPS, S.A., which in turn holds 100% of the share capital and voting rights of Império Bonança – Companhia de Seguros, S.A.; iii) 100% of the share capital and voting rights of Cares – Companhia de Seguros, S.A. iv) 100% of the share capital and voting rights of Multicare – Seguros de Saúde, S.A.

Caja de Ahorros de Asturias (CajAstur)

Cantabrica de Inversiones de Cartera, S.L.	147.402.092	4,03%	-
Caja de Ahorros de Asturias (CajAstur)	54.848.066	1,50%	-
Total	202.250.158	5,53%	5,00%

The company Cantabrica de Inversiones de Cartera, S.L. is fully owned by Caja de Ahorros de Asturias (CajAstur).

José de Mello – Soc. Gestora de Participações Sociais, S.A.

José de Mello Energia, SGPS, S.A.	181.956.526	4,98%	5,00%
Órgãos de Administração e Fiscalização	18.594	0,00%	0,00%
Total	181.975.120	4,98%	5,00%

The company José de Mello Energia, SGPS, S.A. (formerly known as Baltic, SGPS, S.A.) is fully owned by José de Mello Participações II, SGPS, S.A., the entire share capital of which is held by José de Mello – Sociedade Gestora de Participações Sociais, S.A.

Banco Comercial Português

Company Officers	349.020	0,01%	0,01%
Fundação Banco Comercial Português	350.000	0,01%	0,01%
Banco Millennium BCP Investimento, SA	1.189.299	0,03%	0,03%
Banco Millennium BCP Investimento, SA (Discretionary management)	169.566	0,00%	0,00%
BCP Group Pension Fund	122.289.594	3,34%	3,36%
Total	124.347.479	3,40%	3,42%

Banco Espírito Santo, S.A.

Banco Espírito Santo, S.A.	84.786.951	2,32%	2,33%
Members of Corporate Bodies	44.144	0,00%	0,00%
Total	84.831.095	2,32%	2,33%

2.4.3. Distribution of Dividends Policy

Every year since EDP shares were first listed on the Lisbon Stock Exchange (now Euronext Lisbon), the company has made a careful and judicious distribution of dividends based on the principles of prudence and the creation of value for its shareholders. In accordance with these principles, the dividends distributed by EDP since 1997 are as follows:

Financial Year	Approval Date	Payment Date	Gross Dividend	Net Dividend	
				Residents	Non-residents
1997 ⁽¹⁾	17-04-98	18-05-98	€ 0,648	€ 0,534	€ 0,534
1998 ⁽¹⁾	11-05-99	28-05-99	€ 0,698	€ 0,620	€ 0,620
1999 ⁽¹⁾	12-05-00	31-05-00	€ 0,698	€ 0,611	€ 0,611
2000 ⁽²⁾	10-05-01	31-05-01	€ 0,140	€ 0,119	€ 0,119
2001 ⁽²⁾	10-05-02	06-06-02	€ 0,113	€ 0,099	€ 0,093
2002 ⁽²⁾	22-05-03	18-06-03	€ 0,090	€ 0,079	€ 0,074
2003 ⁽²⁾	31-03-04	30-04-04	€ 0,090	€ 0,083	€ 0,079
2004 ⁽²⁾	31-03-05	29-04-05	€ 0,09243	€ 0,085	€ 0,081
2005 ⁽²⁾	30-03-06	28-04-06	€ 0,10	€ 0,090	€ 0,090
2006 ⁽²⁾	12-04-07	04-05-07	€ 0,11	€ 0,099	€ 0,099

(1) Values converted from escudos to euros are rounded to the third decimal place. The gross value per share shown in the legal tender at the time of payment of the dividend was PTE 129.87 0 in 1997, PTE 140.00 escudos in 1998 and PTE 140.00 escudos in 1999.

(2) After a stock split, in which each share was substituted by five shares each with a nominal value equal to one-fifth of the pre-stock split value.

With regard to the 2006 period, the EDP Executive Board of Directors submitted for the approval of the General Meeting of Shareholders, held on 12 April 2007, a proposal for the appropriation of EUR 515.9 million in net profit (POC), EUR 402.2 million of which was earmarked for distribution to shareholders as dividends. The proposal was unanimously approved at the General Meeting, with a gross dividend of EUR 0.11 per share paid out on 4 May 2007.

The EDP Articles of Association, in keeping with the legal provisions in force, require that the profits for the year be appropriated, in particular, to:

- Cover losses in previous years;
- Constitute or increase legal reserves or other reserves determined by law;
- To constitute or increase other reserves established by the General Meeting;
- Distribute to shareholders as dividends;

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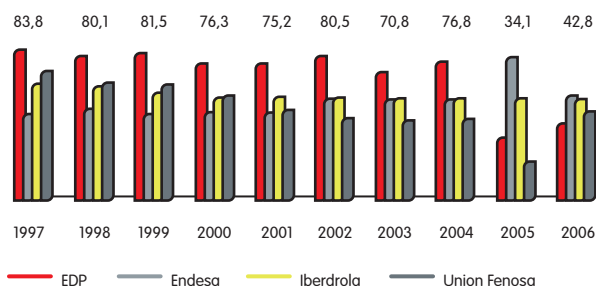
- To allocate bonuses to directors and employees under a profit-sharing scheme, according to criteria defined by the General Meeting and
- To allocate a donation to the EDP Foundation to be used to sponsor worthy initiatives in accordance with a programme to be submitted to the General Supervisory Board as part of the EDP Group corporate civic support and sustainable development policy, corresponding to an amount of up to 0.1% of the consolidated turnover.

In accordance with accounting principles generally accepted in Portugal, profits distributed in the form of dividends are deemed to be those arising after the deduction of losses carried forward from previous years and a provision of 5% to increase the legal reserves until this amounts to one fifth of the share capital, taking into consideration all other applicable legal and statutory limitations.

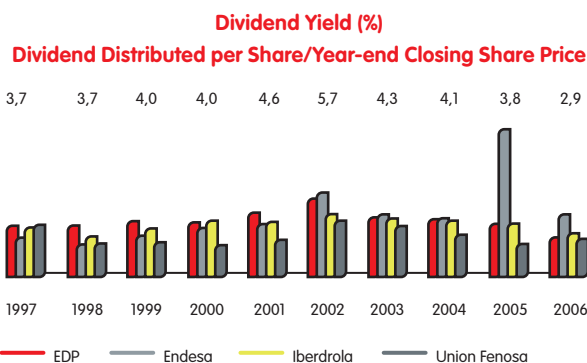
Dividend Payout and Dividend Yield

EDP has followed a sustained policy of dividend distribution that seeks to reconcile, on the one hand, strict compliance with the relevant legal and statutory provisions and, on the other hand, the sharing with all its shareholders of a significant portion of the value created by the Group, in keeping with the specific situation of the company and the market. The pursuit of this policy is intended to enable shareholders to obtain an adequate return on their investment without compromising the company's value, as shown by comparison with the dividend distribution carried out by its Iberian counterparts:

Dividend Payout (%)
Distributed Dividend/Net Profit



Note: Net profit in accordance with accounting principles generally accepted in each country



Note: Net profit in accordance with accounting principles generally accepted in each country

As mentioned in the prospectus on the November 2004 increase in EDP share capital, the global amount of dividend distributed by the company in the 2004 period was adjusted by the effect of this increase, with reference to the closing price for EDP shares on Euronext Lisbon on the last day of trading in subscription rights.

As a result, the overall amount of dividend distributed by EDP and its future variations will be determined on the basis of the proportion corresponding to the impact of the capital increase on EDP's market capitalisation before this operation took place,

The General Meeting held on 12 April 2007 therefore approved the proposal for the appropriation of profits, consisting of the distribution of a gross dividend of EUR 0.11 per share for the 2006 financial year.

Outlook

EDP believes that a transparent relationship with investors and the market involves the definition of clear criteria and reasonable objectives for the dividend distribution policy, as the growing demands by the investment community, faced with the instability of the capital markets in recent years, have made clear.

Therefore at the presentation of the 2007-2010 business plan for national and foreign investors and analysts on 22 January 2007, the objective of increasing annual dividends by 11% during the period 2005 to 2010 was reinforced.

2.5. Share and stock option award plans

Applicable to the 2003 to 2005 periods

In March 2004, the Remuneration Committee fixed the performance appraisal criteria for the variable remuneration of the Chairman of the Board of Directors, the Chairman of the Executive Committee and the Voting Executives for the period 2003/2005.

Share purchase option plan

This plan encompasses the yearly award of purchase options according to the qualitative and quantitative evaluation for each financial year. In accordance with the plan, a maximum of 1/3 of each purchase option may be exercised in each one-year period after the date of award. Options not exercised become null and void at the end of eight years from the date of award.

849,687 share options were exercised in 2007, as shown in the table below, which also details the total awards for the periods 2003 to 2005.

Date of Award	N.º de Benef.	N.º of options associated	Price in financial year	Financial year start date	Date of expiry	N.º of exercised options	
						In 2007	Total
30-Apr-04	6	760.482	2,29	30-Apr-05	29-Apr-12	251.637	682.073
30-Jun-05	6	932.328	2,21	30-Jun-06	29-Jun-13	261.575	525.426
02-May-06	6	1.461.497	2,21	2-May-07	01-May-14	336.475	336.475

Applicable to the 2006 to 2008 periods

In fixing the parameters for determining the bonuses payable to the members of the Executive Board of Directors – the remuneration policy defined by the Remuneration Committee appointed by the General Supervisory Board – no share or stock option award plans were considered for their period of tenure.

Share award plan

As stipulated in the plan for variable remuneration, at the end of the mandate shares were allocated, calculated by the Remuneration Committee based on the evaluation of company profits for the three-year period 2003/2005.

Therefore on 29-03-2006, 1,511,183 shares representing EDP share capital were allocated.

50% of these shares may be traded from 1 July 2006 and the remainder one year later.

2.6. Transactions between the company and members of the managing and supervisory bodies, entities with qualifying shareholdings and companies in a group or control relationship.

EDP strictly observes legislative restrictions applicable in relation to transactions between directors and the company or Group or Group-controlled companies. Instructions are provided, therefore, to guarantee the necessary diligence and efficiency for effecting

company management decisions whilst striving to ensure full compliance with the best practices required of listed companies regarding both internal control procedures and the corporate risk management policy.

In 2007 there were no transactions between directors and the company, its subsidiaries or other Group companies, nor were there any transactions with owners of qualifying holdings, subsidiaries or Group companies that were not part of the company's everyday business activity and/or in exceptional circumstances (as against normal market conditions).

2.7. Investor support structures

2.7.1. EDP communication policy

EDP, in accordance with good practices in the governance of listed companies regarding shareholders' access to information on the Group's business activities, is constantly concerned to ensure that the Group's communication policy and the disclosure of all relevant information is conducted in a manner that does not discriminate between the various parties acting in the financial market and that the content of the information is clear and objective.

EDP's communication policy is based on adopting the recommendations put forward by the CMVM and the best practices of corporate governance in this area, with a view to ensuring transparent management and the credibility of the information conveyed by the EDP group, in order to promote and reinforce the trust of shareholders, strategic partners, employees, customers, creditors and the general public.

2.7.2. EDP Investor Relations Department

The EDP Investor Relations Department, set up in 1997 following the first phase of the company's reprivatisation process, plays a vital role in the pursuit of this objective, enabling a proper institutional and informative relationship to be maintained with the vast number of shareholders, financial analysts and potential investors in EDP, as well as with the stock market on which EDP shares are traded, and its regulatory and supervisory body (the Portuguese Securities Market Commission).

The primary function of the Investor Relations Department is to act as a link between the EDP Executive Board of Directors and investors and financial markets as a whole. It is responsible, within the scope of its normal activity, for all the information provided by the EDP Group, both with regard to the disclosure of

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privileged information and other market communications and with regard to the publication of regular financial statements.

To perform its duties, this department remains in constant contact with investors and financial analysts, providing all the information they request in compliance with the applicable legal and regulatory provisions.

The company's representative for relations with the market is the director Nuno Alves, member of the Executive Board of Directors. The EDP Investor Relations Department is coordinated by Miguel Viana and is located in the company's head office at:

Praça Marquês de Pombal, n.º 12, 3.º Piso
1250-162 Lisbon
Telephone: +351 21 001 2834
Fax + 351 21 001 2899
Email: ir@edp.pt

During 2007 various meetings took place with analysts, shareholders and investors, the company attended two conferences on utilities and one on climate change, as well as taking part in several road shows in Europe and the USA.

The table below summarises the communication channels through which EDP provides its shareholders with information on each type of documentation.

2.7.3. Use of new information technology to disclose corporate information

In addition to the Investor Relations Department, and in compliance with the regulatory requirements of the CMVM, EDP's institutional website (www.edp.pt) provides all statutory information or information regarding the company's governance, updates on the development of Group businesses and a complete set of the company's operational and financial data, in order to make it easier for its shareholders, financial analysts and other interested parties to search for and access information.

The information provided by this means includes the annual reports, communications of relevant facts, the company's Articles of Association, the internal regulations of the corporate bodies, the Group's shareholder structure, the preparatory documents for each general meeting, the historical evolution of EDP's share price and other information of potential interest concerning the Group.

CHANNELS	In person ¹	www.edp.pt	E-mail	Investor Relations Phone Line ⁽⁵⁾	By mail ²	www.cmvm.pt	Media
Elements required by law or regulation ³							
Notice of meeting	✓	✓	✓	✓	✓	✓	✓
The Board of Directors' proposals	✓	✓	-	✓	-	-	-
Amendment of Articles of Association	✓	✓	-	✓	-	✓	-
Other proposals	✓	✓	-	✓	-	-	-
Annual Report and Accounts for the 2005 financial year ⁴	✓	✓	✓	-	✓	✓	-
Management and supervisory positions held in other companies by company officers	✓	✓	-	✓	-	-	-
Additional information provided by EDP							
Draft forms for voting by proxy	✓	✓	✓	✓	✓	-	-
Ballots for postal voting	✓	✓	✓	✓	✓	-	-
Draft forms for voting by e-mail	✓	✓	✓	✓	✓	-	-
Clarification of any issues	✓	✓	✓	✓	✓	-	-
EDP articles of association and regulations	✓	✓	✓	✓	✓	✓	-
Results of voting on proposals	✓	-	-	✓	✓	✓	-

¹ At EDP head office.

² In addition, on the initiative of EDP: Information from the Chairman of the BD relative to participation in the 2005 and 2006 General Meetings of Shareholders, communiqué by the Chairman of the EC divulging information about the economic and financial activity and indicators at the end of each period, and communiqués whenever events of relevance to the company occur.

³ Companies Code (Article 289) and CMVM Regulation 7/2001, as amended by CMVM Regulations 10/2005 and 3/2006.

⁴ Annual report, individual and consolidated accounts, legal certification of accounts and opinion of the Statutory Auditor.

⁵ Investor Relations Phone Line: +351 21 001 28 34

The EDP website also enables interested parties to consult or request copies of the annual reports for each period since 1997.

EDP has increased its use of IT support in all disclosure of information processes far beyond its institutional page on the internet. In fact, there is an ongoing practice of investing in information technology in order to facilitate access to, and the exchange of information between, EDP Group companies and the various stakeholders, especially shareholders, financial analysts and media professionals.

With this purpose in mind, EDP has promoted and encouraged the use of e-mail to receive and provide information in relations with the supervisory body and the market, as well as teleconferencing and videoconferencing facilities for interaction with brokers and institutional investors.

2.8. Remuneration Committee

The remuneration of the company officers, with the exception of the members of the Executive Board of Directors, is determined by the Remuneration Committee, elected at the General Meeting in accordance with the Articles of Association. As remunerações dos órgãos sociais, à excepção dos membros do Conselho de Administração Executivo, são fixadas pela Comissão de Vencimentos eleita em Assembleia Geral, de acordo com os estatutos.

Remuneration Committee of the GM

Chairman	José Manuel Archer Galvão Teles
	Parpública

2.9. Auditors

KPMG is responsible for the external auditing of the entire EDP Group in Portugal, Spain, Brazil, the USA and other countries.

In 2007, the recognised and accrued costs of contracting KPMG for the auditing and statutory audit of the accounts, the provision of guarantee and reliability services, tax consultancy and other non-auditing services in Portugal, Spain, Brazil, the USA and other countries were as follows:

Euros	Audit and Statutory Audit of Accounts	Assurance and reliability services	Tax consultancy services	Other services unrelated to statutory auditing	Total
Portugal	2,125,860	1,328,160	669,868	140,500	4,264,388
Espanha	1,268,075	313,120	0		1,581,195
Brasil	864,026	326,362	50,760		1,241,148
EUA	661,546	0	0		661,546
Outros Países	112,700	0	0		112,700
Total	5,032,207	1,967,642	720,628	140,500	7,860,977

The auditing services and statutory auditing of accounts are services required in order to issue opinions on the individual and consolidated financial statements of the parent company and its subsidiaries in Portugal and abroad. These amounts do not include services provided to associated companies or jointly controlled entities.

2.10. Significant changes in control of the company

In accordance with current international practice on debt issues, the EDP Group has issued bonds whose conditions include a provision for early repayment if changes occur in EDP's controlling shareholder structure which result in a deterioration of the company's credit rating to below "BBB-". These conditions refer to five bond issues made in 2006 and 2007, to the sum of EUR 2.859 billion.

Certain EDP Group's bank loan contracts also include a clause which, should there be a change in EDP's controlling shareholders (except if control is taken by the Portuguese state or entities it controls), grants the company a grace period in which to negotiate contractual changes with the banks involved. If an agreement has not been reached within this period, the banks may cancel and/or demand repayment of the loans.

2.11. Agreements regarding termination of employment contracts

There are no agreements between the company and members of the managing body or other employees that provide for compensation in case of resignation, unfair dismissal or redundancy following a takeover.

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3. EXERCISE OF VOTING RIGHTS AND SHAREHOLDER REPRESENTATION

3.1. Statutory rules

In accordance with the EDP Articles of Association, shareholders with voting rights may attend and take part in the General Meeting of Shareholders, with each share corresponding to one vote.

3.2. Legitimation for the exercise of voting rights

Shareholders may only participate in the General Meeting if they have held shares for at least five days prior to the date of the meeting and they maintain this status up to the meeting's date.

Proof of ownership of shares is effected by sending a declaration to the Chairman of the Board of the General Meeting at least five working days prior to the date of the meeting, issued and authenticated by the financial intermediary entrusted with registering the shares in an account, which must state that the shares in question have been registered in the account for at least five working days prior to the date of the meeting and that the shares are blocked up to the date on which the meeting will take place.

Since 2005, EDP has covered both the cost of issuing declarations of ownership of shares and the costs of freezing shares, to allow shareholder participation in the Annual General Meeting. This measure is intended to encourage the active exercise of shareholders' voting rights by eliminating obstacles, especially those of a financial nature that might discourage shareholders from exercising their voting rights.

3.3. Methods of exercising voting rights

3.3.1. EDP shareholders

Shareholders may exercise their voting rights on each of the items in the agenda by letter (registered mail with recorded delivery) signed with a signature identical to the one on their National Identity Card, addressed to the Chairman of the Board of the General Meeting and sent to EDP's registered office at least five working days prior to the date of the meeting, unless greater advance notification is stated in the notice, together with a legible photocopy of the National Identity Card of the individual signing the letter.

To allow for this method of voting, the proposals to be submitted by the Executive Board of Directors and by the General Supervisory Board to the General Meeting, as well as the reports that must by law accompany these proposals and any other items of preparatory information, are made available to all shareholders at the EDP head office, at least fifteen days prior to the General Meeting. This information is also made available on the EDP website.

3.3.2. Limitation on the exercise of voting rights

In accordance with the Articles of Association, no holder of ordinary (or category A) shares may cast votes, in their own name or as a representative of another, exceeding 5% of the total votes corresponding to the share capital.

In addition, shareholders who acquire a holding of 5% or more of the voting rights, or of the share capital, must communicate this fact to the Executive Board of Directors within a period of five working days from the date on which said holding became effective, and may not exercise voting rights if they have not communicated this fact.

3.4. Model for the exercise of postal voting

In order to extend the use and facilitate the process of postal voting by shareholders wishing to take advantage of this prerogative, EDP provides a draft copy of the proxy letter and ballot paper for postal votes on its website or will forward these on receipt of a personal request made in writing or by telephone, in accordance with the applicable legal and statutory rules.

3.5. Possibility of exercising voting rights by electronic means

Shareholders may also exercise their right to a postal vote by e-mail, provided that the legal and statutory formalities for participation in the General Meeting are fulfilled and the shareholder is adequately identified by a form of certification equivalent to the methods used for postal voting by registered letter with recorded delivery.

4. CORPORATE RULES

4.1. Internal Regulations

The EDP Articles of Association, which define the main rules for the working and organisation of the Company's organic and administrative structure, are available for the public to consult. They can be provided on request at the EDP Investor Relations Department or by accessing the EDP website.

In addition to the EDP Articles of Association, the General Supervisory Board and the Executive Board of Directors are governed by internal regulations which establish a series of rules associated with the way in which they operate. These are also available on the EDP website.

The EDP General and Supervisory Board includes special committees composed of its members, whose functions have been described above (see point 2.2.9).

4.2. Prevention of Cases of Insider Trading

Members of corporate bodies, managers and employees who may be in possession of important information not yet made public and capable of influencing the stock market price of EDP Group company stock, including, in particular, estimates of results, acquisitions or significant partnerships and the acquisition or loss of important contracts, may not, prior to their official disclosure:

- Disclose this information to third parties;
- Deal in the securities of EDP Group companies, strategic partners or companies involved in transactions or relationships with the EDP Group that may constitute, or may come to constitute relevant events.

EDP has established a number of practices to discourage cases of abuse as a result of access to privileged information, such as:

- The publication of privileged information outside trading times, by harmonising, whenever possible, the trading times of the various markets on which EDP and Group companies have security assets listed, in particular Euronext Lisbon and Bovespa, the São Paulo stock exchange;
- The provision of strategic and specialised subject publications for the use of analysts and investors through the CMVM information system and the EDP Group website.

Furthermore, in accordance with Article 248 B of the Portuguese Securities Code and Article 3 of CMVM Regulation 7/2001, the members of EDP's managing and supervisory bodies are obliged to inform the company, and the company to inform the CMVM, of the acquisition and/or sale of any company shares they own within a period of five working days following the date of the transaction.

4.3. Communication of Irregular Accounting and Financial Practices

The EDP Group has always regulated its activity by consistently implementing measures to ensure the good governance of its companies, including the prevention of practices that are not entirely correct, particularly in the areas of accounting and finance.

EDP provides Group employees with a channel for them to convey information directly and confidentially to the Audit Committee of the General Supervisory Board, regarding any practice presumed to be unlawful or any alleged accounting and/or financial irregularity occurring within their company, thus complying with standards contained in CMVM Regulation 7/2001.

Through the creation of this channel for communicating irregular accounting and financial practices, EDP intends to:

- Guarantee the existence of conditions that allow any employee to be able to communicate freely his/her concerns in these areas to the Audit Committee;
- Facilitate the early detection of irregular situations which, if practised, might cause serious damage to the EDP Group, its employees, customers and shareholders.

Contact with the Audit Committee is possible by e-mail, fax and mail, and access to the information received in this context is restricted.

Any complaint or denunciation addressed to the Audit Committee is treated as strictly confidential, and the identity of the complainant is kept anonymous, provided that this does not make it unfeasible to investigate the complaint.

In accordance with the regulations it has established, EDP guarantees that no employee will be the target of any retaliatory or disciplinary action as a result of exercising their right to report irregular situations, provide information or assist in an investigation.

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4.4. Indication of Measures That Might Interfere With the Success of Takeover Bids

Although there are no limitations on the transmissibility of EDP shares since, under the terms of the Portuguese Securities Code, shares transacted on the market must be freely transmissible, the EDP Articles of Association contain rules regarding limitations on the exercise of voting rights applicable to ordinary (or category A) shares. The law defining the conditions for the fourth phase of EDP reprivatization, which took place in October 2000, also establishes certain special rights granted to the Portuguese State as an EDP shareholder that might interfere with the success of any takeover bid for EDP.

According to the EDP Articles of Association, votes cast by a holder of ordinary (or category A) shares, in their own name or as a representative of another, that exceed 5% of the total votes corresponding to the share capital, are considered null and void.

Category B shares are the shares to be reprivatized and have, as their unique privilege, the fact that those who hold them, or their representatives, are not subject to the voting limitation stipulated in point 3 onwards of Article 14 of the Articles of Association in relation to these shares.

In addition, shareholders who acquire a holding of 5% or more of the voting rights, or of the share capital, must communicate this fact to the Executive Board of Directors within a period of five working days from the date on which said holding became effective, and may not exercise voting rights if they have not communicated this fact.

For this purpose, the voting rights which, under the terms of the Portuguese Securities Code are considered to be part of a qualified holding, are deemed to be cast by the same shareholder. In this case, shareholders have the duty to communicate to the Executive Board of Directors, in writing and in a complete, objective, clear and truthful manner and a form satisfactory to the Board, all the information that the latter may request of them regarding facts that may concern them and that may be related to the qualified holding.

Furthermore, under the terms of Article 13 of Decree-Law 141/2000 of 15 July, regarding the fourth phase of the EDP reprivatization process, whilst the Portuguese State remains an EDP shareholder, irrespective of the number of shares it may hold directly, or indirectly through public bodies, the approval of the following deliberations depends on its vote in favour:

- Alterations to the Articles of Association, including share capital increases, mergers, splits and winding up;
- Entering into parity and subordination group contracts;
- Abolition of, or limitation on, shareholders' right of preference in share capital increases.

Equally, for as long as the State remains an EDP shareholder, it enjoys the right enshrined in Article 13.2 of Decree-law 141/2000 of 15 July.

4.5. Ethics

EDP has always conducted its activity within a framework of ethical values that are explicit or implicit in its business agenda, in its professional relationships and obligations towards shareholders, in the vision, mission and values defined by the Executive Board of Directors and the principles of sustainable development.

The company has a Code of Ethics which applies to the whole Group and explains how all employees should conduct themselves in business and in all EDP Group activities.

Ethics Committee

Following the approval of the EDP Group's Code of Ethics, a specialised committee was established to work in coordination with the Corporate Governance and Sustainability Committee of the General Supervisory Board, with the aim of:

- Supporting the definition of EDP Group policy regarding the code of conduct, the adoption of good practices and compliance with the highest standards of ethics;
- Establishing guidelines for regulating matters for which it is responsible;
- Striving for the proper regulation of ethical matters within Group companies.

5. MANAGING BODY

5.1. Characterisation of the Managing Body

The Executive Board of Directors is responsible for managing corporate affairs under the terms of the Portuguese Companies Code and the Articles of Association and is elected by shareholders at the General Meeting.

5.2. Description of the Operational Procedure of the Executive Board of Directors

The Executive Board of Directors usually meets on a weekly basis and must not meet less than every fortnight. It may not deliberate unless the majority of its members are present.

Each director is not permitted to represent more than one absent director at each meeting. All directors have equal voting rights and the Chairman has the casting vote. The work of the Executive Board of Directors is governed by internal regulations.

In accordance with the Articles of Association, the duties of the Executive Board of Directors include:

- Establishing the objectives and management policies of EDP and the EDP Group;
- Drawing up the annual business and financial plans;
- Managing corporate business and undertaking all actions and operations associated with the corporate object that do not fall within the responsibilities allocated to other company bodies;
- Representing the company in and out of court, actively and passively, with the power to waive, transact and admit guilt in any legal proceedings, as well as to make arbitration agreements;
- Acquiring, selling or by any other means disposing of, or encumbering, rights or real estate;
- Establishing companies and subscribing to, acquiring, encumbering and disposing of corporate holdings;
- Deliberating on the issue of bonds and other securities under the terms of the law and the Articles of Association, observing the annual quantitative limits established by the General Supervisory Board;

- Establishing the technical and administrative organisation of EDP and the rules of its internal operation, particularly in relation to personnel and their remuneration;
- Establishing proxies with such powers as it may deem fit, including the power to substitute;
- Appointing the company secretary and his/her deputy;
- Appointing the External Auditor on the basis of recommendations by the General Supervisory Board;
- Exercising any other powers that may be conferred upon it by law or by the General Meeting. and
- Establishing its own system for determining regulations for its internal operations.

The Chairman of the Board of Directors is granted particular competencies, and is responsible for:

- Representing the Executive Board of Directors in and out of court;
- Co-ordinating the work of the Executive Board of Directors, as well as convening and chairing its meetings;
- Striving for the proper execution of the deliberations of the Executive Board of Directors.

The Chairman of the Executive Board of Directors has the right to attend, whenever appropriate, meetings of the General Supervisory Board, except when these deal with decisions associated with the supervision of the work of the Executive Board of Directors and, in general, any situations which involve a conflict of interests.

The Executive Board of Directors met 50 times in 2007.

5.3. Remuneration of Company Officers

In accordance with the Articles of Association, the remuneration of company officers is set by a Remuneration Committee appointed by the General Meeting, with the exception of the members of the Executive Board of Directors, whose remuneration is set by a Remuneration Committee appointed by the General Supervisory Board.

The remuneration awarded in 2007 to EDP Company Officers was the following:

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	Euros
Board of the General Meeting	0.00
Official Auditor	161,663.00
General and Supervisory Board ⁽¹⁾	1,630,045.05
Executive Board of Directors	7,398,288.02
Total	9,189,996.07

(*) Since the remuneration of GSB members was only established by the Remuneration Committee in March 2007, this remuneration refers to the start of the term of office on 30 June 2006. The remuneration amount for 2006 is EUR 393,655.64.

Remuneration policy of the members of the managing body

The remuneration policy for members of the managing body is the responsibility of the Remuneration Committee appointed by the General Supervisory Board. This committee set the remuneration to be attributed to the directors and submitted a declaration on the remuneration policy to the General Meeting of 12 April 2007, as follows:

- Basic Salary – EUR 600,000 per year gross for the Chairman of the EBD, and 80% of this amount for the remaining members of the EBD.
- Annual Bonus – May fluctuate between 0% and 100% of the gross basic salary, based on the following indicators: relative performance of the EDP Group's total shareholder return against the Eurostoxx Utilities and PSI-20, real capacity of value creation for the shareholder, growth in the gross margin, growth in the net profit, growth in EBITDA.
- Multi-annual Bonus – This component, which may fluctuate between 0% and 100% of the gross base salary, will only be paid at the end of the term in office, based on the accumulated annual evaluations of the performance of the executive directors in ensuring the economic sustainability of the EDP Group. Although this multi-annual bonus is calculated on an annual basis, it will only be paid at the end of the term in office if at least 90% of the strategic objectives set for the period have been achieved. The following determining factors will be used: the relative performance of the EDP Group's EBITDA against the Eurostoxx Utilities and PSI-20 during their term, the EDP Group's capacity for value creation during their term, the relative performance of the Group's market capitalisation against the Eurostoxx Utilities and the PSI-20 during their term, the Group's performance in terms of its sustainability index (DJSI methodology), the image of the EDP Group on the domestic and international markets, its capacity for change and adaptation to new market demands and the fulfilment of the strategic targets set for the EDP Group.

	Fixed	Variable	Total
Chairman EBD	686,330.86	600,000.00	1,286,330.86
EBD Voting Members	3,280,048.16	2,831,909.00	6,111,957.16
Total	3,966,379.02	3,431,909.00	7,398,288.02

(1) Remuneration of the Chairman and members includes remuneration regarding the Retirement Savings Plan.

The table below shows the remuneration for the members of the supervisory body.

	Fixe	Variable	Total
Chairman GSB	682,299.23	0.00	682,299.23
GSB Members	947,745.82	0.00	947,745.82
Total	1,630,045.05	0.00	1,630,045.05

(1) Since the remuneration of GSB members was only established by the Remuneration Committee in March 2007, this remuneration refers to the start of the term of office on 30 June 2006. The remuneration amount for 2006 is EUR 393,655.64.

(2) Remuneration of the Chairman of the GSB includes remuneration regarding the Retirement Savings Plan.

5.4. EDP shares held by company officers

In accordance with Article 447.5 of the Portuguese Companies Code, transactions of shares belonging to members of the corporate bodies during the year ending on 31 December 2007 was as follows:

	Movements in 2007	Mean Purchase/ Sale	N.º of Shares 31-12-2007	N.º of Shares 31-12-2006
Board of the General Meeting				
Rui Eduardo Ferreira Rodrigues Pena	0	-	1,445	-
António Bernardo de Menezes e Lorena de Sêves	0	-	0	-
Maria Teresa Isabel Pereira ⁽¹⁾	2,230 ⁽¹⁾	-	6,192	3,962
General and Supervisory Board				
António de Almeida	0	-	0	0
Alberto João Coraceiro de Castro	0	-	4,578	4,578
António Francisco Barroso de Sousa Gomes	0	-	4,135	4,135
Carlos Jorge Ramalho dos Santos Ferreira ⁽³⁾	0	-	24,400	24,400
Diogo Campos Barradas de Lacerda Machado	0	-	260	260
Eduardo de Almeida Catroga	0	-	0	0
José Maria Espírito Santo Silva Ricciardi	0	-	0	0
Manuel Fernando de Macedo Alves Monteiro	0	-	0	0
Manuel Menéndez Menéndez	0	-	0	0
Mohammed Meziane (em representação da Sonatrach)	0	-	0	-
Paulo Jorge de Assunção Rodrigues Teixeira Pinto ⁽²⁾	0	-	1,388	1,388
Vasco Maria Guimarães José de Mello	0	-	0	0
Vital Martins Moreira	0	-	21,870	21,870
Vitor Fernando da Conceição Gonçalves	2,570	4.09	3,465	6,035
Vítor Domingos Seabra Franco	0	-	0	0
Executive Board of Directors				
António Luís Guerra Nunes Mexia	0	-	1,000	1,000
Ana Maria Machado Fernandes	0	-	0	0
António Fernando Melo Martins da Costa	0	-	13,299	13,299
António Manuel Barreto Pita de Abreu	0	-	34,074	34,074
João Manuel Manso Neto	0	-	1,268	1,268
Jorge Manuel Pragana da Cruz Morais	0	-	12,497	12,497
Nuno Maria Pestana de Almeida Alves	0	-	0	0

Notes

1) Part of the bonus paid out in shares.

2) Shares held by Paula Teixeira da Cruz's spouse. She resigned from her post in 2007. Number of shares as at 31-12-2007 refers to 30-06-2007.

3) Resigned from the post in 2007. Number of shares as at 31-12-2007 refers to 30-06-2007.

5.5. Corporate positions held by members of the Managing Body

	António Mexia	Nuno Alvim	Ana Maria Fernandes	António Martins da Costa	Jorge Cruz Morais	João Manso Neto	António Pita de Abreu
EDP – Energias de Portugal, S.A.	CEBD	D	D	D	D	D	D
EDP – Gestão da Produção de Energia, S.A.						CBD	
EDP Energias do Brasil, S.A.	CBD	VM	VM	MD			
EDP Comercial – Comercialização de Energia, S.A.					CBD		
EDP – Estudos e Consultoria, S.A.	CBD						VM
EDP – Soluções Comerciais, S.A.					CBD		
EDP Imobiliária e Participações, S.A.		CBD				VM	
EDP Produção EM – Engenharia e Manutenção, S.A.						CBD	
EDP Produção – Bioelétrica, S.A.			CBD				
EDP Serviner – Serviços de Energia, S.A.					CBD		VM
EDP Valor – Gestão Integrada de Serviços, S.A.		CBD					
Sãvida – Medicina Apoiada, S.A.							CBD
SCS – Serviços Complementares de Saúde, S.A.							CBD
Energia RE – Sociedade Cativa de Resseguro		CBD					
Enernova – Novas Energias, S.A.			CBD				
Hidroelétrica del Cantábrico, S.A.		VM	VM		VM	VMCBD	VM
Naturgás Energia, S.A.			VM		VM	VM	
Desarrollos Eólicos S.A.			CBD				
Genesa S.L.			CBD				
NQF Projectos de Telecomunicações e Energia, SGPS, S.A.		VM	CBD				
NQF Energia, SGPS, S.A.		VM	CBD				
NQF Gás, SGPS, S.A.		VM	CBD				
EDP Gás – SGPS, S.A.			CBD		VM	VM	
Portgás – Sociedade de Produção e Distribuição de Gás, S.A.			VM		VM		
Setgás – Sociedade de Produção e Distribuição de Gás, S.A.			VM				
Enagas, SGPS, S.A.			CBD				
EDP Powerline		VM					CBD
Internel – Serviços de Consultoria Internacional, S.A.						CBD	
Horizon Wind Energy LLC		VM	VM	CBD			
Nuevas Energias de Occidente, S.L.			VM				

CEBD: Chairman of the Executive Board of Directors CBD: Chairman of the Board of Directors VMCBD: Vice-Chairman of the Board of Directors MD: Managing Director D: Director VM: Voting Member

In addition to the table presented on this page, you should consult the section on “Governing Bodies”. All members of the Executive Board of Directors were elected at the General Meeting of Shareholders of 30 March 2006, for a term of office that ends on 31 December 2008.

It should also be noted that no member of the Executive Board of Directors received any payment, in any form, from any company controlled by EDP or forming part of the EDP Group.

5.6. Company positions held by Members of the General Supervisory Board

See the section on “Governing Bodies”.

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**INSTITUTIONAL REPORT
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Financial Statements
**Consolidated Income Statement for the Years
ended 31 December 2007**

Thousands of Euros	Notes	2007	2006		Total
		Continuing operations	Continuing operations	Discontinued operations	
Turnover	5	11,010,778	10,185,658	164,168	10,349,826
Cost of consumed electricity	5	-4,748,100	-4,380,703	-	-4,380,703
Cost of consumed gas	5	-585,227	-744,350	-	-744,350
Changes in inventories and cost of raw materials and consumables used	5	-1,123,983	-1,052,114	-14,205	-1,066,319
		4,553,468	4,008,491	149,963	4,158,454
Other operations income /(expenses)					
Other operating income	6	160,397	136,386	7,762	144,148
Supplies and services	7	-684,187	-621,674	-119,724	-741,398
Personnel costs	8	-576,963	-563,894	-21,192	-585,086
Employee benefits	8	-289,370	-162,201	-86	-162,287
Other operating expenses	9	-535,070	-498,188	-10,193	-508,381
		-1,925,193	-1,709,571	-143,433	-1,853,004
		2,628,275	2,298,920	6,530	2,305,450
Provisions	10	-42,095	-90,350	-4,214	-94,564
Depreciation and amortisation expense	11	-1,130,858	-1,018,851	-40,015	-1,058,866
Compensation of amortisation and depreciation	11	105,007	101,415	-399	101,016
		1,560,329	1,291,134	-38,098	1,253,036
Gain from the sale of financial assets	12	262,561	4,791	27	4,818
Other financial income	13	623,602	769,351	1,010	770,361
Other financial of associates	13	-1,169,421	-956,053	-21,685	-977,738
Share of profit of associates	19	23,708	245,329	-	245,329
Profit / (loss) before tax		1,300,779	1,354,552	-58,746	1,295,806
Income tax expense	14	-280,848	-266,457	542	-265,915
Profit after taxes and before gains/(losses) from discontinued operations		1,019,931	1,088,095	-58,204	1,029,891
Gains / (losses) on sale of discontinued operations	44	-	-	-12,808	-12,808
Net profit / (loss) for the year		1,019,931	1,088,095	-71,012	1,017,083
Atributable to:					
Equity holders of EDP		907,252	1,011,911	-71,088	940,823
Minority interests	31	112,679	76,184	76	76,260
Net profit / (loss) for the year		1,019,931	1,088,095	-71,012	1,017,083
Earnings per share (Basic and Diluted) – Euros	28	0.25	0.28	(0.02)	0.26

**Consolidated Balance Sheet
as at 31 December 2007**

Thousands of Euros	Notes	2007	2006
Assets			
Property, plant and equipment	15	18,669,477	15,081,728
Intangible assets	16	2,173,141	1,168,136
Goodwill	17	3,048,691	2,470,467
Investments in associates	19	251,807	285,227
Available-for-sale investments	20	705,260	822,148
Deferred tax assets	21	687,265	898,323
Trade receivables	23	136,748	117,651
Debtors and other assets	24	1,447,033	299,968
Total Non-Current Assets		27,119,422	21,143,648
Inventories	22	282,595	228,692
Trade receivables	23	1,622,428	1,475,202
Debtors and other assets	24	669,102	874,916
Tax receivable	25	834,129	620,840
Financial assets at fair value through profit or loss	26	49,034	116,439
Cash and cash equivalents	27	864,711	753,493
Assets classified as held for sale	38	42,386	255,681
Total Current Assets		4,364,385	4,325,263
Total Assets		31,483,807	25,468,911
Equity			
Share capital	28	3,656,538	3,656,538
Treasury stock	29	-65,741	-14,542
Share premium	28	501,992	501,992
Reserves and retained earnings	30	1,264,105	504,424
Consolidated net profit attributable to equity holders of the parent		907,252	940,823
Total Equity attributable to equity holders of the parent		6,264,146	5,589,235
Minority interests	31	986,626	945,661
Total Equity		7,250,772	6,534,896
Liabilities			
Medium and long term loans	33	10,064,346	8,624,695
Employee benefits	34	1,715,377	1,770,560
Provisions for liabilities and charges	35	376,041	388,473
Hydrological correction account	32	227,686	198,596
Deferred tax liabilities	21	617,555	557,269
Trade and other payables	36	4,464,517	2,427,193
Total Non-Current Liabilities		17,465,522	13,966,786
Short term loans	33	2,541,646	1,528,355
Trade and other payables	36	3,649,890	2,757,669
Tax payable	37	575,977	521,107
Liabilities classified as held for sale	38	-	160,098
Total Current Liabilities		6,767,513	4,967,229
Total Liabilities		24,233,035	18,934,015
Total Equity and Liabilities		31,483,807	25,468,911

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Financial Statements
**Consolidated Income Statement for the Years ended
31 December 2007 and 2006**

Thousands of Euros	Notes	2007	2006
Turnover	5	1,240,047	682,261
Cost of consumed electricity	5	-878,792	-329,289
Changes in inventories and cost of raw materials and consumables used	5	-249,214	-243,841
		112,041	109,131
Other operating income / (expenses)			
Other operating income	6	19,294	12,051
Supplies and services	7	-101,784	-103,162
Personnel costs	8	-14,186	-13,272
Employee benefits	8	-103	-1,469
Other operating expenses	9	-57,995	-294,121
		-154,774	-399,973
		-42,733	-290,842
Provisions	10	-12,026	-2,424
Depreciation and amortisation expense	11	-5,716	-6,378
		-60,475	-299,644
Gains / (losses) on the sale of financial assets	12	231,985	-17,206
Other financial income	13	1,193,152	1,439,452
Other financial expenses	13	-870,519	-632,253
Share of profit of associates		113	-19,399
Net profit / (loss) for the year		494,256	470,950
Income tax expense	14	7,902	44,746
Net profit / (loss) for the year		502,158	515,696

**Consolidated Balance Sheet as at
31 December 2007 and 2006**

Thousands of Euros	Notes	2007	2006
Assets			
Property, plant and equipment	15	82,450	84,899
Intangible assets	16	56	1,763
Investments in subsidiaries	18	8,347,450	6,673,680
Investments in associates	19	66,988	97,919
Available-for-sale investments	20	198,857	399,805
Deferred tax assets	21	-	83,662
Debtors and other assets	24	5,939,598	3,351,059
Total Non-Current Assets		14,635,399	10,692,787
Trade receivables	23	40,458	66,396
Debtors and other assets	24	1,645,801	1,567,202
Tax receivable	25	88,334	50,017
Financial assets at fair value through profit or loss	26	3	1,693
Cash and cash equivalents	27	119,609	235,234
Assets classified as held for sale	38	44,500	-
Total Current Assets		1,938,705	1,920,542
Total Assets		16,574,104	12,613,329
Equity			
Share capital	28	3,656,538	3,656,538
Treasury stock	29	-65,741	-14,542
Share premium	28	501,992	501,992
Reserves and retained earnings	30	1,668,108	1,527,942
Net profit / (loss) for the year		502,158	515,696
Total Equity		6,263,055	6,187,626
Liabilities			
Employee benefits	33	3,178,922	2,623,926
Provisions for liabilities and charges	35	29,580	19,910
Hydrological correction account	32	227,686	198,596
Deferred tax liabilities	21	53,253	-
Trade and other payables	36	3,155,911	12,740
Total Non-Current Liabilities		6,645,352	2,855,172
Short term loans	33	2,945,367	2,993,257
Trade and other payables	36	709,719	566,367
Tax payable	37	10,611	10,907
Total Current Liabilities		3,665,697	3,570,531
Total Liabilities		10,311,049	6,425,703
Total Equity and Liabilities		16,574,104	12,613,329

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Proposal for the Appropriation of Profits

In accordance with Article 27 of the Articles of Association, the Executive Board of Directors recommends that the net profits be appropriated as follows:

Appropriation of Profit (EUR)	
Legal Reserve	25,107,913.10
Dividend	457,067,214.38
Donations to EDP Foundation (Patronage, Donations and Sponsorships)	3,428,144.00
Profit Brought Forward	16,554,990.46
Net Profit	502,158,261.94

The proposed dividend amounts to EUR 0,125 per share.

INSTITUTIONAL REPORT AND REPORT ON CORPORATE GOVERNANCE

Outlook for 2008

2008 will once again be a year of great challenges for the EDP Group, challenges the Group will continue to respond to by following its strategic guidelines: **risk control, efficiency of operations and profitable growth.**

In terms of the **global economy**, the beginning of 2008 was marked by a fall in the stock markets caused by fears of an economic slowdown in the USA due to the sub-prime crisis and its subsequent impact on the world financial system. With a view to reducing the negative impacts of this crisis, the Fed announced cuts of 1.75% in its federal funds rate. This had a positive impact in terms of the cost of long-term and Euribor interest rates, a clearly positive development for low-risk and capital-intensive sectors such as utilities.

There have been extremely significant rises on the **international energy markets**, which have been accentuated since the 4th quarter of 2007. The price of Brent crude has remained consistently above USD 85/barrel since October 2007 and the price of ARA coal above USD 105/tonne, both pressured by increased demand and restrictions in supply. In the European Union, the price of CO₂ licenses, which was around zero in 2007, has remained consistently around EUR 20/tonne for the period 2008-2012.

In terms of incentives for the generation of energy from **renewable sources**, at the end of January 2008 the European Union presented a more detailed draft proposal for achieving a target of renewable energies representing 20% of the primary sources of energy used in the European Union by 2020, a process that will continue to be developed throughout 2008. In the United States of America, it is expected that the presidential and congressional elections set for November 2008 will mark a clear, positive turn in Federal support for the development of renewable energies in the country.

At the end of 2007 EDP formed EDP Renováveis, which took control over all of the EDP Group's wind energy developments and operations, through the subsidiaries Neo Energía in Europe and Horizon Wind Energy in the USA.

In order to finance the investment effort in this area, increase the visibility of the business and obtain an exchange currency for a potential consolidation scenario, in January 2008 EDP announced to the market its **intention to make the EDP Renováveis IPO** through an increase in capital with an offering of around 20% to 25% of the company's share capital, at some point during the 2nd quarter of 2008, depending on stock market conditions.

In terms of operations, EDP Renováveis has ambitious goals for 2008, given its plans to put into operation around 1,500 MW of wind power by the end of the year, hoping **to reach 5,200 MW gross wind power at the end of 2008.**

In Portugal, the forecast for economic growth in 2008 is 1.7%, and the estimates for inflation point to 2.5%. With regard to the electoral cycle, the current government's term only ends in 2009 and the current prediction is for the next legislative elections to be held in the second half of 2009. **In Spain**, the forecast for economic growth in 2008 is 2.3%, and inflation is expected to be 3.2% in the same period. With regard to the electoral cycle, Spain will hold legislative elections in March 2008.

In terms of the **electricity systems in Portugal and Spain**, the abovementioned rise in prices on the international energy markets and the increase in the market share of renewables, combined with the reduction in the levels of hydroelectric production in the winter of 2007/2008, point towards very significant rises in the costs of generating electricity. The increases in average electricity tariffs for final customers recently announced by the ERSE and the Spanish government are insufficient to cover these costs. Under this scenario, a return to significant tariff deviations and deficits is forecast for 2008, both in the Portuguese and Spanish electricity systems.

Regarding **electricity generation and supply activities on the Iberian market**, EDP's activity in Spain in 2008 could be affected by certain regulatory developments, in particular the application of a tax on revenue associated with the increase in the price of CO₂, and new regulation on guaranteeing supply, which is still under discussion. In terms of hedging policy, the rise in electricity prices on the OMEL and the insufficient increases in final customer tariffs in Spain and Portugal recommend a reduction in the levels of electricity supply to the liberalised market, both in Portugal and in Spain. This situation could be reviewed with the expected abolishment of regulated supply tariffs for medium-voltage customers in Spain, as of July 2008. As for **increases in installed capacity**, the 418 MW Soto 4 CCGT is expected to commence operations in the 3rd quarter of 2008, construction work will continue on the Lares 1 and 2 CCGTs in Portugal, which are due to enter service in the 3rd quarter of 2009, and construction will start/continue on 4 hydroelectric power stations in Portugal, representing a total capacity of 842 MW.

With regard to **regulatory reviews**, the process to fix regulated revenue for electricity distribution in Portugal for the period 2009-2011 will take place during 2008, while the new regulations

for natural gas distribution in Portugal should be published in the 2nd quarter of 2008, to come into force in July 2008.

In **Brazil**, the management team of the sub-holding Energias do Brasil was renewed in January 2008. Some of the major challenges for 2008 will be the conclusion of the regulatory review process for our distributors in Brazil, with the start of a new regulatory period for Enersul in April 2008. In terms of generation, Energias do Brasil should start construction of the Pécem coal-fired power station and continue with the development of the hydroelectric and mini-hydroelectric projects that are currently being studied.

Finally, with regard to the efficiency of operations across the entire EDP Group, efforts will be made throughout the whole organisation in 2008 to achieve the objectives defined in the 2007-2010 business plan.

INSTITUTIONAL REPORT AND REPORT ON CORPORATE GOVERNANCE

Acknowledgements

Aware of the central role that the EDP Group plays on all levels of society in the different countries in which it operates, the Executive Board of Directors would like to extend their gratitude and appreciation to all those who supported and monitored the EDP Group's activity through the course of 2007.

Firstly, we would like to thank the shareholders for the trust they have placed in the current Executive Board of Directors and their capacity to create value for the growth strategy of the EDP Group.

A word of thanks also goes to the work carried out by the Corporate Bodies responsible for auditing and supervising the Group's activity.

We would also like to highlight the support, cooperation and guidance that the Executive Board of Directors received from the General Supervisory Board, allowing the new model of governance to increasingly affirm itself as fundamental to the proper functioning of the Group's management, the auditing of its activity and the defence of the interests of all its stakeholders.

The Board would also like to thank the members of the supervisory authorities in the countries in which EDP has an institutional presence for the support they have lent to Group activities during the past financial year, monitoring the work of EDP on behalf of the economic and social development of their respective populations.

We should also mention the dialogue we have maintained with the regulators of the energy sector, as part of a constructive and cooperative relationship. These include the Energy Services Regulatory Authority (ERSE) and the Directorate-General of Energy and Geology (DGEG) in Portugal, as well as the regulators in the countries where the EDP Group is most active, namely the CNE in Spain and the ANEEL in Brazil.

The gratitude of the Executive Board of Directors also extends to all those entities which have co-operated with the EDP Group during 2007, particularly:

- CMVM, Euronext Lisbon, Interbolsa, CVM and BOVESPA;
- The EDP Group's external auditors;
- Financial institutions;
- Scientific, university and technical institutions;
- The Portuguese Association of Electricity Sector Enterprises – ELECPOR;

- The Spanish Electricity Industry Association – UNESA;
- National Association of Portuguese Municipalities and Municipal Councils.

In these final remarks, we would also like to thank all customers of the EDP Group companies, whose needs we aim to satisfy by providing an excellent level of service quality.

The Board also expresses its gratitude to the media who have closely followed the company's activities, for the accuracy and restraint they have shown in covering the events that have marked the daily operations of the EDP Group in 2007, with this coverage acting as a stimulus to raise our standards of management rigour, professionalism and transparency.

Lastly, the EDP Executive Board of Directors would like to extend a special thank you to all employees in the EDP Group companies, for their professionalism, dedication and competence in the performance of their duties and for their contribution to building an increasingly dynamic and competitive EDP.

The Executive Board of Directors

António Luís Guerra Nunes Mexia (Presidente)

Ana Maria Machado Fernandes

António Fernando Melo Martins da Costa

António Manuel Barreto Pita de Abreu

João Manuel Manso Neto

Jorge Manuel Pragana da Cruz Morais

Nuno Maria Pestana de Almeida Alves

**INSTITUTIONAL REPORT
AND REPORT ON CORPORATE GOVERNANCE**
Extract from the Minutes of the General Meeting of Shareholders of EDP

-----Extract of Meeting no. 1/2008 of the General Meeting of Shareholders of EDP-----

--- At three p.m. on the tenth day of April of the year two thousand and eight, the General Meeting of Shareholders of EDP – Energias de Portugal, S.A., a listed company (hereinafter referred to as EDP or the Company), with its registered office at 12, Praça Marquês de Pombal, in Lisbon and a share capital of €3,656,537,715, tax number and registration number at the Lisbon Company Register 500 697 256 (formerly number 1 805) met in Auditorium I of the FIL Conference Centre in Rua do Bojador, Parque das Nações, in Lisbon. The meeting was not held at the Company's head office as it did not offer the right conditions for the purpose, as it is a listed company and a large number of shareholders always attend. --- The Chairman of the Board of the General Meeting, Rui Eduardo Ferreira Rodrigues Pena, assisted by the Vice-Chairman, António Bernardo de Menezes e Lorena de Sêves and the Company Secretary, Maria Teresa Isabel Pereira, checked that the meeting had been properly convened by mandatory publications on the websites of the Ministry of Justice, CMVM, Euronext Lisbon and EDP (in addition to announcements published in the Euronext Lisbon Price Bulletin, in Público and Jornal de Notícias, all on 11 March 2008). -----

--- The Chairman and the Company Secretary also confirmed that the attendance list was properly organised and that there were letters of representation for the shareholders that were legal persons or were not physically present. -----

The Chairman and the Company Secretary then confirmed the percentage of the share capital present or represented at the General Meeting, which corresponded to 58.3041% of share capital and 52.9979% of the voting rights pertaining to the share capital, on the basis of the registrations and blocking of shares issued by the financial intermediaries responsible for individual registration of each shareholder's shares. The Chairman announced that there was a constitutive and deliberative quorum for the General Meeting. -----

Then, as Point Seven of the agenda provided for an amendment to certain provisions in the Articles of Association, the Chairman and the Company Secretary also confirmed: -----

(i) The constitutive quorum of a General Meeting for the purpose of approving decisions on the amendment of the Articles of Association is, under Article 383.2 of the Company Code, one third of the share capital, which was confirmed as being present and represented. -----

(ii) The deliberative quorum for the purpose of approving amendments to the articles of association is two thirds of the votes cast, as set forth in Article 11.4 of EDP's Articles of Association. -----

The Chairman also announced that, under Article 14.3 of EDP's Articles of Association, votes from category A shares cast by a shareholder on his or her own behalf or in representation of another exceeding 5% of all the votes would not be considered and that, as this limitation did not apply to category B shares, the shareholder Parpública – Participações Públicas (SGPS), S.A. would be able to vote with more than 5% of the voting rights corresponding to the share capital. -----

The Chairman and the Company Secretary also confirmed that the other formalities necessary prior to the General Meeting had been respected, including checking that motions and other information on the items on the agenda had been made available to the shareholders at the company's registered office and on the CMVM and EDP websites within the legal time limits, with the exception of part of the information on Points Six and Seven of the agenda. -----

(...)

--- Rui Pena called the General Meeting to order and put Point One of the agenda on the table: *Discussion of the individual and consolidated accounting documents for the period of 2007, including the single management report, the individual and consolidated accounts, the annual report and opinion of the General Supervisory Board and the single legal certification of accounts* -----

(...)

Following the debate and as there was no-one else wishing to take the floor, the Chairman put point one of the agenda to the vote. As a result, the single management report and the other accounting documents for the financial year of 2007 were approved by a majority of votes cast (with 0.0004% of votes against and 0.7% abstentions). -----

--- The Chairman continued the meeting and read Point Two on the agenda, as follows: *Discussion of the proposal for the appropriation of profits for 2007*. The Chairman then read the proposal from the Executive Board of Directors, as follows: *As set forth in Article 30.1 of the Company's Articles of Association, the Executive Board of Directors proposes to the Shareholders that the profits for the period be appropriated as follows:* -----

Legal reserve	€25,107,913.10
Dividends (the proposed dividend is €0.125 per share)	€457,067,214.38
Allocated to the EDP Foundation	€3,428,144.00
Retained Earnings	€ 16,554,990.46

(...)

The Chairman then put Point Two to the vote and the proposed appropriation of profits was approved by a majority of votes case (with 0.0016% votes against and 0.0018% abstentions). -----

--- The Chairman then read Point Three of the agenda: *A general assessment of the management and supervision of the Company under Article 455 of the Company Code*. The Chairman of the Board of the General Meeting gave the floor to the Chairman of the General Supervisory Board, who gave the board's opinion on the management of the Company, saying that the General Supervisory Board had unanimously decided to convey to the shareholders its opinion in favour of a vote of confidence and praise for the Executive Board of Directors and its Chairman António Mexia and each of its members. -----

The Chairman then read the motion by the shareholders Parpública – Participações Públicas (SGPS), S.A., Caixa Geral de Depósitos, S.A., Banco Comercial Português, S.A., Banco Espírito Santo, S.A. and José de Mello, SGPS, S.A. as follows: -----

Considering Article 455 of the Company Code, -----

We move: -----

1 – That a vote of confidence and praise should go to the Executive Board of Directors and each of its members for their work in 2007. -----

2 – That a vote of confidence and praise should go to the General Supervisory Board and each of its members for their work in 2007. -----

3 – That a vote of confidence and praise should go to the statutory auditor for their work in 2007. -----

The shareholder António Alberto Pimenta França Oliveira requested the floor and on his behalf and that of Instituto de Investigação Científica Bento da Rocha Cabral, supported the motion submitted by the shareholders Parpública – Participações Públicas (SGPS), S. A., Caixa Geral de Depósitos, S.A., Banco Comercial Português, S.A., Banco Espírito Santo, S.A. and José de Mello, SGPS, S.A. -----

(...)

The Chairman then separately put to the vote the three points of the motion submitted by the shareholders Parpública – Participações Públicas (SGPS), S. A., Caixa Geral de Depósitos, S.A., Banco Comercial Português, S.A., Banco Espírito Santo, S.A. and José de Mello, SGPS, S.A. The results were as follows: -----

- The first point of the motion (*That a vote of confidence and praise should go to the Executive Board of Directors and each of its members for their work in 2007*) was approved by a majority of votes cast (with 0.0108% votes against and 0.0089% abstentions). -----

- The second point of the motion (*That a vote of confidence and praise should go to the General Supervisory Board and each of its members for their work in 2007*) was approved by a majority of votes cast (with 0.0107% votes against and 0.0123% abstentions). -----

- The third point of the motion (*That a vote of confidence and praise should go to the statutory auditor for their work in 2007*) was approved by a majority of votes cast (with 0.0112% votes against and 0.0123% abstentions). -----

--- (...) the Chairman read Point Four of the agenda, *Authorisation to the Executive Board of Directors for the purchase and sale of company shares by EDP and its subsidiaries* (...)

As no-one wished to take the floor, the Chairman put the motion in Point Four to the vote and it was approved by a majority of votes cast (with 2.5853% votes against and 0.9204% abstentions).-----

--- The Chairman then read Point Five – *Authorisation to the Executive Board of Directors for the purchase and sale of company bonds by EDP and its subsidiaries* (...) -----

As no-one wished to take the floor, the Chairman put the motion and it was approved by a majority of votes cast (with 0.0125% votes against and 0.0039% abstentions). -----

--- The Chairman moved on the Point Six on the agenda regarding the election of the members of the General Supervisory Board and proposed a joint vote on all the motions submitted under this point on the agenda. As there were no objections, Rui Pena read the motion submitted by the shareholders Caja de Ahorros de Asturias and Cantábrica de Inversiones de Cartera, S.L. – Sociedad Unipessoal, as follows: -----

Whereas Manuel Menéndez has tendered his resignation from the General Supervisory Board, the shareholders Caja de Ahorros de Asturias and Cantábrica de Inversiones de Cartera, S.L. – Sociedad Unipessoal move that the other shareholders elect the Spanish company Cajastur Inversiones, S.A., with its registered office at C/Alvarez Garaya, nº2, 7ª planta, 33206 Gijon, as a member of the General Supervisory Board for the current three-year period 2006/2008. -----

As no shareholders requested the floor, Rui Pena read the motion tabled by the shareholder Caixa Geral de Depósitos, S.A. under Point Six, as follows: -----

As Carlos Jorge Ramalho dos Santos Ferreira tendered his resignation from the General Supervisory Board of EDP – Energias de Portugal, S.A. on 27 December 2007, the shareholder Caixa Geral de Depósitos, S.A. moves that Fernando Manuel Barbosa Faria de Oliveira, whose Curriculum Vitae is attached, be elected to fill the resulting vacancy until the end of the current term of office, which is 2006/2008. -----

As no-one wished to take the floor, the Chairman read the motion submitted by the shareholder Fundação Millennium BCP, as follows: -----

As Paulo Jorge de Assunção Teixeira Pinto tendered his resignation from the General Supervisory Board of EDP – Energias de Portugal, S.A. on 31 August 2007, the shareholder Fundação Millenniumbcp moves that Carlos Jorge Ramalho dos Santos Ferreira, whose Curriculum Vitae is attached, be elected to fill the resulting vacancy until the end of the current term of office, which is 2006/2008. -----

INSTITUTIONAL REPORT AND REPORT ON CORPORATE GOVERNANCE

Extract from the Minutes of the General Meeting of Shareholders of EDP

As no-one wished to take the floor after the motion was read, the Chairman informed the General Meeting that he had received another motion on this point on the agenda and had decided to accept it, in view of its importance to the Company, regarding the election of a member of the General Supervisory Board by the shareholders Parpública – Participações Públicas (SGPS), S.A., Caja de Ahorros de Astúrias, S.L., Caixa Geral de Depósitos, S.A., José de Mello Energia, SGPS, S.A., Fundação Millennium BCP and Banco Espírito Santo, S.A. The Chairman then read the motion, as follows: -----

"Whereas: -----

(A) On 9 April 2008, EDP – Energias de Portugal, S.A. (EDP) and International Petroleum Investment Company (IPIC) signed an agreement in principle regarding possible corporate cooperation of a non-exclusive nature for certain business areas in the generation of electricity from renewable and conventional energy sources and the supply of gas (Corporate Cooperation). -----

(B) The coming into effect of the agreement in principle is subject to the acquisition by IPIC of a 2% shareholding in EDP. -----

(C) IPIC has announced that it now owns a shareholding representing 2% of the share capital of EDP in a statement to the market on 9 April 2008. -----

(D) Point Six of the agenda of this General Meeting expressly provides for a decision on the election of the members of EDP's General Supervisory Board and the current General Supervisory Board includes members indicated by shareholders with qualifying shareholdings, among others. -----

The shareholders Parpública – Participações Públicas, SGPS, S.A., Caja de Ahorros de Asturias, S.L., Caixa Geral de Depósitos, S.A., José de Mello Energia, SGPS, S.A., Fundação Millennium BCP and Banco Espírito Santo, S.A., move the following: -----

The election of Khalifa Al Romaiti as a member of the General Supervisory Board until the end of the current 2006/2008 term of office. -----

Rui Pena said that, although he had accepted the aforementioned motion, the decision taken on this point regarding the motion, was subject to annulment, as it had been submitted to the officers of the General Meeting only that day and had not been available for viewing for the time required by law. -----

As no-one wished to take the floor, the Chairman put Point Six of the agenda to the vote and all the motions in it for the election of members of the General Supervisory Board were approved by a majority of votes cast (with 3.9104% votes against and 9.1732% abstentions). -----

--- The Chairman then read Point Seven of the agenda – *"Amendment of Article 4.4 and addition of a paragraph 4.3 and consequent renumbering of the other paragraphs in this article. amendment of current Article 14.1 and 14.6 and addition of new paragraphs 14.7 and 14.8 and consequent renumbering of the other paragraphs in this article. amendment of current Article 21.1, 21.3a and 21.5 and addition of new paragraphs 21.5 and 21.6 and consequent renumbering of the other paragraphs in this article. and addition of three new paragraphs to Article 24 and consequent renumbering of the current single paragraph to paragraph 24.1 with the new paragraphs being added as 24.2 to 24.4. –*, which is a motion tabled by the shareholders Parpública – Participações Públicas (SGPS), S.A., José de Mello – Sociedade Gestora de Participações Sociais, S.A. and Banco Espírito Santo, S.A. and asked the shareholders present if the reading of the motion, which has been attached to these minutes, could be waived, as it was quite long and everyone was already familiar with it. The reading was waived and the Chairman informed the General Meeting that, under this item on the agenda, the shareholders Parpública – Participações Públicas (SGPS), S.A. and Caixa Geral de Depósitos, S.A. has submitted a new motion with a view to clarifying the amendments to the Articles of Association in the first motion submitted, and so, although he had decided to accept it, due to its importance, it might be annulled as it had only been submitted to the officers of the General Meeting that same day and had not been available for viewing for the time required by law. Rui Pena then read said motion, as follows: -----

"Whereas: -----

(A) The motion to amend the Articles of Association submitted under Point 7 of the agenda of this General Meeting includes the amendment of Article 4.4 of EDP's Articles of Association, with a view to clarifying the criteria for determining each category of shares. -----

(B) The clarification involves adjusting Article 4.2 of the Articles of Association so that the number of shares in each share category is in accordance with the new Article 4.4. -----

(C) Under Article 377.8 of the Company Code, the amendments to Article 4.2 of the Articles of Association constitute an amendment requiring the approval of the clarification of Article 4.4 of the Articles of Association. -----

We move that the shareholders decide on the following: -----

If the amendment to Article 4.4 of EDP's Articles of Association is approved then, under Article 377.8 of the Company Code, the amendment to Article 4.2 of the Articles of Association should also be approved and read as follows: The share capital is represented by 3,656,537,715 shares, 2,936,222,980 of which are category A shares, which are ordinary shares, and 720 314 735 are B shares, with a face value of EUR 1 each." -----

The Chairman put the two motions in Point Seven to separate votes. The results were as follows: -----

--- The motion initially submitted under Point Seven was approved by a majority of more than two thirds of the votes cast (with 4.6838% votes against and 0.0102% abstentions). -----

--- The motion submitted by the shareholders Parpública – Participações Públicas (SGPS), S.A. and Caixa Geral de Depósitos, S.A. subject to the previous motion put to the vote and approved, which had meanwhile been corrected as there was an error in the date of this General Meeting, was approved by a majority of more than two thirds of the votes cast (with 4.0861% votes against and 0.8511% abstentions). -----

After the voting, the Chairman and the Company Secretary confirmed that, as there was a qualified majority of two thirds of the votes cast, the amendments to the Articles of Association in Point Seven had been duly approved. -----

(...)

--- As there was no other business, the meeting was adjourned at seven forty-five p.m. and these minutes were drafted and signed by the Chairman and the Company Secretary. -----

Lisbon, 10.04.08

The Company Secretary
Maria Teresa Isabel Pereira



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