edp renewables

ENERGY THAT MAKES A DIFFERENCE

MANAGEMENT REPORT **2014**

ABOUT THIS REPORT

MESSAGE FROM THE CHAIRMAN

Dear Stakeholders,

In 2014, EDP Renováveis once again performed above the market and made steps toward fulfilling its vision of growing into a leading global renewable energy company in terms of value creation, innovation and sustainability. Six years after the company's IPO, EDPR reached 9.0 GW of renewable energy capacity, and produced 19.8 TWh in the year. The company is now present in 12 countries across Europe and the Americas.

The green energy delivered in 2014 by EDPR corresponds to nearly 50% of the total electricity consumption of the country of Portugal, which is nearly triple the company's energy sales in 2008 and demonstrates EDPR's ability to deliver growth on a global scale. The strategic roadmap of focused growth in renewable energy pursued by EDPR and its shareholders puts us a step ahead of the industry and continues to prove successful.

I remain certain that our company is playing on the right side of the energy sector, despite a recent regulatory environment with some unexpected setbacks culminating in significant cuts to regulated revenue as well as tax increases. Wind onshore is the most competitive source of energy, with the only exception of large hydro in some cases. It is clearly a preferable technology today to conventional thermal generation on a new-build basis. Even at presently low fuel prices, yet historically very volatile, wind farms with strong load factors are still competitive. Moreover, turbine costs and financing costs are improving in favour of wind energy.

In 2014 we saw EU leaders agreeing on targets for 2030 to reduce greenhouse gas emissions by at least 40% compared to 1990 and to increase the share of renewable energy to at least 27%. Wind energy will play a key role toward these ambitious targets and our company will be, once again, a front-runner in the EU market. At the same time, the US will be key in EDPR development. Growth prospects are solid and magnified by comprehensive environmental legislation limiting different types of pollution, creating demand for the addition of new competitive and sustainable solutions, with wind energy as one of the leading alternatives. Later in 2015, Paris will host the UN Climate Change conference where relevant agreements on climate are expected from all the nations around the world.

ANTÓNIO MEXIA
Chairman of the
Board of Directors

Last year, we updated the strategic plan set in 2012, while providing new targets for 2017. As you may know, our business plan continues to be based on three strategic references that guide our actions: 1) selective growth; 2) increased profitability; and 3) a self-funding model. Our business rebalancing towards the US market is paramount to our new strategic approach, which entails taking advantage of the outstanding market positioning that has allowed our company to seize windows of opportunities for growth at attractive returns and with controlled risks, supported by more than 1.2 GW of long-term PPAs signed since early 2013. This was possible due to the U.S. administration tax credit extension to support renewable energy, but most of all due to the high quality of our pipeline, one that was well-matched by our development teams and well-marketed by our highly skilled origination teams, having made EDPR a front-runner in closing PPAs in the U.S. market over the last two years.

Two other key achievements in 2014 are especially worth highlighting: the entry into the Mexican wind energy market through the signing of a PPA for 180 MW to be built in 2016, and the award in France of 1 GW offshore wind capacity to a consortium participated by EDPR, for construction the end of the decade.

Another key strategic pillar that EDPR and EDP both share concerns securing a controlled risk environment and maintaining access to competitive funding. The company is committed to a self-funding model for its investment plan of € 2.5 billion for 2014-17, of which € 700 million will be covered by asset rotation proceeds. More than 60% of this target is already completed and closed at competitive multiples, highlighting the success of the program. On top of this we are also advancing in the execution of the ongoing strategic partnership established between EDP and CTG, with minority sales involving EDPR stakes in Portugal and Brazil, including two MoU for completion expected in the year of 2015.

EDPR is a solid company with an adequate strategic approach in a sector with an auspicious future, yet full of challenges. The company is still set to achieve relevant growth targets toward 2017, aiming at annualised growth rates of 9% in green electricity generation, 9% in EBITDA and 11% in Net Profit while adding over 2.0 GW of capacity from 2013.

In 2014, EBITDA was 903M€ and Net Income was 126M€, -2% and -7% below the prior year, respectively. The results were impacted by the recent regulatory changes in Spain and amplified by exceptional low pool prices in the first months of the year. Despite those challenges, EDPR's results demonstrate great resilience, thanks to the company's rebalanced growth strategy and superior operating achievements.

The company has a dividend pay-out ranging between 25% and 35% of annual Net Profit, that contributes to leveraging our shareholders' returns. Hence, the proposal to be presented at the General Shareholders Meeting of €0.04 per share, within the policy defined.

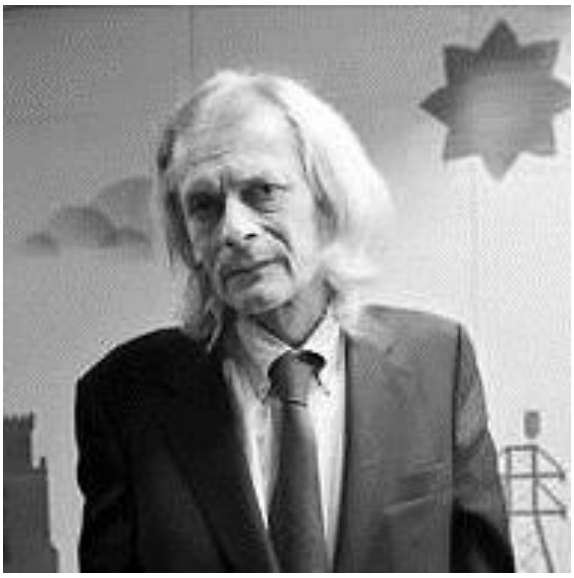
Evidence of this leverage of our shareholders' returns is the increase of +40% in the share price of EDPR during 2014, significantly outperforming the PSI20 (loosing -27%) and the DJ SX6E (gaining +12%).

Our mission of clean and carbon-free energy generation is evidently of great meaning to our leadership role in sustainability, together with our values of support to society and respect for biodiversity. We reinforce our commitment to the United Nations Global Compact initiative to align our business with its principles in the areas of human rights, labour standards, the environment and the fight against corruption. EDPR this year once again helped its primary shareholder (EDP) achieve a world leadership position in the Utilities Sector in the Dow Jones Sustainability Index.

We are proud of everything we have achieved thus far as a company that currently has a staff of more than 900 people worldwide. The stakes are high yet we maintain a vivid enthusiasm to continue progressing, pursuing greater achievements and attaining better results well into the future. I would like to take this opportunity to thank my colleagues on the Board of Directors for their support and, most of all, to express my gratitude for the strong dedication and great work of our employees who I truly consider the stars of our success story at EDPR. The future will continue to hold great challenges for our sector. However, being the great company we are, I am confident we will successfully identify and seize opportunities for improvement and growth.

Sincerely,

INTERVIEW WITH THE CEO



João Manso Neto

VICE-CHAIRMAN OF THE BOARD OF DIRECTORS
and CHIEF EXECUTIVE OFFICER

Q1 In review, what were EDPR's most important accomplishments in 2014?

A1: EDPR made some significant accomplishments in 2014 that had an immediate impact, and, in my opinion, we have also achieved some great things that stand to have positive impact for years to come.

The 40% share price increase in 2014, following the clarification of Spanish regulation, makes a clear statement on the consistency of our strategy and our ability to deliver on our business plan.

We have again achieved record high levels of efficiency not only in technical availability, which was above our target of 97.5%, but also in load factor, this year again at 30%, and in controlling costs, with OpEx/MW decreasing by -8% compared to the prior year. In terms of growth we have added nearly 0.5 GW of new capacity, with the U.S. as a core market making up 329 MW of that.

Perhaps more importantly, we have created visibility for our growth in the future by signing PPAs and winning public tenders. Since 2013, EDPR has signed PPAs and won tenders for future onshore wind farms through 2017, including 1.255 MW in the U.S., 290 MW in Europe, 236 MW in Brazil and 180 MW in a new market that EDPR just entered in 2014 – Mexico. Furthermore, EDPR was a front-runner in the U.S. market closing PPAs over the last two years, with a total of 1.5 GW, including not only future projects, but also projects already in operation.

Our entrance into the Mexican energy market is another highlight of the year. It represents a sizeable entrance into a low risk and attractive emerging market and is a great strategic fit for our company. Another important accomplishment was the award of 1 GW offshore wind, via a competitive bid, to a consortium that includes EDPR in France. This project enlarges and further diversifies our company's long-term profitable growth options with an innovative technology that combines well with wind onshore where we have distinctive capabilities.

Q2: How was EDPR's financial performance for the year?

A2: In terms of profitability, the results obtained by our company over the financial year showed great resilience in a harsh environment, particularly in some of our markets in Europe. EBITDA of €903 million, declined year-on-year by only -2% (€17 million), despite the negative performance of -25% (€75 million) seen in Spain. This can be mostly explained by the well-known regulatory changes in this market, but results were also extraordinarily aggravated by a lower pool price than would be expected under normal conditions. During the first months of the year, when wind energy output was at the highest and hydro output was also very high, wholesale prices dropped significantly. That came ahead of the announcement of the new regulation and did not allow for the implementation of suitable hedging. Forward hedging is now in place since 2Q14 and in 2015 our exposure to wholesale prices is limited.

Following our self-funding model, we have generated enough cash for our needs, delivering solid operating cash-flow of €707 million, which increased year-on-year by +4%. Total cash net investments during the year amounted to €538 million, but were practically covered by proceeds from tax equity or other project finances, as well as our asset rotation program. In 2014 we closed more than €400 million in asset rotation transactions. With those transactions alone, more than 60% of our target for the 2014-17 period has already been met and has closed at competitive multiples.

Net income of €126 million was just €9 million lower than the prior year, with EBITDA performance and the bottom line also mitigated by some positive one-offs, in particular the decrease in deferred taxes following the announced income tax rate reduction in Spain.

Notwithstanding the results as on the books, the evolution in the company's market valuation as reflected in EDPR's share price increase of 40% in 2014, significantly outperforms the DJ Eurostoxx Utilities SX6E (+12%) and NYSE Euronext Lisbon PSI20 (-27%). In fact, EDPR was named the best performing stock in the NYSE Euronext Lisbon, among companies with over €1 billion market capitalization. I think this outstanding performance, following the clarification of Spanish regulation, makes a very clear statement on the market outlook for the consistency of our strategy and our ability to deliver the business plan we presented last May.

Q3 Sustainability is at the top of the strategic agenda for most corporations in this day and age. What is EDPR's take?

A3: Sustainability is at the basis of EDPR's existence. Our company has long had the vision to be a global renewable energy company that is a leader in value creation, innovation and sustainability. In fact we took this approach before many others in the industry anticipated and began to respond to the global macro trends that have been moving us toward abundant, clean and affordable energy. Those trends have made renewable energy a success story worldwide that accounts for an increasing share of total production. It is naturally related to the clear benefits to the environment and to society, but also related to the proven economic competitiveness of renewable energy, and wind onshore in particular.

It's not only about what we do as a business, It's also about how we do it: our attention to local communities, respect for biodiversity, and controlled risk approach.

At EDPR, as one of the first movers in wind energy, we built significant capacity early on and since then have maintained a top position in the world ranking of wind energy production players. This leadership position on the "right side of the energy sector", and the knowledge and reputation we have accumulated over time in our business has been EDPR's central competitive strength in expanding our growth and profitability.

Q4 What steps has EDPR taken to become a leader in Sustainability?

A4: For us is not only about what we do as a business, it is also about how. This is reflected, for example, in our controlled risk financial approach, our respect for biodiversity and mitigating potential impacts, and in our attention to local communities. I'd like to make special mention of the work of Fundación EDP, which also represents EDP Group's other subsidiaries in Spain. With its mission of social responsibility it has developed several initiatives in support of communities in different areas including culture, education and environmental research.

At EDPR, we are publicly committed to the 10 principles of the UN Global Compact in the areas of human rights, labour standards, environment and anti-corruption. I can highlight a few of our initiatives over the past year that demonstrate our commitment to these principles. First, we completed the OHSAS 18001 certification for nearly all our facilities, ensuring appropriate working conditions and practices in order to meet our zero accidents objective. It was an important step that shows our commitment to the health and safety of our employees and contractors. In the environmental area we reached another important milestone by completing the implementation of our environmental management system in the U.S. and reaching almost all of our sites with ISO 14001 certification, holding strict environmental practices that meet internal targets, not just legal requirements. In terms of governance, we formalized our anti-corruption policy regarding the adoption of best business practices and ethical principles, further emphasizing transparency and accountability of our governance model.

We are proud to be recognized for our excellence in the area of sustainability with our presence in the FTSE4Good index and, more significantly, by the increased interest of SRI (sustainable and responsible investment) funds in our company.

Last year we defined 10 sustainability targets through 2017, in line with our business plan, that not only follow our culture of continuous improvement but also reinforce sustainability to remain a central part of EDPR's future.

Q5 What is your outlook on the energy business and regulatory environments?

A5: Clearly the global macro trends in favour of renewable energy will remain globally strong. There will be a strong need for an abundant, clean and affordable energy. Wind onshore in particular is not just environmentally friendly, it is competitive with all other alternative technologies, even at the current fuel prices.

In Europe, the focus is certainly moving from decarbonisation, evident in the 20-20-20 targets and 2030 targets, toward affordability. However, the short-term outlook in Europe faces some challenges due to a big misperception about the true cost/benefit of renewable energy, created in the context of a worldwide recession that triggered a focus on their remuneration schemes. They intended to show that these schemes had excessive costs, but they were grounded in incorrect analyses, putting into question the existing regulation to support new growth. The truth is that on a levelized cost of energy basis, with the exception of large hydro in some cases, no other technology is as competitive as wind onshore. Security of supply concern will put more emphasis on a greater reliance on endogenous sources of energy, following the crisis between Ukraine and Russia. Therefore Europe will still see dynamic growth over the coming years, with activity to take up as existing oversupply is absorbed by catching demand.

> Wind onshore is not just environmentally friendly, it is competitive with all alternative technologies, even at current fuel prices.

Prospects in the Americas are brighter at this moment, driven by a significantly stronger wind resource driving even greater competitiveness of wind energy vis-à-vis other technologies. This is valid considering the availability of shale gas, and at currently low prices.

The growth in the U.S. is also motivated by the need to meet environmentally driven target renewable portfolio standards (RPS). Many states, especially in the Western and Eastern regions, have increasing binding targets up to 2020 and thereafter. The U.S. administration has recently unveiled a plan to reduce carbon emissions from power generation plants. That implies a greater reliance on renewable energy sources, to make up 1/4 of the planned reduction by 2030.

Moving south, Brazil and Mexico are reinforcing their regulatory support, mostly through organised tenders and favourable preferable financing conditions. Those are the most promising wind centres in Latin America, having very strong wind resources, and high growth in electricity consumption and an increasing concern over the diversification from excessive dependence on hydro and the associated potential power shortages or peak prices from droughts.

Q6 How do you see the market design evolving going forward?

A6: The industry will see increasing importance of auction-based structures (tenders, PPAs). This system is already well developed in the Americas, and now we are observing a switch in Europe, which in my view is a very welcome market design, since auctions provide long-term visibility with low risk for investors and, at the end, lower prices to electricity consumers. The wind energy industry does not need subsidies but stability, for example from market-based arrangements of competition ex-ante competition.

> Wind energy does not need subsidies but stability, for example from market-based arrangements of ex-ante competition.

The U.S. has efficient regulatory support, albeit visibility over the long-term extension of the incentives in place, PTC mostly, is limited. It would be valuable to have at least a medium-term view on these deals, even if including a progressive phasing out, as it would allow for improved planning and better value for consumers. The situation as it is creates a volatile growth market as off-takers typically take the years when PTCs are available to sign new agreements.

The importance of the PTC for value creation is lower today than some years ago due to the improvement in wind energy competitiveness. Today a new wind farm in the Central region of the U.S. with the best load factors to achieve our required returns, can offer a utility a PPA price for 20-year competitive with the cost one can expect from any other new-build.

Q7 What are the implications of this context on growth prospects?

A7: Our business plan aims to maintain capacity growth at a rate of 500 MW annually through 2017, focused on high quality projects, mostly through long-term energy sale agreements already granted, lowering our exposure to wholesale prices and regulatory schemes. Taking advantage of our diversified worldwide presence and extensive portfolio of projects that allow us to pick the most

interesting markets at each time, future growth is projected to be located 60% in U.S., 20% in Europe and the remaining 20% in emerging wind markets.

The business plan is to grow > 500 MW per year in high quality projects under long-term energy sales: 60% in U.S., 20% Europe and 20% in emerging wind markets.

In the U.S., since the one-year extension of PTCs in early 2013, we have signed PPAs for 1,255 MW of capacity putting us in clear reach of our growth target in this market, of which 300 MW were already added in 2014. We now have several projects to add in the U.S. during 2015, 2016 and 2017.

In Europe, we have set a target of 20% of the overall additions through 2017. Additions will mostly come in France, Italy and Poland. However in the long term energy demand will certainly recover and EU 2030 targets already indicate renewable energy will be again on the rise. Therefore we may seem to be dormant but in fact we are active, maintaining the ongoing optimization of our pipeline up to a ready-to-build stage to originate new projects, whenever we find opportunities under regulatory arrangements favourable to our profitable and sustainable growth. We will most likely participate in future public tenders that are expected in several countries where we are already present.

Last but not least, in Brazil, a market with strong fundamentals, the action plan is to prepare new projects to participate in the forthcoming PPA auction; and logically we are already on the path to complete the 237 MW awarded through PPAs back in 2011 and 2013. Mexico is another promising market with very strong potential that can fit in our global diversification growth plan while maintaining a low risk approach. We will be building our first project by 2016 with 180-200 MW awarded with a 25-year contract. We will continue to actively prospect further opportunities in these countries or in other emerging markets with these same strong fundamentals.

But again, our diversified worldwide presence and extensive portfolio of high quality projects will enable us to select the optimal mix of investments at each moment.

Q8 What about new technologies?

A8: Regarding technologies other than wind onshore, we have already somewhat diversified into solar photovoltaic (PV), but such investments are something more to be judged on a case-by-case opportunistic approach like the case of the 30 MW addition this year in U.S. (California). Yet with the expectable further reduction in the levelized cost of energy of this technology, we are reviewing options to reinforce in this area.

In offshore wind we are making investments in solid projects, with very strong partners such as Repsol in the UK and more recently GDF Suez and Neoen in France. The technology is not yet mature, there is a large scope for cost reduction and we believe we can leverage our core competencies in wind onshore. Wind offshore in clearly a very promising energy source and will be part of the European renewable energy growth particularly in markets where onshore development is limited.

Q9 Is the company going to maintain its low risk profile?

A9: Yes, absolutely. A low risk profile is in our genetic material, and naturally it is one of the key pillars our strategy since we consider essential to maintain a competitive cost of capital. This culture of controlled risk is observed in our strict risk management practices, reflected most noticeably in our hedging from any material exposure to wholesale market prices, either through regulation or via bilateral PPAs. Only about 10% of our generation is exposed to market spot prices, a level considered adequate for a low risk profile.

It is also reflected in our management of financial debt, with 86% at fixed cost and maturing in three years or later -, in our hedging of foreign exchange risk, and just to highlight a few of our risk management principles.

We will continue to follow a rigorous financial policy, only assuming financial commitments when we have the means secured to do so. This is particular relevant in our business particularly capital intensive and moreover observing our current investment plan amounting to €2.5 billion over the four years started in 2014.

Q10 How does EDPR plan to finance such large investment plan?

Q10: As you may know, we have committed ourselves to what we call a self-funding model, in which we limit the financing of our investment plan exclusively to our internal free cash flow from operating assets as well as the sale of

Always a key concern is to deliver the planned growth, on time and on budget, and we have a strong track record in doing just that, which we intend to maintain

minority stakes in our projects. Bringing forward the cash flow from our assets allows us to increase our value and growth through its reinvestment while still preserving a balance sheet discipline that maintains the company under a low risk and cost competitive financing environment. Our business plan embraces the goal of raising €700 million from such asset rotation proceeds that complement an amount of €1.8 billion of operating cash flow to finance our total €2.5 billion investment plan. With 2014 transactions alone, over 60% of this target has already been completed, through three deals involving assets located in different countries with different pension funds and infrastructure funds as counterparties. Also worth mentioning here is another agreement closed under EDP's strategic partnership with China Three Gorges at the end of 2014, this time for the 49% sale of our operating and under development capacity in Brazil. This follows the first transaction in Portugal which included assets where EDPR was majority shareholder, as well as a Memorandum of Understanding for the sale of a minority stake to be executed subsequent to the splitting of assets at the ENEOP consortium that will take place in 2015.

Our business plan embraces the goal of raising €700 million from asset rotation proceeds that will help finance our €2.5 billion investment plan.

It is also clear that our company will keep finding external financing sources such as equity partnerships, typical in the U.S., or the project financing most common in Brazil and in Europe, namely in Poland. We have been successful in raising funds over the last several years, and again in 2014, we raised a total of €366 million.

Most importantly, the primary source of funds will still be the operating cash flow generated from the existing assets, expected to amount to €3.5 billion in 2014-17 period, which will remain to a significant extent available to fund the new investments.

Q11 What else can still be done to increase profitability?

A11: We have set a target for ourselves to increase EBITDA and Net Profit respectively by 9% and 11% annually on average from 2013 over the next four years. To do that, we will invest in projects with higher load factor, which will generate stronger output than our assets in operation, and we will deliver increased operational efficiency. These objectives will allow for an increase in electricity output of 9% and cut OpEx/MW by -2% on average per year from last year up to 2017.

It is always a key concern to deliver the planned growth both on time and on budget, and we have a strong track record in doing just that, which we intend to maintain.

On the operations side, we will make continuous improvements in availability levels as well as small but important boosts in load factors thanks to productivity enhancements that we are implementing in turbines already in operation. We will also reduce costs through the dissemination of best practices and leaner approaches, as well as through the internalization of value adding activities in maintenance.

Q12 Finally, as the CEO of EDPR, what are your feelings toward the company?

Q12: It has been a great privilege to be CEO for the last three years leading a team of what I frankly feel to be an outstanding group of people - over 900 now – contributing their great work to our mission as a corporation, and doing this with dedication above expectations and great enthusiasm. It makes my job a lot easier to be in such good company of competent professionals and adaptable individuals. In its essence, a company is its people, and it is a great competitive advantage for us to have here a great team of very experienced experts, who are in fact the pioneers of the wind industry, working together with very qualified younger professionals whom we have brought on board along the way. Our business has been shaken by numerous challenges, and I am personally grateful for the adaptability, both functional and geographical, demonstrated by many of our employees.

I am also thankful to the support to our shareholders, always providing a solid backing to our strategy and stimulating myself and my colleagues at the Executive team to accomplish our mission in the company even better and better.

In its essence, a company is its people. Our business has been shaken by numerous challenges and I am personally grateful for the adaptability of our employees.

01

THE COMPANY

1.1. THE COMPANY IN BRIEF

1.1.1. VISION, VALUES AND COMMITMENTS

VISION:

A global energy renewable company, leader in value creation, innovation and sustainability

MISSION:

Aim to be a long-term market leader in the renewable energy sector, pursuing credibility through safety, value creation, social responsibility, innovation, and respect for the environment

VALUES:

Initiative
through behaviour and attitude of our people

Trust
of shareholders, employees, customers, suppliers and other stakeholders

Excellence
in the way we perform

Innovation
to create value in our areas of operation

Sustainability
aimed at the quality of life for current and future generations

1.1.2. BUSINESS DESCRIPTION

Our renewable energy business grossly comprises the development, construction and operation of fully controlled wind farms and solar plants to generate and deliver clean electricity.

DEVELOPMENT...

Site identification
Search for sites with top-class wind conditions or irradiance resource and analyse grid connection feasibility

Landowner agreement
Contact local landowners and negotiate leasing agreement

Renewable resource analysis
Install meteorological equipment to collect and study wind profile and solar radiance

...DEVELOPMENT | **CONSTRUCTION...**

Obtain consents and permits
Engage with local public authorities to secure environmental, construction, operating and other licenses

Project evaluation and funding
Evaluate potential operational and financial risks and find appropriate finance to the project

Layout design and equipment choice
Optimize the layout of the farm and select the best fit of equipment model based on the site characteristics

...CONSTRUCTION | **OPERATION...**

Construction
Build access roads, prepare foundations, assemble wind turbines or solar panels,construct substation

Opening ceremony
Celebrate the benefits of renewable energy with local communities, authorities and other stakeholders

Wind and solar plant operation
Complete grid connection and start to generate renewable electricity

...OPERATION

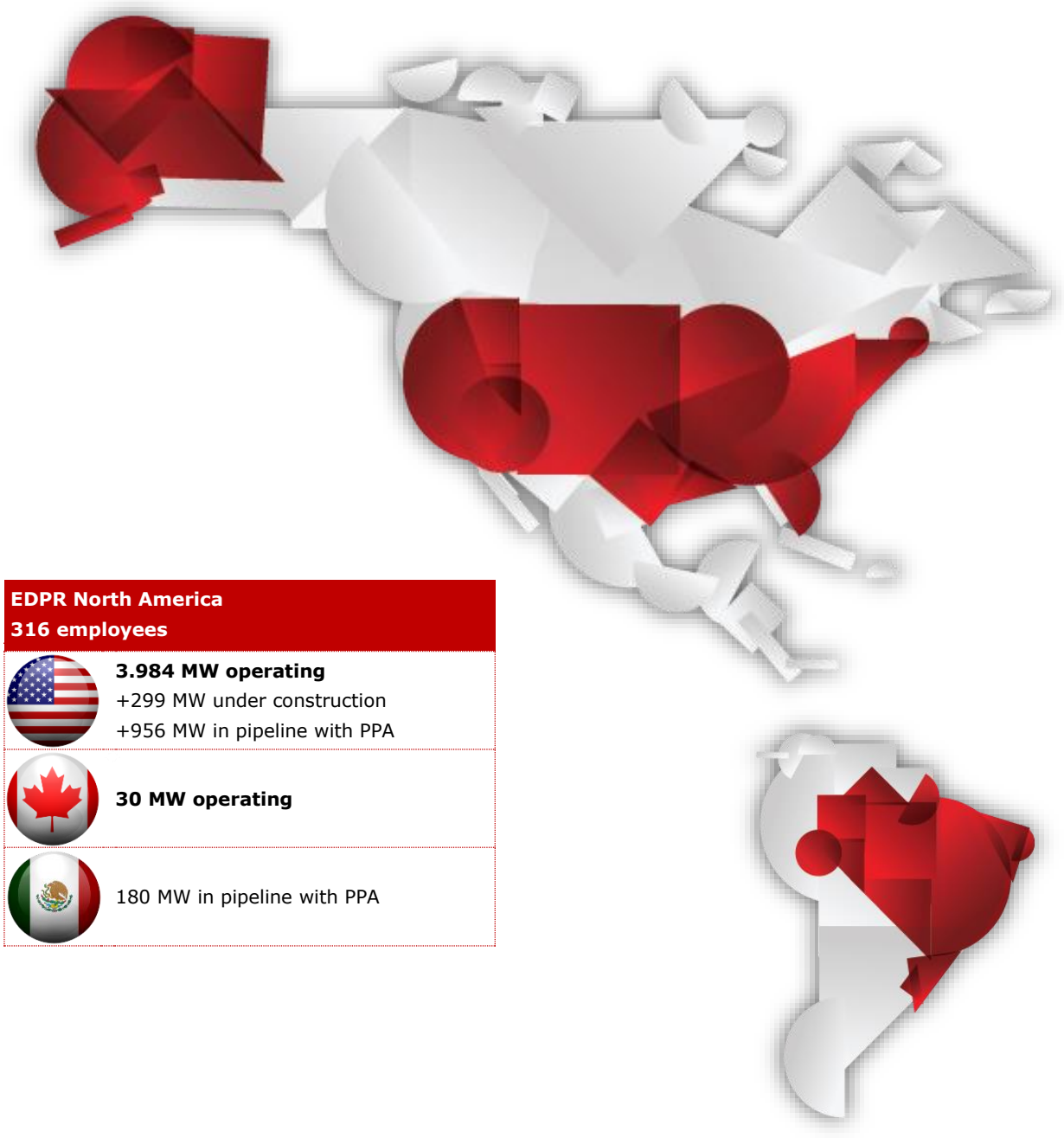
Data analysis
Monitor real-time operational data, analyse performance and identify opportunities for improvement

Ongoing maintenance service
Keep availability figures at the highest level possible and minimise failure rates

Generate and deliver clean energy
A better energy, a better future, a better world!

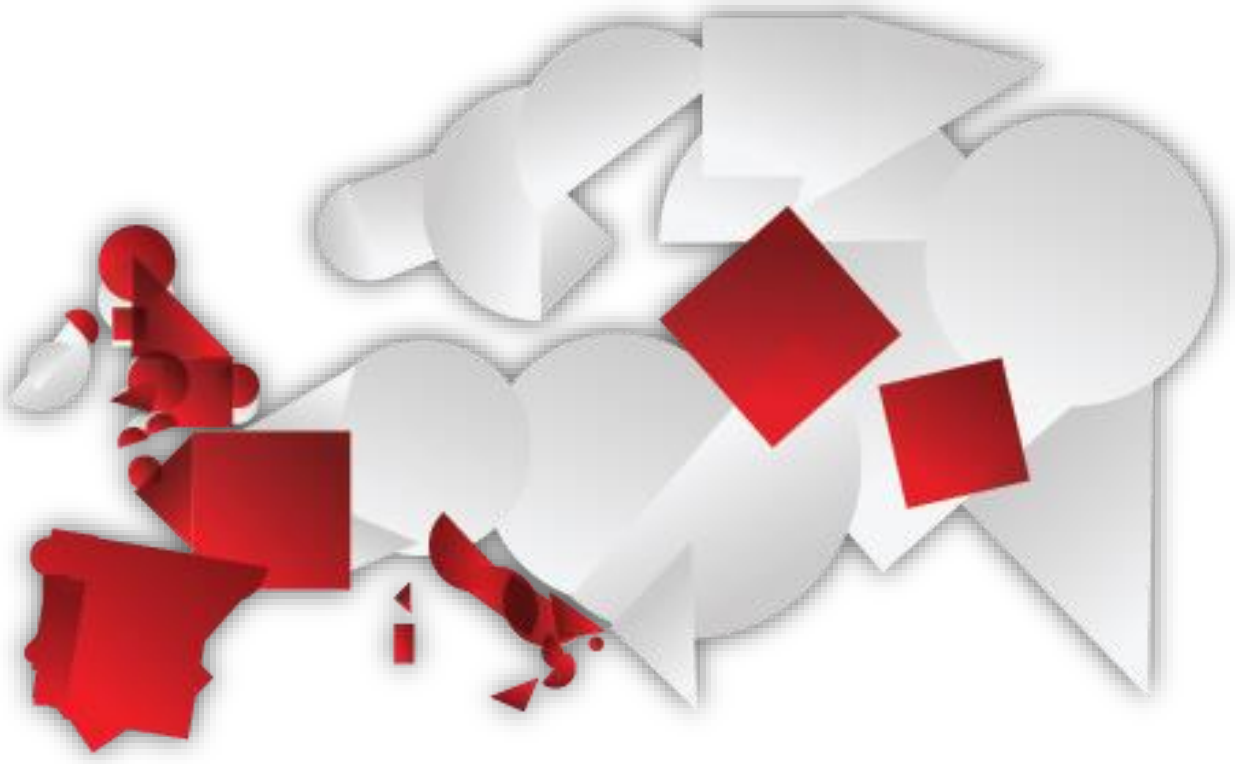
1.1.3. WORLD PRESENCE

EDPR is a world leader in renewable energy, present in 12 countries in Europe and the Americas, managing a global portfolio of 9.0 GW of capacity installed, 443 MW under construction and much more in pipeline development, employing over 900 employees



EDPR North America **316 employees**	
	3.984 MW operating +299 MW under construction +956 MW in pipeline with PPA
	30 MW operating
	180 MW in pipeline with PPA

EDPR Europe 577 employees (includes 143 employees in EDPR Holding)			
2.368 MW operating +2 MW under construction		**1.157 MW operating** +6 MW under construction	
340 MW operating +430 MW of offshore wind in pipeline development with PPA		**71 MW operating**	
392 MW operating +6 MW under construction		**521 MW operating**	
90 MW operating +10 MW under construction		1.4 GW (max) of offshore wind in pipeline under development	



EDPR produced 19.8 TWh of clean energy in 2014, of which 47% in Europe, 52% in North America and 1% in Brazil

EDPR Brazil 26 employees	
84 MW operating +120 MW under construction +116 MW in pipeline with PPA	

1.1.4. STAKEHOLDERS

Involving the stakeholders in our business is a strategic priority, by maintaining an open and transparent dialogue, to build and strengthen trust, share information and knowledge, anticipate challenges and identify cooperation opportunities to create value.

We do so through four major guiding commitments: Comprehend, Communicate, Collaborate and Trust. These commitments underlie a policy that aims to go beyond mere compliance with the formal requirements of the law, thereby contributing to an effective and genuine engagement of our different stakeholders.

COMPREHEND

Include, Identify, Prioritize: We have dynamically and systematically identified the Stakeholders that influence and are influenced by the Company, and we analyse and try to understand their expectations and interests in the decisions that directly impact on them.

COMMUNICATE

Inform, Listen, Respond: We are committed to promoting two-way dialogue with Stakeholders through information and consulting initiatives. We listen, inform and respond to Stakeholders in a consistent, clear, rigorous and transparent manner, with the aim of building strong, durable close relationships.

COLLABORATE

Integrate, Share, Cooperate, Report: We aim to collaborate with Stakeholders to build strategic partnerships that bring together and share knowledge, skills and tools, thereby promoting the creation of shared value in a differentiating manner.

TRUST

Transparency, Integrity, Respect, Ethics: We believe that the promotion of a climate of trust with our Stakeholders is crucial to establishing stable, long-term relationships. Our relationship with stakeholders is based on values like transparency, integrity and mutual respect.

Who are the stakeholders of EDPR? All persons or entities that influence or are influenced by our activities. They are organized in four segments: Democracy, Value Chain, Market and Social and Territorial Context.
In 2014, the company has initiated in Spain its stakeholders management plan consisting of 5 main phases: 1) segmentation, 2) definition of stakeholders managers to follow up on the implementation of improvement initiatives, 3) quantitative analysis through a number of internal and external inquiries, 4) preparation of a conclusions report once the data relative to inquiries have been consolidated, and 5) action plan to be implemented by each of the stakeholder managers and coordinated by a steering committee.

This plan will be replicated in other countries in the future with the goal of obtaining a global vision of the company's relationships with stakeholders across its different locations.

The table below lists the different interested parties, aggregated by described four key segments of stakeholders, interacting with our business in Spain:

Segment	Stakeholder
Market	Financial Entities Investors Competition
Democracy	Energy Commission of Spanish Congress Spanish Euro Congressmen Political parties
Value Chain	Employees Suppliers Land Owners
Social and Territorial Environment	Associations Local Communities Universities City Councils Energy Council or Energy Commissioners Media and Opinion Leaders

EDPR organized a day of festivities in celebration of Global Wind Day at its Rabosera wind farm in Aragon (Spain) and in Leroy, Minnesota (USA)

Initiatives such as the celebration of Global Wind Day are an indication of the commitment to the local communities in the municipalities where EDPR operates

EDPR celebrated Global Wind Day, a worldwide event that occurs annually on June 15, with a day of festivities at the Rabosera wind farm, located between the towns of Luna (Zaragoza) and Gurrea de Gállego (Huesca) in Spain. To celebrate this day, the Rabosera wind farm opened their doors to the public for guided educational tours of the facilities, accompanied by technical personnel, and visits to a wind tunnel. The day also incorporated educational sessions for children and design competitions.

The event was attended by the head of the Energy and Mining Department of the Regional Government of Aragon, Marina Sevilla. She was accompanied by Ramón Tejedor, an advisor from the same department, and the director of the Huesca Local Industry and Innovation Service, Marta Patricia Rodríguez. Also present were a number of local representatives and officials from neighbouring cities. According to Rocío Sicre, Country Manager for EDPR in Spain, "initiatives like this are part of the sustainable philosophy of the company and a clear indication of our commitment to the local communities in the municipalities where we operate".

In the United States, the EDPR team in Leroy, Minnesota, was responsible for organizing events for Wind Day at the Pioneer Prairie and Prairie Star wind farms. In partnership with the LeRoy School, EDPR provided an afternoon of learning about science and engineering with a focus on wind energy. EDPR taught the students about the environmental impacts of renewable energies.

After the students left, it was the turn of congressional advisors, journalists and tax consultants from Iowa and Minnesota, who learned about the O&M (Operations and Maintenance) of wind farms. The trip ended with a reception on site which served as a networking opportunity

1.2. 2014 IN REVIEW

1.2.1. KEY METRICS SUMMARY

INSTALLED CAPACITY
9.0 GW
EBITDA + Net equity

TECHNICAL AVAILABILITY
97.6%
-0.1p.p. vs 2013

GENERATION
19.8 TWh
+3% vs 2013

NEW ADDITIONS
+0.5 GW
EBITDA + Net equity

LOAD FACTOR
30%
-0.2p.p. vs 2013

EMISSIONS AVOIDED
17.0mt CO_2
+4% vs 2013

CASH NET INVESTMENTS
€538m
+€105m capex YoY

NET DEBT
€3.3 billion
+0% vs 2013

12 COUNTRIES
1 new: Mexico

EBITDA
€903m
-2% vs 2013

OPEX/MW
€55k/MW
-8% vs 2013

919 EMPLOYEES
+3% vs 2013

OPERATING CASH-FLOW
€707m
+4% vs 2013

NET PROFIT
€126m
-€9m vs 2013

TRAINNING
83%
43hrs / employee

+471 MW OF CLEAN ENERGY COMMISIONED

In 2014 EDPR completed ten projects in five countries, including its first solar project in the US, located in California, and two more wind farms - Rising Tree North and 200 MW Headwaters

Project name	Country	MW	Technology
Estarreja	Portugal	2	Solar
Headwaters	US	200	Wind
Ilza	Poland	4	Wind
Lone Valley	US	30	Solar
Overpowering	Portugal	2	Wind
Preuseville	France	6	Wind
Radziejow	Poland	18	Wind
Rising Tree North	US	99	Wind
San Giovanni	Italy	20	Wind
Truc de L'Homme	France	12	Wind
EBITDA		393	
ENEOP	Portugal	78	Wind
2014		471	

Old and new wind power at Headwaters

HEADWATERS LOCATION, ENERGY OUTPUT AND ENVIRONMENTAL BENEFITS

Located in Randolph County in the state of Indiana (US), the Headwaters wind farm supplies emission free electricity to Indiana Michigan Power (a subsidiary of American Electric Power), through a long-term power purchase agreement. It employs the latest in turbine technology to generate 200 MW of domestic, renewable electricity enough to power more than 51,000 average Indiana homes with clean energy each year, preventing the annual emission of tons carbon dioxide - a contributor to climate change, nitrogen oxide which causes smog, and sulphur dioxide which causes acid rain. The annual environmental benefits of the 332,000 tons of CO_2 are equivalent to taking approximately 183,000 cars off of the road.

DEVELOPMENT

More than 200 supportive landowners were attracted to participate in long-term lease and easement agreements that cover turbines, access roads and transmission corridors. EDPR also performed wind measures at the site during years to design the best layout for the terrain.

CONSTRUCTION

Construction works started and finished during 2014. The wind farm has a total of 100 turbines, 94.5 meters tall. It is connected to the grid at 345 kilovolt transmission line through a new substation, 10 miles transmission line and interconnection station. The project includes maintaining 80 miles of public roads and more than 35 miles of private access roads to the turbines. More than 250 direct and indirect jobs were created at the peak of construction.

OPERATIONS

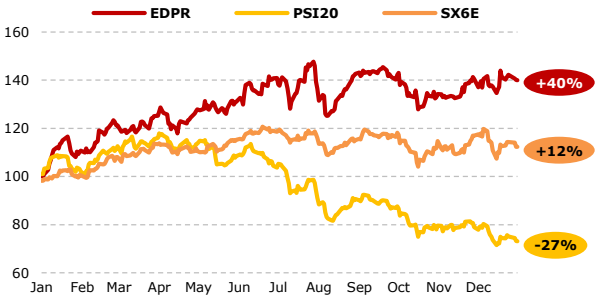
EDPR created 14 full time permanent jobs in the area to help operate the power plant at the highest efficiency standards. The Headwaters wind farm helps provide energy security to the United States by diversifying the electricity generation portfolio, protecting against volatile natural gas spikes and utilizing a renewable, domestic source of energy.

Headwaters wind farm does not impede land use for Indiana farmers

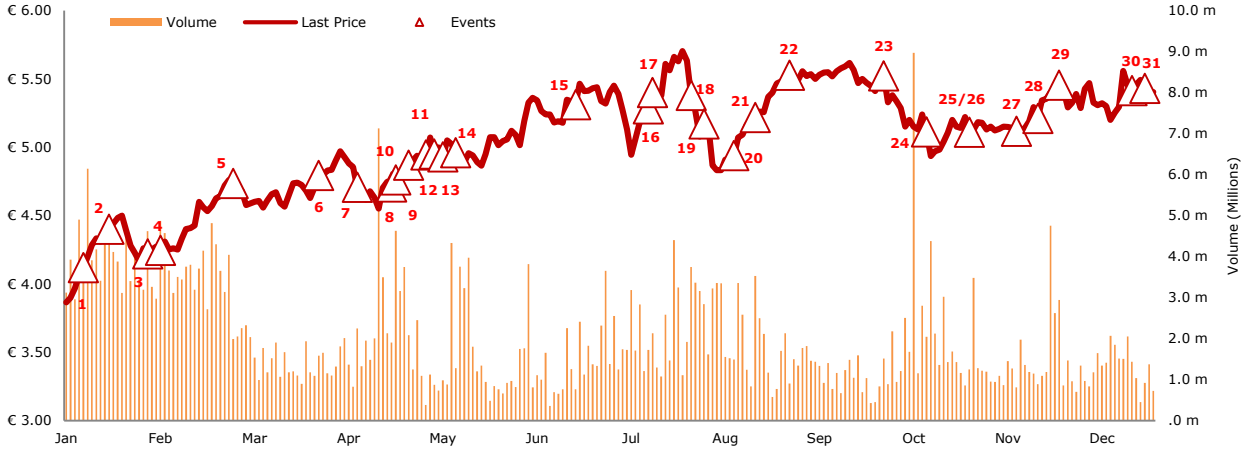
1.2.2. SHARE PERFORMANCE

Share price increased +40% in 2014, significantly outperforming NYSE Euronext Lisbon PSI20 and Dow Jones Eurostoxx Utilities SX6E

EDPR has 872.3 million of shares listed and admitted to trading in NYSE Euronext Lisbon. On December 31st 2014 EDPR had a market capitalization of 4.7 billion euro, +40% above from the 3.4 billion euro at previous year-end, equivalent to € 5.40 per share. In 2014 total shareholder return was 41%, considering the dividend paid on May 8th of € 0.04 per share.



EDPR in Capital Markets	2014	2013	2012	2011	2010
Opening price (€)	3.86	3.99	4.73	4.34	6.63
Minimum price (€)	3.87	3.58	2.31	5.25	3.72
Maximum price (€)	5.70	4.36	4.86	3.89	7.01
Closing price (€)	5.40	3.86	3.99	4.73	4.34
Market capitalization (€ million)	4,714	3,368	3,484	4,124	3,783
Total traded volume: Listed & OTC (million)	396.84	448.15	446.02	463.56	544.52
…of which in NYSE Euronext Lisbon (million)	149.48	200.29	207.49	232.29	311.46
Average daily volume (million)	1.56	1.76	1.74	1.80	2.11
Turnover (€ million)	1,976.41	1,759.20	1,525.56	2,098.58	2,695.41
Average daily turnover (€ million)	7.75	6.90	5.96	8.17	10.45
Rotation of capital (% of total shares)	46%	51%	51%	54%	63%
Rotation of capital (% of floating shares)	205%	229%	228%	239%	279%
Share price performance	+40%	-3%	-16%	+9%	-35%
Total shareholder return	+41%	-2%	-16%	+9%	-35%
PSI 20	-27%	+16%	+3%	-28%	-10%
Down Jones Eurostoxx Utilities	+12%	+9%	-9%	-25%	-15%



1 EDPR secures PPA for new 200 MW wind farm in the US, 8-Jan

2 EDPR executes project finance for its first project in Canada, 16-Jan

3 EDPR discloses 2013 provisional operating data, 29-Jan

4 Spain - published the renewables' standards for consultation, 3-Feb

5 EDPR discloses full year 2013 financial results, 26-Feb

6 EDPR executes project finance for 50 MW in Romania, 26-Mar

7 EDPR holds Annual Sharebolder's Meeeting, 08-Apr

8 EDPR discloses 1Q14 provisional operating data, 22-Apr

9 EDPR secures PPAs for new 150 MW wind farm in the US, 23-Apr

10 EDPR enters the Mexican wind energy market, 28-Apr

11 EDPR ex-dividend date (€0.04 per share), 5-May

12 EDPR consortium is awarded with 1 GW of wind offshore capacity in France, 7-May

13 EDPR discloses 1Q14 financial results, 9-May

14 EDPR presents in EDP Group Investor Day, 14-May

15 Spain fully approves the new remuneration framework for wind energy assets, 23-Jun

16 EDPR discloses 1H14 provisional operating data, 16-Jul

17 EDPR established institutional partnership structure for 200 MW in the US, 17-Jul

18 EDPR discloses 1H14 financial results, 30-Jul

19 EDP Renováveis executes project finance for 70 MW in Poland, 4-Aug

20 EDPR secures new PPA for capacity already in operation in the US, 13-Aug

21 EDPR executes a new asset rotation transaction in the US, 20-Aug

22 EDPR established its first institutional partnership structure for solar PV in the US, 1-Sep

23 EDPR executes a new asset rotation transaction in France, 1-Oct

24 EDPR discloses 9M14 provisional operating data, 15-Oct

25/26 EDPR established institutional partnership for 99 MW in the US & discloses 9M14 results, 29-Oct

27 EDPR was awarded with long term sale agreements for 155 MW in the US, 13-Nov

28 EDPR executes a new asset rotation transaction in Canada, 20-Nov

29 EDPR establishes a MoU with EDP Brasil for the acquisition of a 45% stake in EDPR Brasil, 27-Nov

30 Extension of key energy-related tax incentives applicable to EDPR in the US, 22-Dec

31 EDPR announces the sale of minority stakes in wind farms in Brazil to CTG, 29-Dec

1.3. ORGANIZATION

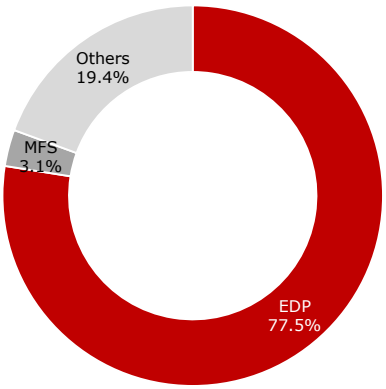
1.3.1. SHAREHOLDERS

EDPR shareholders are spread across 23 countries. EDP ("Energias de Portugal") is the major one holding 77.5% of the share capital since launching the company's IPO in June 2008.

EDPR total share capital is, since its initial public offering (IPO) in June 2008, composed of 872.308.162 shares issued with a nominal value of five euros each, fully paid. All these shares are part of a single class and series and are admitted to trading on the NYSE Euronext Lisbon regulated market.

MAJOR SHAREHOLDER, THE EDP GROUP

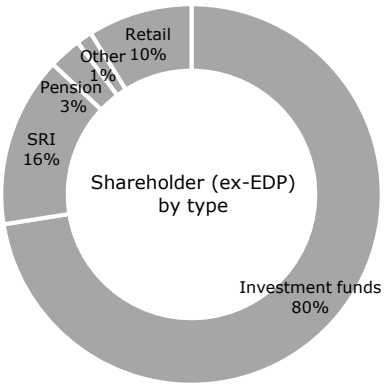
The majority of the company's share capital is owned by EDP Group, holding 77.5% of the share capital and voting rights, since launching the company's IPO in June 2008.



EDP ("Energias de Portugal") Group is a vertically integrated utility company, the largest generator, distributor and supplier of electricity in Portugal, has significant operations in electricity and gas in Spain and is the 4th largest private generation group in Brazil through its stake in Energias do Brasil. In the Iberian Peninsula, EDP is the third largest electricity generation company and one of the largest distributors of gas. EDP has a relevant presence in the world energy outlook, being present in 14 countries, with more than 9.8 million electricity customers and 1.3 million gas supply points and almost 12.000 employees around the world. In 2014, EDP had an installed capacity of 22.5 GW, generating 60.3 TWh, of which 33% come from wind. EDP has been recognised #1 worldwide in the Dow Jones Sustainability Index in the Utilities sector for the year 2013, and again in 2014, following the group performance in the economic, social and environmental dimensions. Its holding company, EDP SA, is a listed company whose ordinary shares are traded in the NYSE Euronext Lisbon since its privatization in 1997.

OTHER QUALIFIED SHAREHOLDERS

Besides the qualified shareholding of EDP Group, MFS Investment Management - an American-based global investment manager formerly known as Massachusetts Financial Services - communicated to CNMV in September 2013 an indirect qualified position, as collective investment institution, of 3.1% in EDPR share capital and voting rights.



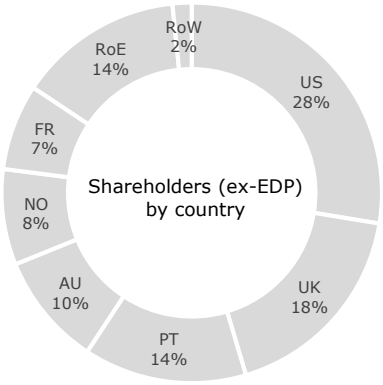
BROAD BASE OF INVESTORS

EDPR has a broad base of international investors. Excluding EDP Group, EDPR shareholders comprise about 81,000 institutional and private investors spread worldwide. Institutional investors represent 90% of EDPR investor base (ex-EDP Group), while the remaining 10% stand private investors, most of whom are resident in Portugal.

Within institutional investors, investment funds are the major type of investor, followed by sustainable and responsible funds (SRI). EDPR is a member of several financial indexes that aggregate top performing companies for sustainability and corporate social responsibility.

WORLDWIDE SHAREHOLDERS

EDPR shareholders are spread across 23 countries, being United States the most representative country, accounting for 28% of EDPR shareholder base (ex-EDP Group), followed by United Kingdom, Portugal, Australia, Norway and France. In Rest of Europe the most representative countries were Netherlands, Switzerland and Andorra.



1.3.2. GOVERNANCE MODEL

Corporate governance is about promoting corporate fairness, transparency and accountability. EDPR's corporate governance structure specifies the shareholders, board of directors, managers and other stakeholders' rights and responsibilities and spells out the rules and procedures for making decisions on corporate affairs. It also incorporates the organization's strategic response to risk management.

The corporate governance model of EDPR, as a listed corporation, is designed to ensure transparency and accountability through a clear separation of duties between management and supervision of the company's activities

The corporate governance structure adopted is the one in effect in Spain. It comprises a General Meeting of Shareholders and a Board of Directors that represents and manages the company. As required by the law and established in the company's articles of association, the Board of Directors has set up four specialized committees. These are the Executive Committee, the Audit and Control Committee, the Nominations and Remunerations Committee and the Committee on Related-Party Transactions. This governance structure and composition was chosen to adapt the company's corporate governance model also to the Portuguese legislation and it seeks, insofar it is compatible with the Spanish law, to correspond to the so-called "Anglo-Saxon" model set forth in the Portuguese Commercial Companies Code, in which the management body is a Board of Directors, and the supervision and control duties are of the responsibility of a separate body, a Supervisory Board. EDPR's model attempts then to establish compatibility between two different systems of company law, through an Audit and Control Committee of independent members, although not exclusively separate from the Board of Directors.

The experience of institutional operation of this adopted governance model has been proving to be appropriate to the organizational development of the company's activities, because it still affords transparency and accountability between the management functions of the Executive Committee, the supervisory functions of the Audit and Control Committee and the specialized oversight by other different Board of Directors committees.

GENERAL MEETING OF SHAREHOLDERS:

- is the body where the shareholders participate;
- has the power to deliberate and adopt decisions, by majority, on matters reserved by the law or the articles of association.

BOARD OF DIRECTORS (BOD):

- shall consist of no less than 5 and no more than 17 Directors, including a Chairperson; their term of office shall be 3 years, and they may be re-elected once or more times for equal periods;
- its Chairperson is appointed by the members of the BOD, unless this is done by the General Meeting of Shareholders; it is the Vice-Chairperson, who is appointed by the BOD on the proposal of the Chairperson, that replaces the Chairperson when he is unable to attend the meetings;
- has the broadest powers for the administration, management and governance of the company, with no limitations other than the responsibilities expressly and exclusively invested in the General Shareholders Meeting, in the company's articles of association or in the applicable law;
- may appoint, among the Directors, one Chief Executive Officers (CEO) or more, with a vote in favour of 2/3 of the Directors, after proposal of the Chairperson or 2/3 of the Directors; the competences of each CEO are those deemed appropriate in each case by the BOD, with the only requirement being that they are delegable under the law and the articles of association;
- may also delegate executive powers to the Vice-Chairperson;
- must meet at least 4 times a year, preferably once a quarter; nonetheless, the Chairperson, on his own initiative or that of 3 Directors, shall convene a meeting whenever he deems fit for the company's interests;
- its decisions are adopted by absolute majority among the Directors present in the meeting, where each Director has one vote and the Chairperson has the casting vote in the event of a tie;

The Chairperson of the BOD fully represents the company, using its name, implementing decisions of the General Meeting of Shareholders, Board of Directors and the Executive Committee. Without prejudice to the powers of the Chairperson under the law and the articles of association, he also has the powers of convening and presiding over the meetings of the BOD, establishing their agenda and directing discussions and decisions; acting as the company's highest representative dealing with public, sectorial or employers' bodies;

The BOD has set up four specialized committees. These are the Executive Committee, the Audit and Control Committee, the Nominations and Remunerations Committee and the Committee on Related-Party Transactions. The members of these committees shall maintain their positions in the respective committees for as long as they are Directors; nonetheless, the BOD may decide to discharge members at any time and the members may resign said positions while still remaining Directors.

Board of Directors

Independent member

António Mexia — Chairman

Joao Manso Neto — Vice-Chairman and CEO

Executive Committee

Rui Teixeira — CFO

Joao Paulo Costeira — COO Europe & Brazil

Gabriel Alonso — COO North America

Nuno Alves

Audit and Control Committee

Joao Marques da Cruz

Jorge Santos — Chairman

Joao de Mello Franco — Chairman

Joao Lopes Raimundo

Related-Party Transactions Committee

Nominations and Remunerations Committee

Manuel Menéndez

José Ferreira Machado — Chairman

António Nogueira Leite

Gilles August

Emílio García-Conde — General Secretary

Acácio Piloto

Rafael Caldeira Valverde

José Araújo e Silva

EXECUTIVE COMMITTEE (EC):

• shall consist of no less than 6 and no more than 9 Directors, including a Chief Executive Officer (CEO);

The CEO coordinates the implementation of the BOD decisions and the Corporate and General Management functions, partially assigning those to the other executive officers, namely: the Chief Financial Officer (CFO), the Chief Operating Officer for Europe and Brazil (COO EU & BR) and the Chief Operating Officer for North America (COO NA).

The CFO proposes and ensures the implementation of the financial policy and management, including financial negotiation, management and control, cash management optimization and financial risk management policy proposal; he also coordinates and prepares the business plan and the budget, manages the financial statements reporting analyses the operational and financial performance, manages the relations with shareholders, potential investors and market analysts to promote the value of the company in the capital markets, and coordinates procurement function and relations with key suppliers while ensuring the implementation of the procurement strategy and policy.

The COO EU & BR and the COO NA coordinate their platforms by developing, establishing and implementing the strategic plan for the renewable energy business in their respective platforms, in accordance with the guidelines set by the BOD; they are also responsible for planning, organizing and managing resources, controlling, measuring and improving the management of projects and subsidiary companies to achieve expected results to make EDPR a leader in the renewable energy sector in their respective platforms.

AUDIT AND CONTROL COMMITTEE:

• shall consist of no fewer than 3 and no more than 5 Directors, including a Chairperson;

• the majority of the members shall be independent;

• is a permanent body and performs supervisory tasks independently from the BOD;

• its members are appointed by the BOD;

• the term of office of its Chairperson is 3 years, after which he may only be re-elected for a new term of 3 years; nonetheless, chairpersons leaving the committee may continue as members.

• its competences are delegated by the BOD and include proposing the appointment of the company's auditors to the BOD for subsequent approval by the General Meeting of Shareholders, supervising the financial reporting and the functioning of the internal risk management and control systems, supervising internal audits and compliance, establish a direct contact with the external auditors, preparing an annual report on its supervisory activities and expressing an opinion on the management's report, the accounts and the proposals presented by the BOD; those responsibilities are all further detailed, among others, in the Corporate Governance section at the end of this report;

• shall meet at least once every quarter and additionally whenever its Chairperson sees fit.

NOMINATIONS AND REMUNERATIONS COMMITTEE:

• shall consist of no less than 3 and no more than 6 Directors, including a Chairperson, who must be independent;

• at least one of its members must be independent; / is constituted by independent members of the BOD;

• its members should not be members of the EC;

• is a permanent body with an advisory nature which recommendations and reports are not binding;

• has no executive functions;

• its main functions are to assist and report to the BOD about appointments, re-elections, dismissals and remunerations of the members of the BOD and their positions, as well as about appointments, dismissals and remunerations of senior management personnel; those responsibilities are all further detailed, among others, in the Corporate Governance section at the end of this report;

• shall also inform the BOD on general remuneration policy and incentives to Directors and senior management;

• shall meet at least once every quarter and additionally whenever its Chairperson sees fit.

RELATED-PARTY TRANSACTIONS COMMITTEE:

• shall consist of no fewer than 3 members, including a Chairperson;

• the majority of its members shall be independent;

• is a body belonging to the BOD;

• performs the duties of ratifying transactions, above certain thresholds defined, between EDPR and EDP or its related parties, qualified shareholders, directors, key employees or his relatives; those responsibilities are all further detailed, among others, in the Corporate Governance section at the end of this report;

• shall meet at least once every quarter and additionally whenever its Chairperson sees fit;

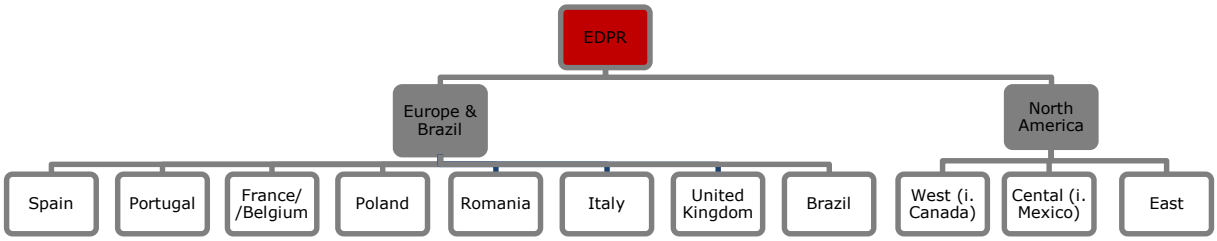
should this committee not ratify any transaction in its duties, said transactions require the approval of 2/3 of the members of the BOD.

For further detailed information regarding the responsibilities and roles of the different social bodies, as well as 2014 activity, please refer to the Corporate Governance section, at the end of this report. The company also posts its up-to-date articles of association and regulations at www.edpr.com.

1.3.3. ORGANIZATION STRUCTURE

The organization structure is designed to accomplish the strategic management of the company but also a transversal operation of all the business units, ensuring alignment with the defined strategy, optimizing support processes and creating synergies.

EDPR organizational structure is divided in 3 key elements: a corporate center at the Holding and 2 platforms - Europe & Brazil and North America. Within EDPR Europe & Brazil platform, there are 8 business units, one for each of the countries where the company operates, namely Spain, Portugal, France/Belgium, Italy, Poland, Romania, UK and finally Brazil. Similarly in the EDPR North America platform, there are 3 business units, that represent the operational regions in the continent: West (includes Canada), Central (includes Mexico) and East.



ORGANIZATIONAL MODEL PRINCIPLES

The model is designed with several principles in mind to ensure optimal efficiency and value creation.

Accountability alignment	Critical KPIs and span of control are aligned at project, country, platform and holding level to ensure accountability tracking and to take advantage of complementarities derived from end-to-end process vision.
Client-service	Corporate areas function as competence support centers and are internal service providers to all business units for all geographical non-specific needs. Business priorities and needs are defined by local businesses and best practices are defined and distributed by corporate units.
Lean organization	Execution of activities at holding level are held only when significant value is derived, coherently with defined EDPR holding role.
Collegial decision-making	Ensures proper counter-balance dynamics to ensure multiple-perspective challenge across functions.
Clear and transparent	Platforms organizational models remain similar to allow for: - Easy coordination, vertically (holding-platforms) and horizontally (across platforms); - Scalability and replicability to ensure efficient integration of future growth.

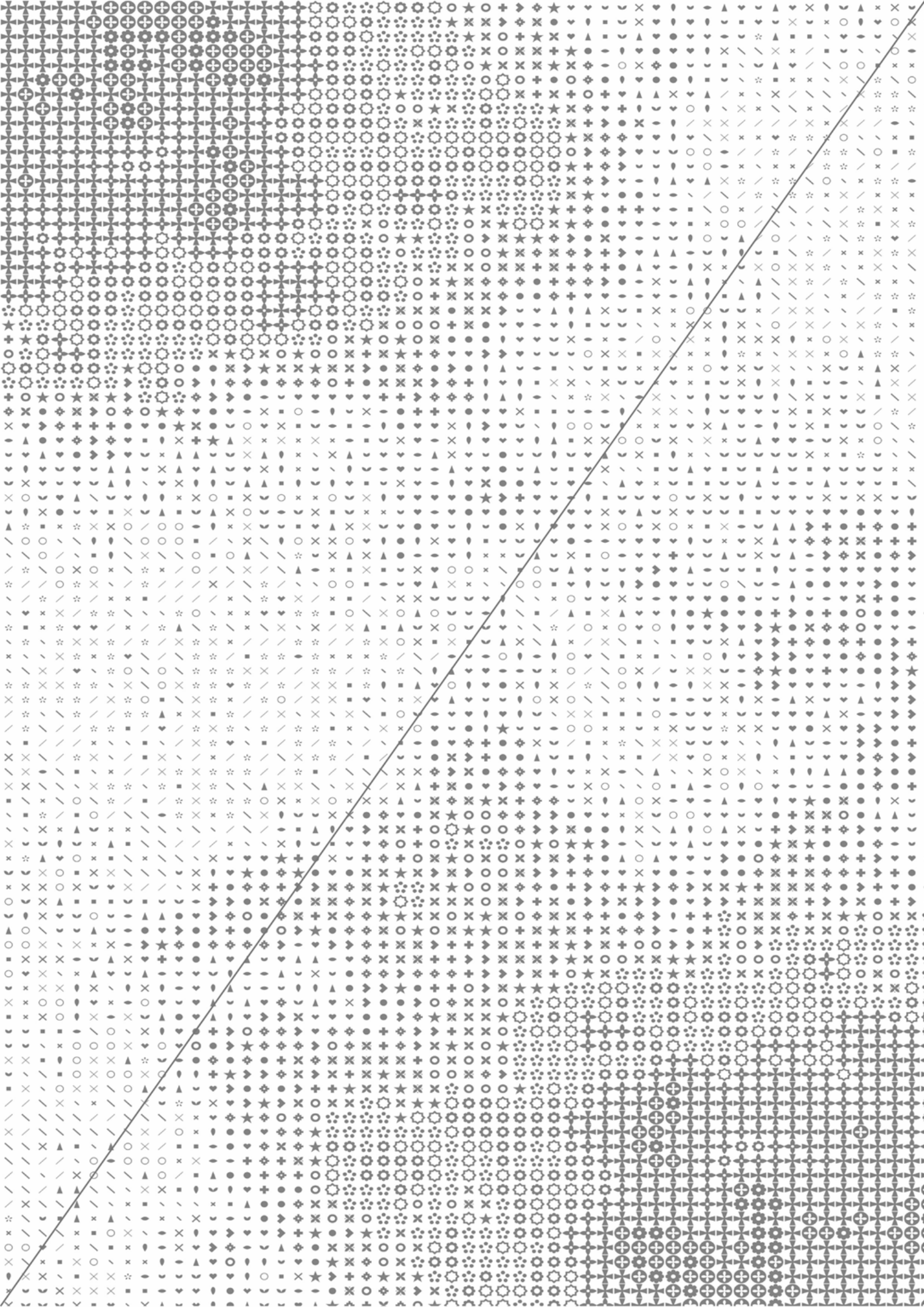
EDPR HOLDING ROLE

EDPR Holding seizes value creation, through the dissemination of best practices in the organization and the standardization of corporate processes to the platforms and the business units to improve efficiency. Its internal coordination model and interface with EDP group impacts both the company's processes - activities performed, processes steps, inputs and outputs, and decision-making mechanisms -, and the company's structure, with an alignment of functions and responsibilities with the processes configuration.

The EDPR Holding structure was designed to accomplish two fundamental roles: **Strategic Management** and **Transversal Operation**.

Strategic Management covers to a) adopt a coordination model within the group, supporting the Executive Committee in the definition and control of the strategy policies and objectives; b) define specific strategic initiatives; c) review the accomplishment of the company's business plan; d) define transversal policies, rules and procedures; e) control key performance indicators.

Transversal Operation deals to i) ensure the alignment of all the platforms with the defined strategy; ii) capture synergies and optimize support processes; and iii) systematically and progressively concentrate supporting activities in shared service business units with the group.



02

STRATEGY

2.1. BUSINESS ENVIRONMENT

2.1.1. RENEWABLE ENERGY BENEFITS

Renewable energy is helping improve energy security, reduce greenhouse-gas emissions and push electricity prices down, it is also triggering high returns for the domestic economies by generating local added value and job creation.

The evolution of renewable energy over the past decade has surpassed all expectations. Global installed capacity from all renewable technologies have increased significantly; costs for most technologies have decreased considerably.

In 2013, renewables accounted for more than 56% of net additions to global power capacity and represented far higher shares of capacity added in several countries. Renewable energy provided an estimated 19% of global final energy consumption in 2013 and continued to grow in 2014.

Markets, manufacturing, and investment expanded further across the developing world, and it became increasingly evident that renewables are no longer dependent upon a small handful of countries. By early 2014, at least 144 countries had renewable energy targets and 138 countries had renewable energy support policies in place.

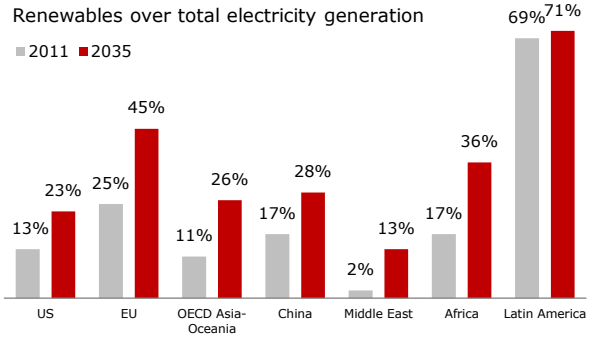
According to the International Renewable Energy Agency (IRENA), the global renewable energy share can reach and exceed 30% by 2030 and the technologies are already available today to achieve this objective and around 40% of the total renewable energy potential in 2030 is in power generation. IEA 2014 Energy Outlook expects the share of renewables in total power generation to rise from 21% in 2012 to 33% in 2040, and to supply nearly half of the growth in global electricity generation. Renewable electricity generation, including hydropower, is expected nearly triple over 2012-2040, overtaking gas as the second-largest source of generation in the next couple of years and surpassing coal as the top source after 2035.

Within renewables, wind onshore is clearly the leader. The most remarkable recent development is that in an increasing number of markets, wind power is the least cost option when adding new generation capacity to the grid, and prices continue to fall. Wind is today one of the biggest, cheapest, and fastest way to reduce emissions of carbon dioxide and other harmful air pollutants, and simultaneously uses no water. There are now commercial wind power installations in more than 90 countries with total installed capacity of close to 370 GW at the end of 2014, providing about 3% of global electricity supply in 2013.

Analysts from Bloomberg New Energy Finance predict that wind will account for the largest share of the 30% of new renewables added to the global power grid by 2030.

The GWEC Moderate scenario envisages wind would meet between 7.2% and 7.8% of global electrical demand in 2020, and between 12.9% and 14.5% in 2030.

Growth in wind installations will lead to a substantial reduction in CO_2 emissions, create jobs for hundreds of thousands of people and contribute to GDP growth. Wind energy also offers major advantages for geopolitical reasons: wind is widely available throughout the world and can help reduce energy and fuel import dependency and improves the security of supply, stabilizing and reducing the cost of power generation over the long term.



IEA New Policies Scenarios (central scenario, takes into account existing policy commitments and assumes that those recently announced are implemented, albeit in a cautious manner)

RENEWABLE ENERGY EFFECT ON THE ENERGY SYSTEM

REDUCTION IN WHOLESALE PRICES

Renewable generation bid their output in wholesale markets at zero cost as wind energy has no marginal cost. As power prices are determined by the intersection of power supply and demand, bids at zero displace more expensive technologies shifting, consequently, the supply curve. For a same level of demand, when wind production is available, the market price goes down (the so-called "merit order effect"). An increasing supply of renewable energy in Europe is pushing down wholesale electricity prices in most markets.

According to EWEA's "Wind energy and electricity prices" report prepared by Pöyry this merit order effect caused by wind results in electricity price reductions of 3 to 23 € per MWh. In Germany, with a share of 27.3%, renewables took first place, replacing lignite for the largest share in energy consumption in 2014. As a result, the wholesale price for power decreased to a record low of €33 per MWh (€38 in 2013). This allowed the German energy market to export to neighbour countries a record 5.6% of energy produced.

IMPROVE ENERGY SECURITY

By investing in renewable energy, countries reduce their energy dependency by enhancing their security of energy supply and minimizing their exposure to potential increases in fuel prices. This happens because wind, solar and hydro technologies use endogenous resources. On the opposite side, fuel resources are scarce and concentrated in some geographies which explains its high and volatile price.

During 2011 Europe spent €406 billion on importing fossil fuels rising to €545 billion in 2012.The EU is highly dependent on fossil-fuel import from Russia, particularly natural gas. Current political conflict between Ukraine and Russia may risk supply and is opening again Europe's energy independence discussions.

According to the European Commission, in 2010 renewables avoided €30 billion in imported fuel costs.

During the same year, the IEA estimates that cost of support for renewable energy in the EU was €26 billion, highlighting that the cost of supporting renewable energy is offset by the avoided costs of importing fossil fuels alone. EWEA states in their "Avoiding fossil fuel costs with wind energy" report that in 2012 wind energy avoided €9.6 billion of fossil fuel costs. Depending on the decarbonisation scenario they assume for the future, they estimate wind energy will avoid between €22 billion and €27 billion of fuel costs annually in 2020. Wind power also provides a valuable hedge against fuel price volatility, protecting both utilities and consumers. Utilities are able to lock in fixed, long-term contracts with wind power, protecting consumers against price spikes by providing a long-term hedge against volatile future prices for fuel. In particular in US, financiers are conscious about the volatility in US gas prices and the likelihood that they will rise.

RENEWABLE ENERGY EFFECT ON THE ENVIRONMENT AND THE ECONOMY

COMBAT CLIMATE CHANGE

The power sector is responsible for more than 40% of all carbon dioxide emissions, and about 25% of our total greenhouse gas emissions. Emissions need to peak and decline in this decade to meet climate change goals.

Despite efforts to the decarbonisation of the energy sector and the various measures announced by governments, the main scenario of the IEA forecasts an increase in emissions by about 20% by 2040. This increase in emissions is consistent with a global temperature increase of 3.6°C in the long run, which is beyond the 2°C limit (internationally accepted to avoid the most severe consequences of climate change).

Promoting a shift from conventional fossil fuels to renewable energy is one of the most effective and feasible near-term ways of mitigating climate change. Wind and solar power's scalability, speed of deployment and falling costs make them the best choice to achieve the emissions reductions. These sources are not only carbon free, but also do not emit harmful SOx, NOx or mercury pollution, protecting valuable air and water resources.

Reducing emissions is also beneficial for the economy. According to IRENA Average health benefits due to the mitigation of air pollution from fossil-fuel use are in the range of USD 2-5 per GJ, while carbon dioxide mitigation benefits are in the range of USD 3-12 per GJ. The total of cost and benefits results in net savings of at least USD 123 billion, and as high as USD 738 billion by 2030.

JOB CREATION

Renewables play an important role in employment creation and growth in the global economy. In 2013, approximately 6.5 million people were already employed in the renewable energy industry worldwide, expanding from 5.7 million in 2012, a new study by the International Renewable Energy Agency (IRENA) reveals.

According to the Global Wind Energy Council (GWEC), for every new MW of capacity installed in a country in a given year, 14 full-time equivalent jobs per year are created through manufacturing, component supply, wind farm development, construction, transportation, etc.

CONTRIBUTION TO GDP GROWTH

The large deployment of renewables worldwide has been possible thanks to the development of the renewable industry, which, consequently, represents an increasingly share of the global economy.

Wind industry development is today a key contributor to the GDP of many economies worldwide. According to a study conducted by the EWEA "The impact of wind energy on jobs and the economy" published in April 2012, the direct contribution of the wind energy sector in the EU's GDP was 17.6 billion Euros in 2010, which corresponds to 0,26% of the European GDP. The same year, the industry's net export were worth 5,7 billion euros and it´s worth noting that only 9,9% of the wind energy inputs were imported, which illustrates the European wind competitiveness. Besides, the growth of the wind industry's contribution of the EU's GDP is greater over 2007-2010 period, than the overall growth of the EU's GDP during this same period, thus the wind sector remains strong in periods of recession.

Ernst&Young report "Analysis of the value creation potential of wind energy policies", commissioned by EDPR and Acciona in 2012, shows wind energy triggers higher returns for European economies than CCGTs power generation. The study shows that the higher initial capital expenditures associated with wind energy are more than compensated by the economic benefits generated by wind energy in terms of job creation, tax revenues, energy security and abatement of CO_2 emissions.

In particular Ernst&Young report concludes that (i) wind energy provides a high contribution to GDP in most European countries, (ii) wind energy has significant job creation potential. In Spain and France, for example, wind power creates twice as many jobs than CCGT per million euros invested, (iii) wind energy generates more tax revenues than CCGT. Every Euro invested in wind generates between 27 and 52 euro cents in tax revenues in Europe, depending on local tax policies.

In the US, according to the AWEA data, wind bolsters America's economy through a supply chain of nearly 500 manufacturing plants and over 2.500 companies investing in all stages of American wind power.

WIND OFFSHORE IN FRANCE

EDPR, in a consortium, was awarded 1 GW of offshore wind energy in France, enlarging and diversifying its long-term profitable growth options into a top economy and an innovative technology that may represent about ¼ of the company's capex by 2020.

THE PROJECTS

EDPR partnership created with GDF Suez, Neon Maritime and AREVA, in which EDPR holds a 43% non-controlling stake, was selected by the French government, following a national public tender process ended last May, to develop, construct and operate two offshore wind farms in the areas of Tréport, Haute-Normandie (0.5 GW) and the Isles of Yeu and Noirmoutier, Pays de la Loire (0.5 GW).

The projects aim to build a local industrial ecosystem to form the emergence of robust offshore wind power sector which will generate economic activity and jobs and lay the foundations for further offshore wind energy expansion, and, at the end, are estimated to provide enough renewable energy to supply 1.6 million people when they become operational by 2021 while contributing to fight against climate change.

TECHNOLOGY, INNOVATION AND THE ENVIRONMENT

The choice of the new AREVA 8MW wind turbine will maximize the site production while reducing up to 40% the number of turbines needed for the wind farms and therefore also reducing the time of construction and optimizing maintenance. An optimized jacket foundation technical solution is to be installed at the two sites, allowing for the free passage through them of ocean swells and fish and thus providing an environmentally-friendly operating installation.

THE PARTNERSHIP

The partners complementary experience was key to their proposal competitiveness outstanding for its exceptional concern to sustainability and local stakeholders.

GDF Suez (47%) and EDPR (43%) possess a strong expertise in renewable energy, large scale industrial projects and offshore work, with combined operating assets of 36 GW and close to 7 GW under construction worldwide and involved in the development of 19 offshore wind projects representing 5 GW.

Neon Marine (10%) provides the consortium its recognized experience as a local developer in the Yeu-Noirmoutier region with great technical and environmental expertise; since its foundation in 2008 it has invested more than € 6 million in development projects along the French coastline.

AREVA is the industrial partner in the consortium in regard to its unique track record in the design and construction of offshore wind turbines thanks to its operation in the offshore field Alpha Ventus in the North Sea since 2009 as well as the ongoing development of 600 MW offshore projects.

NEXT STEPS

2014-15: Ongoing information and dialogue with the public and local stakeholders, technical and financial feasibility studies and detailed environmental studies
2014: Beginning of the Research & Development activities in the AREVA's new R&D centre in Rouen
2015-17: Selection of suppliers, principally of foundations, substations and installation and maintenance services
2018: Manufacturing of 8MW AREVA wind turbines to begin in Le Havre
2019-21: Construction of the wind farms in the two areas
2021: Commissioning and start of operation and maintenance

2.1.2. COMPETITIVENESS OF WIND ENERGY

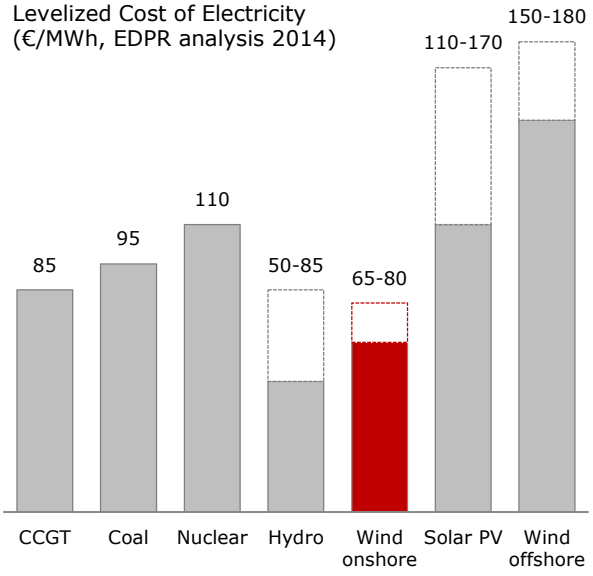
It is more and more clear that wind energy is good, not only because it is green... but because it is competitive, it is in fact cheaper

Wind is quickly approaching competitiveness with conventional power generation in all key global markets as cost-competitiveness continues to improve, driven by new, incremental technology improvements related to turbine size and the evolution of blade and tower technology. The financial advisory firm Lazard recently estimated that wind energy is more affordable than new natural gas or coal generation even without subsidies. Lazard's numbers show the 'levelized cost of energy' (hereinafter abbreviated as LCoE) for wind power has decreased 58% since 2009, and 15% in the last year alone.

LEVELIZED COST OF ENERGY IS THE RELEVANT BENCHMARK

To assess the competitiveness of various power sources the levelized cost of electricity is the relevant benchmark.

The LCoE determines the average cost of producing a unit of electricity over the lifetime of the generating source. It considers, on one hand, the total quantity of electricity produced by the source, and on the other hand, all the costs incurred by the source over its lifetime, including the original capex and ongoing opex, maintenance costs, the costs of fuels and any carbon emissions costs. It also takes into account the financing costs of the project, both deducting the cost of debt, for an appropriate level of debt financing, and considering a reasonable internal rate of return.



To assess the LCoE of a wind project, the key factors include wind turbine costs and financing costs. The costs of operation are minimal. There are only geographic limitations about finding available locations with favourable wind resource conditions. Wind turbine costs have declined over the years, with the average price of turbines per MW much lower on larger turbines than smaller ones. Costs decline as the trend toward larger turbines continues. Financing costs have also improved, as the asset class for wind continues to grow and mature, and the financing vehicles rely on stable cash flow generating contracts, interest rates are at historic lows also contributing to reduce the cost of capital. The outlook for wind is thus dependant on the wind levels of the areas it will be built and the cost of baseload alternatives. According to an internal analysis at EDPR, wind onshore with load factor levels of 21-26% produces a LCoE of €65-80 per MWh and is competitive to all other power generation alternatives (both conventional and renewable), with the only exception of hydro in some cases.

With gas prices expected to rise over the long term, given the large expected increase in demand for gas, the threshold for renewables to beat is becoming lower, and the LCoE of wind gets competitive with CCGT alternatives. In addition, natural gas price volatility reduces the reliability and ability to predict future power prices and further decreases the attractiveness for new gas plants. Moreover, for countries with no abundant local gas resources, wind is an attractive option not to depend on exogenous sources for their electricity supply.

Regulatory environment is challenging for coal, related to the compliance of environmental requirements involving emissions and water use, and therefore coal has a LCoE that is materially higher than the CCGT baseload generators, despite the rise in gas prices.

With extremely high initial investment and operating expenses, nuclear LCoE is unattractive today. For example, EDF awarded contract for difference for a new power plant in the UK expected to start operation by 2023 included a price per MWh in 2012 of GBP 92.5 and GBP 279 in 2058, as stated in a report by the European Commission. Also nuclear fleets are aging and facing shutdown decisions about security concerns following the recent Fukushima disaster.

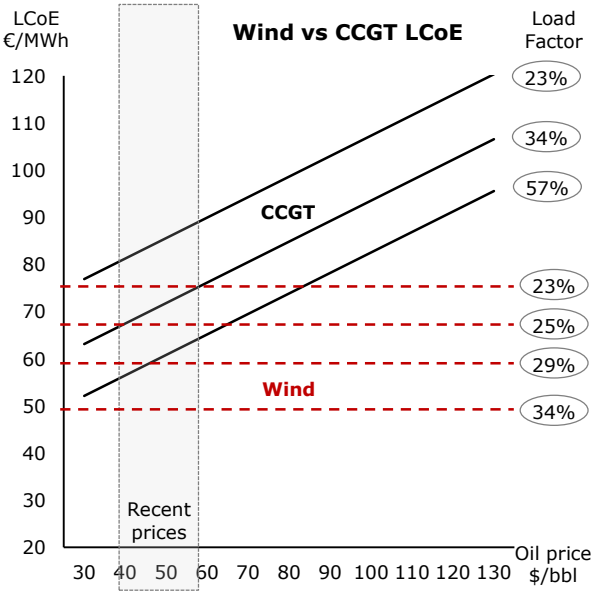
Hydro generation is a viable fuel source that is competitive today, the return economics are sensitive to construction costs and capacity factor but expansion of hydro is dependent on finding suitable locations.

Insolation is an important metric for solar LCoE and newer more efficient panels may capture more sunlight over time, while module costs are expected to decline due to lower material and production costs.

Wind offshore energy is at the start of the learning curve and is not competitive on a LCoE basis today, but according to MAKE Consulting, wind offshore shows potential to reduce LCoE by over 40% by 2025 through innovation and development of scale economies. Existing pipeline in Europe will help the industry achieve this scale making offshore more and more competitive.

WIND IS COMPETITIVE

Wind energy is competitive vis-à-vis CCGTs at different oil prices and load factors, even at currently low oil prices of $40-60 per oil barrel (CCGTs competitiveness dependent on oil prices as usually utilities' long-term gas contracts are oil-indexed).



According to an internal analysis at EDPR, wind onshore with a capex of €1.3M per MW, is competitive with CCGT at LCoE basis for example with a wind load factor of 23% and a CCGT load factor of 34% and an oil price of $60 per barrel, or with a wind load factor of 25% it is already competitive with a CCGT load factor of 34% and an oil price of $40 per barrel. This highlights the importance of wind resource availability, with just a lower than 10% increase in wind load factor offsetting 1/3 reduction in the oil price to the CCGT.

Also a strong case can be made for wind farms with robust load factors, for example of 34%, that competes with conventional CCGT power plants on LCoE running at standard levels of utilization, like 57%, and for any price level of fuel.

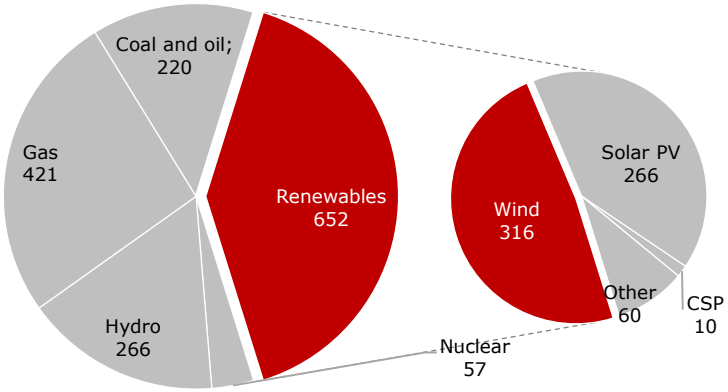
And for a wind farm running at an average level of 29% load factor, it is competitive with a CCGT running at standard level of 57% load factor from an oil price above $50 per barrel.

Moreover, wind energy cost is unrelated to oil and gas prices, and thus allows for long-term cost predictability and visibility.

RENEWABLES AND WIND ONSHORE ENERGY AS THE KEY GROWTH DRIVERS OF 2012-2020 WORLDWIDE ADDITIONS

According to IEA World Energy Outlook 2014, renewables will account for c. 40% of worldwide capacity additions of 1.618 GW in the period of 2012-2020, and of that, wind onshore will represent nearly 50%, amounting to 316 GW.

2012-2020 Worldwide Additions (GW)



This worldwide growth, excluding China, is expected to come in ¾ from areas where EDPR is already present, namely Europe (36%), North America (22%) and Latin America (16%).

ENTRY IN THE MEXICAN ENERGY MARKET

In 2014 EDPR has entered the Mexican energy market signing a long-term electricity supply agreement, for the energy of a 180 MW wind farm to be installed in 2016, representing a sizeable entry in a low risk and attractive opening.

THE PROJECT:

The project is a wind farm to be located in a region with very strong wind resource in the state of Coahuila, in northern Mexico. The plant should start construction this year of 2015 to be in operation during 2016, being currently in a medium stage of development in terms of permitting and having a clear path to interconnection to the grid. The expected load factor for its capacity, currently designed for 180 MW, is above 40%.

THE PARTNERSHIP:

The project with operate in partnership with *Industrias Peñoles,* a well-known Mexico-based mining group – renowned for its high creditworthiness and knowledge of the local market – with who EDPR signed a supply agreement for the electricity from this project to be delivered in self-supply regime. The contract has a duration of 25 years and the price is set in US dollars.

The deal was formalised in last June in front of the Presidents of the countries of Portugal and Mexico, respectively Mr. Aníbal Cavaco Silva and Mr. Enrique Peña Nieto. At the occasion, the CEO of *Peñoles* also paid a visit to EDPR's Serra d'el Rei wind farm in Portugal to get a first-hand look how the company harvest the wind.

STRATEGIC FIT:

Mexican energy market meets the strategic fit criteria for EDPR, in terms of selective growth, self-funded and at increased profitability. The country is home to some of the strongest winds in the world so much that wind energy technology is competitive to shale-gas fired combined cycle thermal plants, with the plus of avoiding the exposure to gas prices volatility, which furthermore must be imported. An emerging economy with fast increasing electricity demand including from energy-intensive industries looking for competitive and long-term stable factor energy costs that generate an active market for PPAs to result from bilateral negotiations or competitive bids. Under adequate conditions, there is a local financial sector capable of providing non-recourse project financing at competitive costs.

One of EDPR's goals is to have 20% of its new growth in emerging markets, therefore this deal is a specially relevant achievement. Mexico is a country close to Houston in the US where EDPR has a strong base and shares the same language with Spain where EDPR has headquarters.

The success of EDPR in securing new long term energy supply agreements reinforces the company's low risk profile while providing solid visibility over the company's growth prospects.

OUTLOOK:

EDPR is trustful this entry will provide a platform for further growth in the Mexican market.

2.1.3. MARKETS CONTEXT

Wind economics, energy policies and regulatory schemes/incentives drive wind energy globally. Europe should see lower, but still dynamic growth while the Americas should became the biggest growth engine.

EUROPE GROWTH TO NORMALISE

INCENTIVES-DRIVEN GROWTH

Europe was a first mover and was the first region to see a real take-off in wind additions and share of wind output in total power mix.

In 2014 renewable power installations accounted for 21 GW (or 79%) of new power capacity installations of 27 GW, according to EWEA. With nearly 12 GW of new capacity, wind accounted for 44% of new installations, totalling a cumulative installed capacity of 120 GW. About c. 7% of the power produced in Europe is now derived from wind energy. This has mostly been achieved through suitable remuneration schemes.

The main reason for putting in place such incentives was originally a political push mainly motivated by environmental and security of supply concerns. This translated into the ambitious European '20-20-20' targets to be reached by the end of 2020:

- a 20% reduction in greenhouse gas emissions from 1990 levels;
- a 20% share of renewables in total energy mix;
- a 20% improvement in energy efficiency.

Renewables as a % of primary energy consumption – achieved and 2020 targets:

Country	2004	2006	2008	2010	2011	2012	2013	2020E
Germany	6%	8%	9%	11%	12%	12%	13%	18%
Spain	8%	9%	11%	14%	13%	14%	15%	20%
Italy	6%	6%	7%	11%	12%	14%	15%	17%
U.K.	1%	2%	2%	3%	4%	4%	5%	15%
France	9%	10%	11%	13%	11%	13%	14%	23%
EU (28)	8%	9%	11%	13%	13%	14%	15%	20%

According to the European Renewable Energy Council, the UE is in the trajectory to meet with its 2020 targets, but the situation varies for each country. Italy is expected to meet its target while France, Poland and Spain are expected to lag behind.

Progress towards the 2020 targets will continue with a new set of targets for 2030, The EU emissions trading system (ETS) reform and an increase in competitiveness as the main drivers.

In October 24th European Council reached an agreement on 2030 Climate and Energy Policy Framework. A binding renewable energy target of at least 27% was set at European level, a binding EU target to reduce domestic greenhouse gas emissions by 40% compared to 1990 levels and a non-binding energy efficiency target of 27% (to be re-visited by 2020). The framework does not mention individual targets for state implementation so it is not clear how efforts will be conducted at the national level. European Institutions have now to work in the governance system to set the framework to reach this 2030 targets.

	Renewable energy	CO_2 emissions reduction	Energy efficiency
2020 targets	20%	20%	20%
2030 targets	At least 27%	At least 40%	At least 27%

In the past, incentives mostly took two forms:

1) a fixed feed-in tariff (most common) or an incentive on top of the achieved power price (e.g. pool + premium)

2) a green certificate on top of power price

The underlying idea was that market (merchant) power prices would not be enough to generate a reasonable return for renewable producers over the life of the assets. Granting incentives to enhance or even lock-in the achieved returns over the life of the a project is a way to foster growth in renewable additions.

The regulatory push has been a success from the perspective of wind development and penetration. However, in the context of a worldwide recession, which triggered an increasing focus on costs efficiency and competitiveness we have seen as a consequence some remuneration schemes reduced over the recent years.

This reorientation and rationalisation of renewables support is likely to restrain wind development in Europe. This now that penetration has reached c. 12% of the region's capacity. The adjustment of remuneration schemes is taking place throughout several European markets, with previous dependence on administratively set feed-in tariffs or even pool + incentives changing mostly to fixed price auctions.

In **Spain**, following the new remuneration framework introduced in 2013, standard remunerations were defined following the definition of typified parameters, published in February 2014, which classified all possible wind farms by their year of first operation. In order to calculate the standard remuneration, the regulation takes into account the revenues that were generated in the past and estimate the premium that is necessary to achieve a 7.4% return pre-tax, throughout the whole regulatory life of the wind farms. The standard parameters that define this remuneration can be modified every three and six years.

In **U.K.** during 2014 the Electricity Market Reform came into effect, introducing the CfD mechanism that establishes an auction system for renewables. The first contract for difference allocation round was announced and the allocation framework was disclosed. The first allocation round was expected for October but delayed until February 2015 due to third party appeals. The budget for this round is 155 M£ in 2016/17 and 235 M£ until 2020/21 for pot 2 of 'less established technologies' (among which offshore wind is included). The Department of Energy & Climate Change (DECC) has also indicated that it intends to hold the second allocation round in October 2015. The size of this budget has raised concerns that many offshore projects may not be able to secure funding.

In **France**, the government began to prepare a new comprehensive law in 2014 meant to completely reshape the energy sector. The Government is considering moving from current fixed feed-in tariff scheme to a more market-oriented scheme. The draft establishes a system whereby generators could receive a premium support payment on top of the market price for electricity (CfD type scheme as in UK). However, the implementation of this new support system will require consultations by the ministry and the process is unlikely to produce quick results.

In **Poland**, a draft proposal to change the GC scheme into fixed price scheme granted through tenders was approved by the government in April 2014 and is currently under the parliamentary approval process – expected to be approved in 2015 Q1. The new tender scheme will apply for assets entering operation from January 1st 2016. Besides, this new regulation foresees a transitory process for already-operating wind farms. Under this process they would be entitled to switch into a fixed price scheme through a tender (or series of tenders) specific for operating projects.

In **Italy** an auction system based on capacity quotas has been established where tender winning projects receive a 20 year fee-in tariff. A third tender for onshore wind received applications for 1.3 GW with only 365 MW awarded, meeting the available capacity but leaving potential wind power in an indeterminate state. There is uncertainty on future development as current regulation does not foresees additional tenders and the cap on support set by law in 2012 for non PV RES in close to be met.

GROWTH STILL, ALBEIT AT A SLOWER PACE

Overall, Europe should continue to grow consistently, even if at a slower pace. Improving wind economics and still stimulating green targets partially offset a less substantial regulatory support and an already sizeable installed base and penetration. On top of that, security of supply concerns will put more emphasis on a greater reliance on endogenous sources of energy, after the recent developments in Ukraine/Russia crisis.

The focus has now shifted to growth at reasonable cost from a system cost competitiveness perspective, with also a reintroduced emphasis on security of supply, aiming to combine:

- cost competitiveness and affordability;
- reliability and security of supply;
- energy efficiency and ambitious green targets.

Wind power will remain a key technology in reaching these goals. Growth in installed capacity can still nearly 95 GW of additions are needed up to 2020, representing nearly 50% of total global capacity additions ex Asia-Pacific, and this justifies Europe should remain a core market for wind.

U.S. TO LEAD THE WAY

Growth in the US expected at c. 6.5 GW per year until 2017, will come from the need to meet environmental (RPS) targets and wind energy competitiveness. Incentives as PTCs and the prevalence of PPAs also play a key role.

Historically, the typical framework of wind development in the US has been decentralised, with no national feed-in tariff. It involves the combination of two key drivers of the top line:

- **PPAs**: long-term bilateral power purchase agreements by which a wind developer can sell its output at a fixed price, usually adjusted for inflation or a negotiated escalator. Demand for PPAs has been very strong, driven mainly by the need to meet renewable portfolio standards (RPS) targets but also from increasing improving relative competitiveness of wind energy.
- **PTCs**: production tax credits are the dominant form of wind remuneration in the US, and represent an extra source of revenue per unit of electricity ($23/MWh in 2014), over the first 10 years of the asset's life. There are other mechanisms as well, such as ITCs, investment tax credits equal to 30% of the initial capex usable in lieu of PTCs.

The PPA + PTC combination allow wind energy companies to 'lock-in' a return over the life of the assets. The final goals targeted by the application of this framework involve cost competiveness and affordability, security of supply and environmental concerns.

RPS DEMAND

The renewable portfolio standards (RPS) are designed to require power suppliers to provide a minimum share of electricity from renewable sources, on a state-by-state basis. Over the last decades such standards have increased and by 2015 a total of 31 states have binding RPS objectives (of which 26 with targets above 8% of electricity from renewable sources), as shown in the table below, which excludes the 7 states with voluntary goals. Although those are implemented by states all-round the US, however a strong cluster is observed in the west/pacific cost and the north east. This typically represents 10% to 25% to be reached by 2020-25 for most states, and often foreseeing a gradual increase in the mandated percentage.

This framework drives many utilities to setup auction systems (RFPs) to seek long-term power purchase agreements with renewable energy generators. Due to the competitiveness of wind energy, this technology has received the largest share of awarded PPAs.

RPS objective	2015	2020+
Arizona	4.5%	15%
California	23%	33%
Colorado	17.3%	28.8%
Connecticut	16%	27%
Delaware	13%	25%
District of Columbia	9.5%	20%
Hawaii	15%	25%
Illinois	10%	20.5%
Iowa	0.7%	0.7%
Kansas	15%	20%
Maine	8%	13%
Maryland	13%	20%
Massachusetts	8%	15%
Michigan	10%	10%
Minnesota	20%	30%
Missouri	8%	15%

RPS objective	2015	2020+
Montana	15%	15%
Nevada	20%	22%
New Hampshire	13.8%	23.8%
New Jersey	12.2%	20.5%
New Mexico	15%	20%
New York	9.3%	9.3%
North Carolina	8%	12.5%
Ohio	3.5%	8.5%
Oregon	15%	20%
Pennsylvania	14%	18.5%
Rhode Island	9.2%	16%
Texas	5%	8.6%
Vermont	8%	10.5%
Washington	3%	15%
Wisconsin	10%	10%

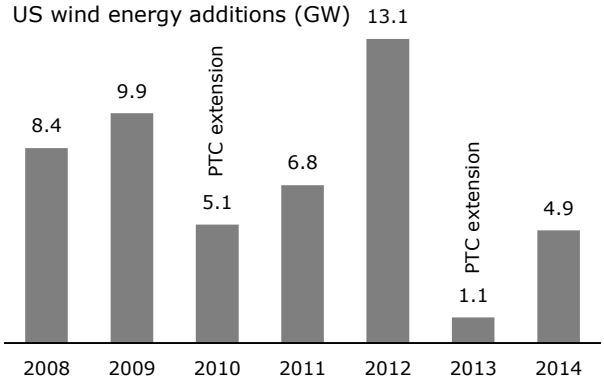
Moreover, the U.S. administration has also recently (June 2014) demonstrated increased disposition to establish climate change policies, such as the Clean Power Plan by the U.S. Environmental Protection Agency (EPA), a plan to help cut carbon pollution from the power sector by 30% by 2030 (against 2005 levels). Power plants are responsible for about one-third of all US greenhouse gas emissions. This plan implies greater reliance on gas (CCGTs account for c. 40% of the planned reduction emissions), but also on alternative energy sources (c. 25% of the planned reduction emissions), and especially wind.

WIND ENERGY COMPETITIVENESS

The improving wind energy economics include decreasing capex and opex per MW, and even more per MWh due to the increase in load factors via technology improvements in wind turbines and also overall excellent wind resources in the US, especially in the regions with best resource available. In the west and east states, load factors are typically within 25-30%, while in the central states those are typically of 30-45%. This naturally makes wind energy further more competitive from a fundamental standpoint, even without incentives.

INCENTIVES TO REMAIN

Also in the US, there are concerns regarding the cost of renewable energy incentives to tax payers and final energy consumers, mostly the PTCs. Since their inception, eligibility for these incentives has been made possible for a couple of years at a time, over a limited period, without any visibility on any further extensions. Until now, there have been always extensions, but this 'stop and go' approach limits visibility on the investment horizon for wind energy companies.



U.S. Congress has recently approved, in the mid of December 2014, a one-year tax extension of the federal production tax credits for wind power through the end of 2014. As a result of this, wind energy projects that begin construction until January 1st 2015 qualify for 10 years of PTCs of $23/MWh on the electricity output. Previous to this extension, PTCs were available for wind energy projects that had begun construction until January 1st 2014. Wind projects also have the option to choose, in lieu of the PTC, 30% as investment tax credits of the project cost.

This regulatory support is efficient, albeit visibility over the long-term extension of the incentives in place, PTCs mostly, is limited. It would be valuable to have at least a medium-term view on these deals, even if including a progressive phasing out, as it would allow for improved planning and better value for consumers. The situation as it is creates a volatile growth market as off-takers typically take the years when PTCs are available to sign new agreements.

PTCs are currently crucial, but their relative importance is likely set to decrease over time. The economics of wind power in the U.S. are rapidly improving, necessitating lower and lower PPA prices, to the point where wind is competitive on its own in some areas against other traditional technologies, on a 'new-build' basis. The various RPS and other environmental goals will still represent a substantial incentive, PTCs notwithstanding.

GROWTH PROSPECTS

Even absent the PTCs extension, demand growth in the U.S. market could still be motivated by other existing forces, primarily the planned coal capacity retirements, wind energy competitiveness as well as RPS compliance in several states. Approximately 42 GW of coal capacity has been announced to retire through 2020 of which we expect wind to absorb a significant share in the replacement of such retirements. Furthermore, renewable energy generation becomes more competitive as a direct result from coal retirement. A higher penetration of energy generated from natural gas can lead to more flexible grids, benefitting intermittent resources such as renewables.

Regarding RPS targets in place to encourage renewable energy demand, we estimate 22 GW of wind will need to be added until 2020 in order to fulfil compliance with targets already established. From wind energy competitiveness alone, we believe an additional 7 GW can be added.

A pipeline of 19 GW is known to exist as assets under construction eligible under the previous PTC expiration in December 2013 to be installed in the period of 2014-16, and we estimate some additional 14 GW may be added until 2020 from further PTC extensions, of which 6 GW from the last PTC expiration in December 2014, according to MAKE Consulting.

LATIN AMERICA WITH GOOD POTENTIAL

Latin America has not been a global driver of wind energy growth in the recent past, with only c. 8.5 GW of capacity installed as of the end of 2014. However, it will expectably see its installed base almost quintupling by 2020.

The expected growth will be driven by the following key factors:

- large power generation capacity needs, due to fast growth in electricity consumption and increasing concern over potential chronic hydropower shortfalls (e.g. droughts) as hydro represents c. 60% of the region's output;
- excellent wind resource, translated into best-in-class load factors, even higher than North America on average, therefore providing relatively low cost wind energy;
- low current penetration, with only just 0.5% of total electricity derived from wind;
- limited access to cheap gas, with expensive imports helping the relative competitiveness of wind vs CCGTs.
- growing regulatory support, mostly through organized tenders and preferable financing;

The region is also a natural extension of the accelerating development that has been seen in the U.S. over recent years, given it is already a key market for large integrated European utilities (conventional generation and distribution, mostly).

Brazil and Mexico are the main emerging wind hubs in the area. The regulation and remuneration of wind energy is a diverse mix of national schemes:

- In **Brazil**, regulation initially focused on the PROINFA framework, established in 2002, which set a target in terms of capacity additions, with the selected projects getting a 20-year PPA with Eletrobras as off-taker, at a price defined by the government. The policy then evolved to embrace competitive but regulated auctions, with long-term PPAs reserved for wind only. Some preferential financing is provided by Brazilian development agencies and tariff incentives are put in place for some end-users to contract wind energy directly. Since 2009, new laws, including incentives for the establishment of local supply chains, gradually allowed wind to compete against other technologies, including thermal, through regulated auctions. The winning projects secure long-term PPAs with distribution companies. This new round of regulation is widely credited with being responsible for the recent take-off in Brazilian wind.
- In **Mexico** there are no large-scale incentives or feed-in tariffs, but some tax incentives as the assets are allowed to be fully depreciated in their first year of operation. The current system is similar to the U.S. framework, and relies on bilateral PPAs between independent power producers and off-takers, typically over 15-20 years. At the end of 2013, the authorities of the country started a reform process to end the historical power monopoly and move closer to a liberalised energy market. This is also an opportunity for a new framework for wind remuneration, along with other needed reforms (such as the unbundling of the transmission system operator and the setting up of an independent regulator). Currently, the government now targets 10 GW to be installed by 2022 and 2 GW additions per year.

MOVING TOWARDS MARKET AUCTION-BASED ARRANGEMENTS

One key feature of wind energy is the ability it affords to secure some visibility on the top line from its predictable and stable load factors over the long-run. Yet given that wind is a very capital-intensive technology, ensuring a guaranteed revenue stream is key to achieve a risk/return balance and allow value creation.

There are differences in remunerations based on administratively set incentives (feed-in tariffs, green certificates, production tax credits) and market-based remunerations involving a certain degree of competition ex-ante (power purchase agreements, auctions). The following table summarizes the type of remuneration framework for wind and solar energy in key markets of EDPR:

Country	Type of remuneration	Comments
US	PPAs + PTCs + RECs	Possibility of using Investment Tax Credits instead of PTCs
Spain	Pool + incentives	Recently switched from centralised feed-in-tariff
Portugal	Feed-in tariff	
France	Feed-in tariff	Recently held auctions for several offshore concessions
Belgium	Pool + green certificates	
Poland	Pool + green certificates	To introduce a new framework based on auctions by 2016
Romania	Pool + green certificates	
Italy	Auctions	Recently switched from green certificates to competitive tenders
UK	Pool + incentives	To switch to auctions by 2017
Germany	Feed-in tariff	To switch to auctions by 2013
Brazil	Auctions	
Mexico	PPAs	

Given the growing affordability concern about renewables to consumers, and recent cuts in remuneration, there is a shift towards market auction-based systems.

This different regulatory framework can still achieve the needed renewable capacity additions that is an all-round best solution for the energy system as a whole and, in the end, to the consumer that benefits from lower energy bills, in part due to the lower risk that this system represents to the energy companies that allow to bid lower prices. This shift is already evident with the number of countries turning to public competitive bidding or tendering auctions rising from 9 in 2009 to 55 as of early 2014.

The mechanism is already well developed in the Americas but not so much in Europe, where various schemes are in place in different countries, often based on feed-in tariff systems (e.g. Spain, Portugal, France) which were very effective in driving initial investments during the infancy phase of the technology, and contributing to a higher penetration of renewables.

A market auction-based system, the like of bilateral PPAs or public tenders:

- provides visibility (normally between 15 to 25 years) to the energy companies, making cash-flows and returns more secure, and attracting the required investment of very high front-loaded capital costs;
- limits the regulatory risks as no centralised scheme is needed (of national feed-in tariff for example), and can still be flexibly combined with various incentives (such as PTCs);
- allows ex-ante competition favouring the most efficient technologies and the most valuable projects, and sends price signals to the sector, while preventing under or over-remuneration of the assets.

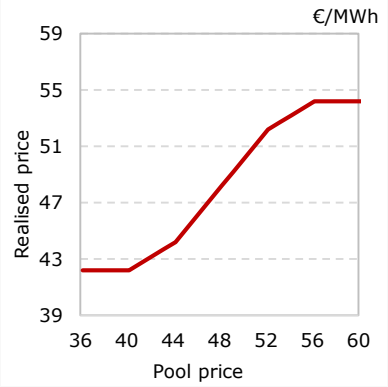
A strong element in favour of market auction-based systems is those are a highly adaptable structure, with all variables getting embedded in the bid prices and the most competitive bids are awarded the contracts or the capacities. Prices determined this competitively reflect the quality of the local wind resource.

SPAIN NEW REMUNERATION EXPLAINED

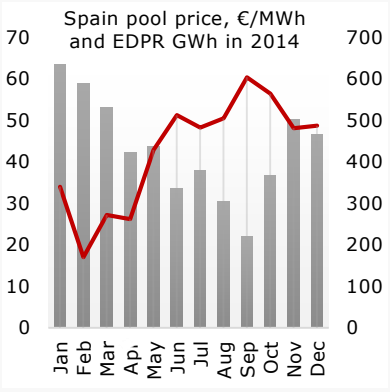
The new regulation enacted is estimated to cut about €30 million of the company's EBITDA on an average year, while opening a new exposure to wholesale prices to be stabilised through forward hedges in a comprehensive risk management approach.

SPAIN NEW REGULATION: The remuneration for the renewable energy assets is now structured so that over the regulatory life, which is 20 years for wind energy assets, the standard asset receives a pre-tax return defined as the yield of the Spanish 10-year bonds plus 300 basis points. In broad terms, under the new remuneration scheme, wind energy assets commissioned up to 2003 sell its output at the market pool price and in addition receives an annual capacity complement. The amount of complement per MW is set to achieve the designed target return over the 20-years regulatory life for standard wind energy assets, meaning assets with average operating parameters (for example load factor, capex, opex, etc). The framework also considers a mechanism of caps and floors in order to adjust for deviations from the market pool price reference. For 2014, the regulation sets the pool price reference at € 48.2 per MWh, creating a collar limiting the range of possible prices to be earned between € 42.2 and €54.2 per MWh as depicted in the chart. Wind energy assets commissioned until 2003 are not entitled to capacity complement, as those wind farms are expected to reach the designed target return through selling its production at the market pool price alone.

The new framework was announced in 2013 through the Royal Decree-Law 9 in July and included in the Law 24 in December. This regulatory modification is effective from July 12th 2013. In June 2014, the Spanish government published, in its Order IET/1045, the parameters for renewable energy assets under the new remuneration framework, approved the year before.



EXPECTED EBITDA IMPACT IN AN AVERAGE YEAR FOR EDPR: This regulatory change is calculated to negatively impact EBITDA by around € 30 million in an average year of wind energy electricity output for EDPR, when compared to the previous framework (RDL 2/2013) which provided a feed-in tariff regime.



THE YEAR OF 2014: The average market pool price in 2014 was €41.8 per MWh thus in the lower limit of the interval provided by the above-mentioned collar set in the new regulation. Furthermore, pool prices were lowest between January and April, when renewable energy output was at the highest in the year. In 2014 EDPR benefited from a higher output, when compared to the average production in a standard year. However this volume effect was more than offset by the low price effect and no hedging strategy in place. The new regulation parameters were only known during the second half of the year, which unfeasible the implementation of a hedging strategy for that period.

For the reasons above, this new regulatory change ended up negatively impacting EDPR's EBITDA by more than the normally expected € 30 million in an average year. This unfortunate exception, in the first year of the new regulation, will be naturally normalized with the risk management in place through the hedging approach described below.

RISK MANAGEMENT: Of the total 2.2 GW EBITDA consolidated by EDPR in Spain, only 9% is not entitled to capacity payment, corresponding to the capacity commissioned up to 2003. Of the total 5.1 TWh of electricity output by EDPR in an average year, about 20% is exclusively exposed to the market pool price, including not only the electricity output from the capacity without complement but also the premium production that EDPR consistently reaches in Spain.

In order to manage the market pool price risk for the exposed production, EDPR employs a hedging policy to guarantee prices whenever those are considered reasonable. With this hedging strategy, EDPR removes the volatility of future revenues, which may vary negatively from a possible spike in overall renewable energy production, while the opposing upside scenario may not hold so effectively.

2.2. BUSINESS PLAN 2014-17

EDPR's value creation strategic plan through 2017 remains in line with previous architecture, supported by three pillars with defined goals: Selective Growth, Increased Profitability and Self-funding Model.

On May 2014, EDPR presented to the financial community its Business Plan for 2014-17 at the EDP Group Investor Day held in London. In the event were present about 200 financial markets participants, including press, online participants, investors, analysts and rating agencies, demonstrating a great interest from the financial community in the group's equity story and strategy.

Since inception, EDPR has been performing a strategy focused on selective growth and seamless execution, supported by core competences that yield superior profitability, while observing a low risk profile, all embedded within a distinctive and renowned sustainability course of action. As a result of undertaking such strategy, at the same time flexible enough to accommodate to changing business and economic environments, EDPR remains today a global leading company in the renewable energy industry.

Selective Growth

Solid value creation, investing in quality projects with predictable prices through long term contracts

Investing in quality projects	>500 MW per year
Growing in projects w/ long-term contracts already awarded	>85% visible
Developing offshore: 1 GW awarded in FR and projects in the UK	post-2017 growth

Increased Profitability

Profitable growth supported by distinctive core competences and unique know-how

Maintaining high availability levels	>97.5%
Leveraging quality growth on distinctive wind assessment	31.5% Load Factor
Increasing efficiency, reducing OPEX/MW	-2% CAGR

Self-funding Model

Enhanced growth by an asset rotation program designed to accelerate value creation

Strong Operating Cash-Flow generation	€3.5bn
Asset Rotation to enhance value growth	€0.7bn (ex-CTG)
Net Investment supported by Asset Rotation Program	€1.8bn

By delivering on its strategy, EDPR expects to achieve solid growth targets…

Electricity Output	EBITDA	Net Profit	Dividend Pay-out
9% CAGR 13-17	**9%** CAGR 13-17	**11%** CAGR 13-17	**25-35%**

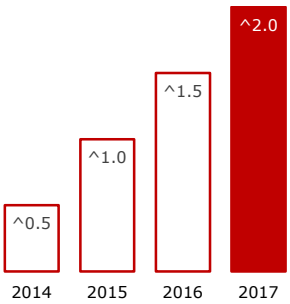
…and continue to lead in a green and competitive sector with increased worldwide relevance.

2.2.1. SELECTIVE GROWTH

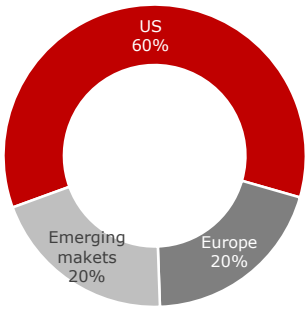
The company has a wide range of projects in its pipeline. Diverse investment options are crucial for ensuring the projects that are finally constructed have good strategic fit, meaning for EDPR a low risk profile at superior profitability. This is the case for the selective growth strategy as set up in its current Business Plan. For 2014-17 a growth target of +2 GW (>500 MW/year) has been set, in projects to share those two key guidelines:

1) A low risk profile through high visibility over future cash-flows, with most of the new capacity to be constructed under long-term PPAs already awarded or available regulated feed-in tariffs. This greatly allows to lock-in the project profitability.

2) High operational performance, with the projects identified to be built at above portfolio average operating metrics, namely in terms of load factors. This contributes to reduce the burden on remuneration.



EDPR to deliver >500MW/year in high quality projects: 60% in US, 20% in Europe and 20% from emerging markets



60% GROWTH FROM US, DRIVEN BY PPAS ALREADY SIGNED

Following a period of low growth in the United States, this market has been again chosen as the main growth driver for the company over the next four years period. EDPR's deep portfolio of projects in this market, maintenance of PTC tax benefits and strong demand for long-term PPAs from wind energy projects combined to provide this growth opportunity. Additionally, self-funding is available, through the availability of tax equity partnerships with the possibility of asset rotation transactions as well, given the strong interest from infrastructure and pension funds for equity stakes.

Project economics on all of the new investments in the US are strong, with average load factors of about 43%, earning average PPA prices in the first year of $48/MWh, leading to double-digit IRR percentages.

20% GROWTH FROM EUROPE, FOCUSING ON LOW RISK FRAMEWORKS

Certain European markets continue to provided good growth opportunities supported by regulatory frameworks that provide a low risk environment.

In France, EDPR maintains 60-70 MW of projects under development in its pipeline to be available for construction and benefit from the existing feed-in tariff regime. In Italy, EDPR will build the 30 MW awarded in 2013, and participate in future energy auctions to generate new possible additions for 2015-17. In Poland, further growth is contingent to the approval of a new energy law, expected to be based in energy auctions, where EDPR maintains competitive projects in pipeline. Finally, in Portugal, the total capacity awarded back in 2006 to the ENEOP consortium will be completed, and the consequent asset splitting expected in 2015, and by then EDPR will acquire the control and full consolidation of the MW corresponding to its 40% stake.

20% FROM SELECTED EMERGING MARKETS, IN PROJECTS WITH LONG-TERM PPAS

In Brazil, EDPR will install in 2015-17 the projects with PPA awarded in 2011 and 2013 for a total 236 MW, thus representing a significant increase in capacity from current portfolio of 84 MW.

In 2014 EDPR has entered the Mexican energy market signing a long-term electricity supply agreement, for the energy of a 180 MW wind farm to be installed in 2016, representing a sizeable entry in a low risk and attractive opening. Mexico is as a country with great potential for wind energy and this entry can provide a solid platform for further growth in this market.

Additionally, EDPR is to remain actively prospecting opportunities in new markets with strong fundamentals, namely high growth of electricity demand, robust renewable resources and availability of long-term energy supply agreements awarded through competitive schemes.

+1,255 MW FOR US GROWTH UNDER PPA

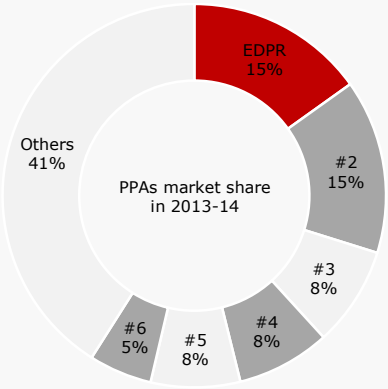
Since 2013 EDPR has signed 1,530 MW in long-term sale agreements becoming the market leader and providing full visibility to its 1.2 GW growth target in US for 14-17 and to the profitability of our existing fleet with 275 MW of new PPAs for operational projects

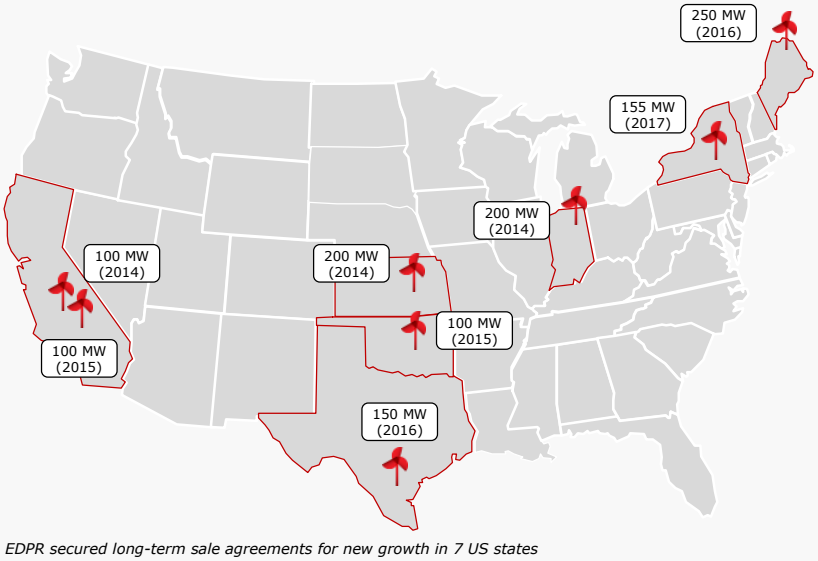
Signing	Project name	Location	Year	MW	Off-taker	Duration (years)
Nov-14	2 projects	New York	2017	155	NYSERDA	20
Apr-14	Hidalgo	Texas	2016	150	(undisclosed)	15-20
Jan-14	Waverly	Kansas	2016	200	Kansas City Power & Light Co	20
Sep-13	Number Nine	Maine	2016	250	Connecticut L&P and United Illuminating	15
Jul-13	Arbuckle Mountain	Oklahoma	2015	100	Lincoln Electric System	20
Oct-13	Rising Tree South	California	2015	100	Southern California Edison	20
Oct-13	Rising Tree North	California	2014	20	Pacific Gas and Electric	20
Aug-13	Rising Tree North	California	2014	80	Southern California Edison	20
Jun-13	Headwaters	Indiana	2014	200	Indiana Michigan Power Co	20
	New projects:			**1,255**		
Aug-14	Rail Splitter	Illinois		25	Hoosier Energy	15 (f/ 01.12.14)
Apr-13	Blue Canyon II	Oklahoma		151	Georgia Power	20 (f/ 01.01.16)
Apr-13	Blue Canyon VI	Oklahoma		99	Georgia Power	20 (f/ 01.01.16)
	Op. projects:			**275**		

Since the one-year extension of the PTCs in early 2013, EDPR has moved rapidly securing new PPAs for future projects in the US, but also for operating projects.

These long term sale agreements demonstrate not just EDPR's skill in closing these commercial deals but foremost the company's strong ability to position effectively a pipeline of quality projects, in suitable locations and stages of development as a key success factor to capture growth opportunities on-time.

During the uncertainty about the PTC extension in 2014 two 20-year sale agreements for Renewable Energy Credits ("RECs") were also signed with the New York State Energy Research and Development Authority ("NYSERDA"), subject to a new extension of the Production Tax Credits, that actually materialized one month after, in a clear move of anticipation by EDPR.





EDPR secured long-term sale agreements for new growth in 7 US states

LOW RISK GROWTH:

The effectiveness of these agreements increases the visibility over the growth prospects and reinforces the company's low risk profile. In May 2014, EDPR presented its 2014-17 Business Plan including a growth strategy of 2 GW, of which 60% in the US, to be based from projects with long term sale agreements. The PPAs already signed for 1,255 MW provide now full visibility to this target.

2.2.2. INCREASED PROFITABILITY

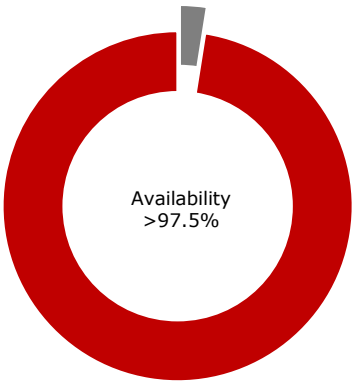
One of the strategic pillars and that has always been a keystone of the company, setting it apart in the industry, is the drive to maximize the operational performance of its wind farms and solar plants. In this area, EDPR's teams, namely in operations and maintenance, have established a strong track record that support challenging targets in 2014-17 Business Plan. For this period, EDPR has set targets in three key metrics: Availability (technical hourly availability), Load Factor and Opex/MW. These three metrics provide an overall view of the progress in our operations and maintenance, wind assessment and cost control efforts. They also serve as good indicators for the overall operational efficiency of the company.

As part of the 9% annualised increase target for EBITDA up to 2017, EDPR is implementing new technologies to improve the productivity of its wind farms, innovative O&M solutions and leaner approaches.

MAINTAINING HIGH LEVELS OF AVAILABILITY >97.5%

Availability measures the percentage of time the fleet is fully operational. If an equipment has a 97.5% availability metric this means that, in a given period, it was available to generate energy 97.5% of the time, which leaves only 2.5% for preventative maintenance or repairs. Availability is a clear indicator of performance of the company's operations and maintenance practices as it focuses on reducing to a minimum any malfunctions and performing maintenance activities in the shortest possible timeframe.

The company always maintained high levels of availability, and registered above 97.5% in 2014, and has set a target of overcoming this already top mark in the period of 2014-17. EDPR will continue to look for further increases in availability through new predictive maintenance optimization measures supported by the 24/7 control and dispatch centre, in reducing damages most common during extreme weather and improving the scheduling of planned stops. Also a new spare parts warehousing strategy will be key in reducing downtime during unexpected repairs.

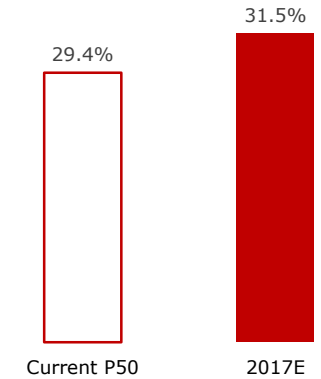


LEVERAGING QUALITY GROWTH ON DISTINCTIVE WIND ASSESSMENT TOWARD 31.5% LOAD FACTOR

Load factor (or net capacity factor) measures the speed and quality of the renewable resource at the wind turbines or solar panels. A load factor of 31.5% means the percentage of maximum theoretical energy output with an equipment working at full capacity, in a given period. For example, for 1 MW over a year, it equals to the production of 2.759,4 MWh (31.5% x 1 MW x 24 hours x 365 days).

Ensuring the assets generate the maximum amount of energy possible is a key success factor. With regards to the operating portfolio, optimizing load factor is strongly linked to improving availability as described and, if possible, introducing productivity enhancement retrofits that boost production by setting older equipment models with the most up-to-date technological improvements available to increase efficiency in the utilization of renewable resources available. With regards to wind farms and solar plants under development, maximizing load factor is mostly the expert work of energy assessment and engineering teams, designing an optimal layout of the plant, by fitting the positioning and choice among different equipment models with the characteristics of the site, specially the terrain, from the collected resource measurements and their estimated energy outputs.

The company has consistently maintained levels of load factor in the range of 29-30%, having registered 29.8% in 2014, which is slightly above the 29.4% P50 (mean probability) assessment for the current fleet, and has set a target of 31.5% until the end of the 2014-17 period.



INCREASING EFFICIENCY, REDUCING OPEX/MW -2%

In parallel with the top-line initiatives, the company focuses on strict cost control efforts to improve efficiency and gain additional profitability. Leveraging on the experience accumulated over time and its past performance (Opex/MW -5% CAGR 2010-2013), EDPR has set an ambitious to further reduce Opex/MW by -2% CAGR 2013-2017, despite the natural aging of its installed asset base. To achieve this target EDPR has developed a plan to tackle the main manageable costs in its costs structure. With regards to O&M, representing c. 30% of total Opex, EDPR expects to continue to obtain gains from its M3 system once wind farms are not subject to initial warranty contracts. With regards to SG&A and Personnel Costs, representing c. 50% of total Opex, the focus is to maintain a strict control plant to fully benefit from the economies of scale of a growing company. Levies, representing c. 20% of total Opex is basically non-manageable and increased in recent years, mostly penalised by the introduction of new taxes in some countries.

M3 program and self-performance

As EDPR's fleet becomes more mature the initial Operations and Maintenance (O&M) contracts with the turbine suppliers expire. When that happens the company needs to decide between renewing the maintenance service or taking the risk and operate the wind farm on its own, whilst maintaining high levels of availability.

The M3 (Modular Maintenance Model) program answers that question. Based on EDPR's expertise, our O&M teams will decide on the optimal balance between external contractors and in-house maintenance. Usually, EDPR keeps control of high value-added activities such as maintenance planning, logistics and remote operations while outsourcing, under direct supervision, people intensive tasks.

This methodology resulted in estimated savings of around 20% in the wind farms where the M3 system was implemented, which account for 40% of Europe's fleet.

On its turn, in the US the Blue Canyon V wind farm started its own pilot O&M program and is now fully operated by EDPR without any external help, immediately showing savings in operational expenses. Following this success other American plants will follow this model.

An extraordinary example of the new efficiency achieved by the M3 program is the time needed to replace major components, which have being reduced from 5 months to 3 days.

A new 2,000 square meter warehouse located in Castejón, Spain, is serving all the European countries.

Increasing turbine production

EDPR is also creating value by improving its assets implementing new technologies on the turbines to boost the power output without requiring major component changes. EDPR's Performance Analysis teams are collaborating with the manufacturers to determine the best practices to apply this new technology.

By monitoring real-time conditions, the rotational speed of the generator can be increased while staying within the existing loads envelope, thus increasing the power output. The extra output increases the revenues of the wind farm, without major investments needed. This technology has successfully being applied on many turbines and it will keep being developed in the following years.

LEAN program

Launched in 2011, EDPR's Lean program focuses on optimizing process across the company's business using the lean six sigma methodology. The objective is to leverage front-line personnel ideas and experience to improve the company's revenues and costs, improve safety and reduce environmental impact.

Within this strategy EDPR has implemented two programs, "Daily Lean" and "Lean improvement". The first, "Daily Lean" applies continuous improvement to the day-to-day activities at our wind farms, with the objective of reducing repetitive and non-value added tasks. The last, "Lean Improvement", developed by our performance engineers and our field personnel, identifies and solves issues that are common to a fleet of turbines or part of a fleet. This program implemented changes that help reduce the impact of lightning damage and reduce gearbox overheating, among others.

2.2.3. SELF-FUNDING MODEL

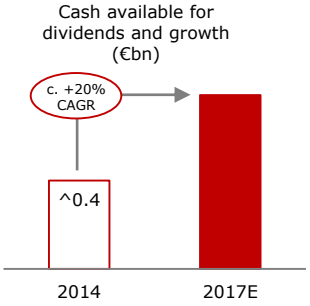
First presented in the May 2012 Investor Day, EDPR's self-funding model has been one of the three supporting pillars of the company's strategy thereafter. This self-funding model excludes any increase in corporate debt, and therefore relies on the combination of cash-flow from operating assets, external funds from tax equity and other structured project finances as well as proceeds from asset rotation transactions to finance the profitable growth of the business.

OPERATING CASH-FLOW

The primary source of funds for the company is the operating cash flow generated from the existing assets, that is firstly used to pay for the debt service and capital distributions to equity partners, while the excess is available to fund to pay dividends to the shareholders of EDPR or to fund new investments.

A strong operating cash-flow generation of about € 3.5 billion is expected for the period 2014-17. Cash-flow available for dividends and new investments, of about € 400 million in 2014, is expected to increase annually, on average, by about 20% until the end of the current business plan period in 2017.

EDPR has indicated a dividend pay-out ratio policy in the range of 25-35% of its annual net profit, thus allowing that most of the cash-flow available to fund growth. The dividends paid in 2014 amounted to about € 35 million corresponding to low end of the range relative to the net profit of the previous year, representing only a small share of the available cash-flow generated in the period.



US TAX EQUITY AND OTHER PROJECT FINANCE STRUCTURES

EDPR always aims to find external financing to its projects, namely through tax equity structures, typical of the US, and through other project finance structures, available in other geographies. The use of such structures fit in the self-funding model because they substitute the need of corporate debt.

Moreover, the case of tax equity in the US also enables an efficient utilization of the tax benefits provided by the project thus improving its economics. In a simple view, under the tax equity partnerships, tax equity investors contribute a sizable part of the initial project investment, receiving in return almost all of the PTCs granted to the project for first ten years of operation.

In the case of project finance, it is also a means to contract long-term debt in local currency at competitive costs in order to mitigate the refinancing risk and to reduce the foreign exchange risk by having a natural hedge between revenues and expenses.

In 2014 EDPR closed three tax equity transactions relating to the total 329 MW capacity added in the US this year, and corresponding to tax equity financing proceeds of US$ 332 million (c. EUR 250 million). These transactions bring total tax equity financing proceeds ever raised by EDPR close to US$ 2.9 billion.

Signing	Project name	Location	MW	Million	Timing	Counterparty
Oct-14	Rising Tree North	California	99	USD 109	4Q14	MUFG Union Bank
Set-14	Lone Valley	California	30	USD 33	4Q14	(undisclosed)
Jul-14	Headwaters	Indiana	200	USD 190	4Q14	BofA Merrill Lynch
	US Tax equity:		329	EUR 250		
Aug-14	Korsze	Poland	70	PLN 220	3Q14	Bank of China
Mar-14	Solar PV plants	Romania	50	EUR 30	3Q14	EBRD + BSTDB
Jan-14	South Branch	Canada	30	CAD 49	1Q14	(undisclosed)
	Project finance:		150	EUR 116		

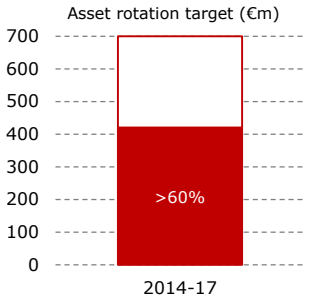
On the other hand, during 2014 EDPR also closed three more project finance deals, in Canada, Romania and Poland, amounting to project financing proceeds of c. € 116 million. In Eastern Europe alone, EDPR closed a total of eight project finances for a total of c. € 558 million, providing strong evidence of the company's competences in developing top quality projects that allow to establish solid financial structures meeting the requirements of partners with very rigorous investment criteria.

ASSET ROTATION

Proceeds from asset rotation transactions are also important sources of funds to the self-funding model of EDPR in financing its profitable growth of the business. Such model enables the company to advance the value yet to be realized from the future cash-flows of its existing projects over their long remaining lifetime, and reinvest the corresponding proceeds in the development in additional new value accretive projects, with superior returns to the costs of the asset rotation proceeds themselves. These transactions involve the company selling minority stakes at the level of the projects (typically of 49%), and still maintaining full management control over these projects. Moreover, the scope of projects for these transactions tend to be mature projects, generally already operating and thus significantly de-risked, with a high quality in its future cash-flows, that can be attractive to low risk institutional investors from who EDPR can then source a competitive cost of finance.

First asset rotation deal was signed in late 2012, and since then a total eight transactions have been closed, bringing the total amount raised to € 1.2 billion.

In 2014, three transactions have been closed, involving assets located in three countries: the US, France and Canada, with different infrastructure funds as counterparties. Also at the end of the year, in the context of the ongoing strategic partnership between EDP and China Three Gorges, one additional transaction was signed, this time relating to wind farm wind farms and projects in Brazil.



With 2014 transactions alone, over 60% of the € 700 million asset rotation target for 2014-17 period is already completed and closed at competitive multiples

About the above mentioned strategic partnership between EDPR's major shareholder, EDP, and CTG, apart from the transaction closed at the end of 2014, involving 49% of the 84 MW operating and the 237 MW under development from EDPR Brazil, for a total of R$ 365 million with financial closing expected by the mid of the following year, it is worth recalling EDPR received in the mid of 2013 the sum of € 368 million from the 49% sale of 615 MW in operation and 29 MW ready-to-build in EDPR Portugal, and signed at the end of that same year, a MoU envisaging the future sale of 49% of what the scope to be owned by EDPR in ENEOP after the asset splitting process of this consortium in Portugal, expected to occur in 2015. For the record, the referred strategic partnership was established at the end of 2011 and entered into force in May 2012, foreseeing a total € 2 billion investment by CTG until 2015 (including co-funding capex) in operating and ready-to-build renewable energy generation projects, that may include wind energy assets from EDPR and, as after agreed, selected hydro power plants from other EDP business units.

Signing	Location	Scope MW	Stake	Million	Million EV/MW	Timing	Partner
	Asset rotation:						
Nov-14	Canada	30	49%	-	CAD 3.3 (3.3)		Northleaf Capital Partners
Oct-14	France	270	49%	-	EUR 1.3 (1.9)		EFG Hermes
Aug-14	US	801+300	25-49%	-	USD 1.5 (2.3)		Fiera Axium Infrastructure
Oct-13	France	100	49%	-	EUR 1.3 (1.7)	1Q14	Axpo
Sep-13	US	97	49%	-	USD 1.0 (2.0)		Fiera Axium Infrastructure
Nov-12	US	599	49%	-	USD 1.3 (2.4)	4Q12	Borealis Infrastructure
				^EUR 719			
	Strategic partnership:						
Dec-14	Brazil	84+237	49%	BRL 365	-	2Q15	China Three Gorges
Dec-13	Portugal, ENEOP	^543	49%	(MoU)	-	2Q15	""
Dec-12	Portugal	615+29	49%	EUR 368	EUR 1.6 (2.4)	2Q13	""
				EUR 481			

2.2.4. SUSTAINABILITY ROADMAP

EDPR, as a renewable energy company, creates great expectations in its stakeholders about Sustainability. Responding to these expectations the company keeps committed to excel in all three pillars of sustainability – namely the economic, the environmental and the social – defining a strategy of best practices.

Following a culture of continuous improvement, 10 Sustainability goals were defined within the 2014-2017 Business Plan. This roadmap brings together the three sustainability pillars and is laid down in 10 different areas: Operational growth, Risk controlling, Economic value creation, Environment, Value circle, People, Governance, Stakeholder Engagement, Innovation and Society. Defined goals make performance measurable to help drive the company as a growing leader in value creation, innovation and sustainability.

1	Maintain leadership position in RENEWABLE ENERGY PRODUCTION	• Installed capacity: > 2,000 MWs additions • Avoided CO_2: +7% (CAGR vs. 2013) • < 1% emitted / avoided CO_2
2	CREATE VALUE while maintaining a LOW RISK profile	• EBITDA: +9% (CAGR vs. 2013) • Net Profit: +11% (CAGR vs. 2013) • OPEX/MW: -2% (CAGR vs. 2013)
3	Optimize ENVIRONMENTAL MANAGEMENT	• 100% Certified MWs (ISO 14001)
4	Maintain CIRCULAR ECONOMY in the internal management of the operations	• Maintain hazardous wastes and used water per GWh ratios aligned with previous years • > 90% Hazardous wastes recovered
5	Ensure high SAFETY STANDARDS for employees and contractors	• 100% Certified MWs (OHSAS 18001) • Zero accidents mind-set
6	Ensure a high standard ETHICAL PROCESS	• Zero tolerance for unethical behaviours
7	Broaden and harmonize the mechanisms of periodic consultation of STAKEHOLDERS	• Stakeholders plan development in 3 geographies
8	Invest in employees development of CORE COMPETENCIES and ensure continued compromise with society through VOLUNTEERING	• >80% of employees in training activities • >30% of employees in volunteering activities
9	Promote INNOVATION in operation phase increasing assets efficiency	• c. €10 million investment
10	Support SOCIAL AND EDUCATIONAL INITIATIVES through Fundación EDP	• c. € 500 thousand per year investment

2.3. RISK MANAGEMENT

In line with EDPR's controlled risk profile, Risk Management process defines the mechanisms for evaluation and management of risks and opportunities impacting the business, increasing the likelihood of the company achieving its financial targets, while minimizing fluctuations of results without compromising returns.

RISK MANAGEMENT PROCESS

EDPR's Risk Management Process is an integrated and transversal management model that ensures the implementation of best practices of Corporate Governance and transparency in the communication to the market and shareholders. This process is closely followed and supervised by the Audit and Control Committee, an independent supervisory body composed of non-executive members.

The purpose of the Risk Management process is to ensure the alignment of EDPR's risk exposure with the company's desired risk profile. It consists in the identification and prioritization of risks, the development of adequate risk management policies and their implementation. Risk management policies are aimed to mitigate risks, without ignoring potential opportunities, thus, optimizing return versus risk exposure.

Risk management is endorsed by the Executive Committee, supported by the Risk Committee and implemented in day-to-day decisions by all managers of the company. It is supported by three distinct organizational functions, each one with a different role: Strategy (Risk Profiler), Management (Risk Manager) and Controlling (Risk Controller):

- RISK PROFILER: Responsible for identification and analyses of risks, defining policies and limits for risk management within the company;
- RISK MANAGER: Responsible for day to day operational decisions and for implementing approved risk policies;
- RISK CONTROLLER: Responsible for follow up of the result of risk taking decisions and for verifying alignment of operations with general policy approved by the Executive Committee.

These three Risk Functions work together and meet in the Risk Committee, the forum to discuss global risk policies to be implemented and to control the risk exposure of the company.

In order to separate business decisions from strategic analyses and the definition of new policies, EDPR created two distinct meetings of the Risk Committee with different periodicity:

- RESTRICTED RISK COMMITTEE: Held every month, it reviews the risk of new transactions such as new power purchase agreements, new investments, energy price and FX hedges, along with pipeline status and EBITDA @Risk. It helps to control the implementation of defined policies and the exposure to most important risk factors.
- RISK COMMITTEE: Held every quarter, it is the forum where new strategic analyses are discussed and new policies are proposed for approval to the Executive Committee. Additionally, EDPR´s overall risk position is reviewed.

RISK AREAS AND MAIN RISK FACTORS

Risk Management at EDPR is focused on covering all market, credit and operational risks of the company. In order to have a holistic view of risks, they were grouped in Risk Areas covering the entire business cycle of EDPR. The following list summarizes Risk Areas defined within EDPR:

- COUNTRIES & REGULATIONS: Changes in regulations may impact EDPR's business in a given country;
- REVENUES: Revenues received by EDPR's projects may diverge from what is expected;
- FINANCING: EDPR may not be able to raise enough cash to finance its planned Capex; or to fulfil its financial obligations due to changes in exchange rates or bankruptcy of counterparties;
- WIND TURBINE CONTRACTS: Changes in turbine prices may impact projects' profitability; or there may not be sufficient turbine supply to build planned wind farms;
- PIPELINE DEVELOPMENT: EDPR may deliver an installed capacity different from its targets or suffer delays and/or anticipations in its installation;
- OPERATIONS: Projects may deliver a volume different from expected due to turbine availability; financial results can be impacted by human errors.

Within each Risk Area, risks are classified in Risk Groups and finally into Risk Factors. Those are the source of the risk and the purpose of Risk Management at EDPR is to measure, control and eventually mitigate all risk factors that affect the company.

The following table summarizes the Risk Areas, Risk Groups and main Risk Factors of the company's business and the Risk Management mitigation strategies, general and specific to the year 2014.

The full description of the risks and how they are managed can be found in the Corporate Governance chapter.

RISK AREA

- RISK GROUPS AND RISK FACTORS
  - Risk Management mitigation strategies at EDPR

COUNTRIES & REGULATIONS

- COUNTRY RISK (Macroeconomic, Political, Natural disasters)
- REGULATORY RISK (Incentive system, Incentive level, Tax, Operations)
  - Careful selection of energy markets based on country risk and energy market fundamentals
  - Diversification in markets and remuneration schemes
  - Active involvement in all major wind associations in all markets where EDPR is present

REVENUES

- MARKET PRICE RISK (Electricity, Green Certificates, REC, Basis)
- PRODUCTION RISK (NEH uncertainty, Wind volatility, Generation profile, Curtailment)
  - Regulated remunerations schemes in many markets in which EDPR operates
  - Hedge of market exposure through long term power purchase agreements (PPA) or short-term financial hedges

FINANCING

- FINANCIAL MARKETS RISK (Exchange rate, Interest Rate)
- COUNTERPARTY RISK (Credit, Operational)
- LIQUIDITY RISK
  - Natural hedging, maintaining debt and revenues in same currency
  - Execution of FX forwards to eliminate exchange rate transaction risk
  - Fixed interest rates
  - Counterparty credit analysis and compliance with policy
  - Alternative funding sources such as Tax equity structures and Multilateral/ Project Finance agreements

WIND TURBINE CONTRACTS

- TURBINE PRICE RISK (Demand/offer, Macroeconomics and commodity prices)
- TURBINE SUPPLY RISK
  - Signing of medium term agreements with turbine manufacturers to ensure visibility of turbine prices and supply
  - Relying on a large base of turbine suppliers to ensure supply and signing contracts before engaging in tender auctions

PIPELINE DEVELOPMENT

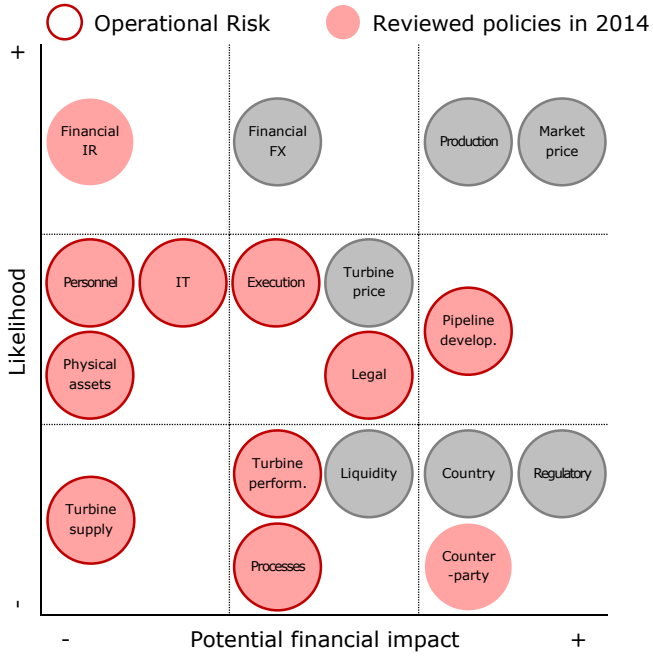
- EXECUTION RISK (Construction, Installation, Supply chain)
- DEVELOPMENT RISK (PPA contract, construction + environmental + interconnection permits)
  - Counterparty credit and technical analysis
  - Supervision of EDPR's engineering team
  - Flexible CODs in PPAs to avoid penalties
  - Employment of a "buffer" to ensure targets are achieved
  - Partnerships with strong local teams
  - Track recurrent operational risks during construction and development

OPERATIONS

- WIND TURBINE PERFORMANCE (Technology, Availability)
  - Closure of technical warranties and medium term full – scope maintenance agreements with suppliers
  - Adequate preventive and scheduled maintenance
- PHYSICAL ASSETS
  - Insurance against physical damage and business interruption
- PERSONNEL (Turnover, Health and safety)
  - Attractive remuneration packages and training
- LEGAL (Compliance, Fraud)
  - Revision of all regulations that affects EDPR activity (environmental, taxes…)
- PROCESSES
  - Control of internal procedures
- INFORMATION TECHNOLOGIES (Technical network, Corporate network)
  - Redundancy of servers and control centres of wind farms

During 2014, EDPR reviewed or defined three Global Risk Policies: Counterparty Risk Policy, Interest Rate Risk Policy and Operational Risk Policy. These policies are already implemented or will be implemented throughout 2015. They tackled those Risk Groups with highest impact in EDPR's financial results.

EDPR RISK MATRIX BY RISK GROUP



FOCUS ON OPERATIONAL RISK AT EDPR

WHAT IS OPERATIONAL RISK?

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

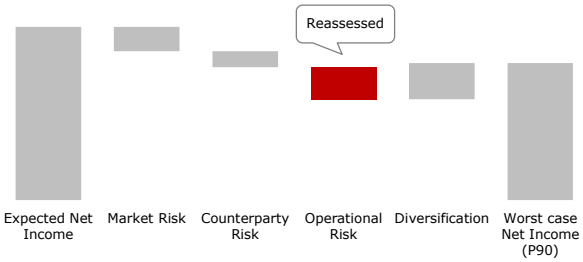
AREAS WITH OPERATIONAL RISK

From an operational perspective, EDPR classifies its risks in seven different categories: Development, Construction, Operation, IT, Legal, HR and Processes.

LIMITS OF NET INCOME @RISK

EDPR monitors Net Income @Risk, which consists on the worst case Net Income (measured as Expected-P90 of Net Income distribution) considering deviations from market, counterparty (credit) and operational.

The new analysis performed during 2014 on operational risk at EDPR has permitted a more accurate measure of Net Income @Risk within EDPR.



03

PERFORMANCE

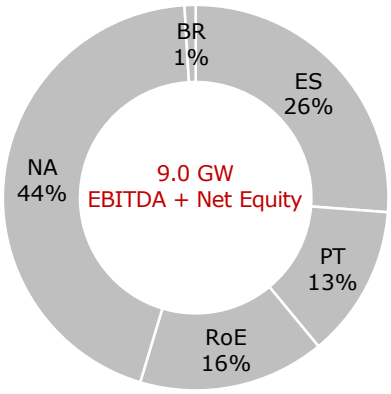
3.1. ECONOMIC

3.1.1. OPERATIONAL PERFORMANCE

2014 was a year of firsts as EDPR built its first project in California, first solar project in the United States and Portugal, and realized the completion of ENEOP

	MW			NCF			GWh		
	YE14	YE13	Var.	FY14	FY13	Var.	FY14	FY13	Var.
Spain	2,194	2,194	-	28%	29%	-1pp	5,176	5,463	-5%
Portugal	624	619	+4	30%	29%	+1pp	1,652	1,593	+4%
Rest of Europe	1,413	1,353	+60	24%	25%	-1pp	2,495	2,132	+17%
Europe	4,231	4,167	+64	27%	28%	-1pp	9,323	9,187	+1%
US	3,805	3,476	+329	33%	32%	+1pp	10,145	9,769	+4%
Canada	30	30	-	27%	-	-	59	-	-
North America	3,835	3,506	+329	33%	32%	+1pp	10,204	9,769	+4%
Brazil	84	84	-	32%	31%	+1pp	236	230	+3%
EDPR: EBITDA	8,149	7,756	+393	30%	30%	-	19,763	19,187	+3%
ENEOP	533	455	+78						
Other equity consolidated	353	353	-						
Spain	174	174	-						
United States	179	179	-						
EDPR: EBITDA + Net Equity	9,036	8,565	+471						

EDPR CONTINUES TO DELIVER SOLID SELECTIVE GROWTH



With a top quality portfolio present in ten countries, EDPR has a strong track record and proven capability to execute superior projects and deliver on targets. The installed asset base of 9.0 GW is not only young, on average 5 years, it is also mostly certified in terms of environmental and health and safety standards.

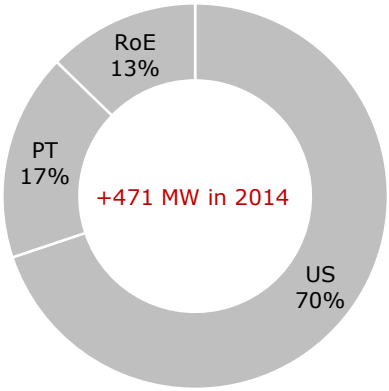
Since 2008, EDPR has doubled its installed capacity with the additions of 4.6 GW, resulting in a total installed capacity of 9,036 MW (EBITDA + Net Equity). As of year-end 2014, EDPR had installed 4,938 MW in Europe, 4,014 MW in North America and 84 MW in Brazil.

During 2014 EDPR added 471 MW to its installed capacity, of which 329 MW were in North America and 142 MW in Europe.

2014 INSTALLATIONS CONCENTRATED IN THE UNITED STATES

Project name	*Country*	*MW*	*Tech*
ENEOP	Portugal	78	Wind
Estarreja	Portugal	2	Solar
Headwaters	US	200	Wind
Ilza	Poland	4	Wind
Lone Valley	US	30	Solar
Overpowering	Portugal	2	Wind
Preuseville	France	6	Wind
Radziejow	Poland	18	Wind
Rising Tree North	US	99	Wind
San Giovanni	Italy	20	Wind
Truc de L'Homme	France	12	Wind
EDPR		471	

The largest growth in MW occurred due to the completion of 329 MW in the U.S., including 30 MW of their first solar project and 99 MW in California, which represents an entry into a new state for EDPR. All of the MW had previously secured long-term power purchase contracts, thus providing long term stability and visibility on the revenue stream. Total EBITDA + Net Equity installed capacity surpassed 4.0 GW in the U.S..



In Europe, half of the growth in capacity came from the completion of the ENEOP project resulting in an additional 78 MW to reach a grand total of 533 MW, which corresponds to EDPR's 40% participation in the Eólicas de Portugal consortium. In addition to the first solar project installed in the U.S., in 2014 EDPR also installed its first solar project in Portugal of 2 MW. All in all, Portugal installed 82 MW (78 MW ENEOP + 2 MW Solar + 2 MW Wind overpowering).

In Poland, EDPR continues to see positive growth with the installation of 22 MW, 18 MW from the Radziejow wind farm located in the central region and 4 MW from Ilza, which brings that project's total capacity to 54 MW.

EDPR added 18 MW to its installed capacity in France with the completion of the Truc de l'Homme wind farm of 12 MW and 6 MW from the Preuseville project. Truc de l'Homme presented numerous developmental challenges that were eventually overcome. Preuseville is an extension of an existing wind farm in north-west France.

After success in the 2014 auctions in Italy, EDPR was able to deliver on 20 MW with the San Giovanni project. Located in the Basilicata Region, the project also represents the installation of the first Vestas V110 2MW 95 meter hub height wind turbines in EDPR's fleet, in a very complex orography with huge slopes and earthworks.

NEARLY 90% OF 2015 EXPECTED CAPACITY ADDITIONS ALREADY UNDER CONSTRUCTION

By the end of 2014, EDPR had over 443 MW under construction all related to projects to be delivered in 2015.

In the U.S., EDPR had 299 MW under construction related to two wind farms with PPAs already secured, Waverly (200 MW in Kansas) and Rising Tree South (99 MW in California). In addition to the capacity already under construction, during 2015 EDPR will also start construction on the Arbuckle wind farm (100 MW in Oklahoma, US), which has a secured PPA.

Although no new capacity was added during the year in Brazil, EDPR has 120 MW under construction, related to the Baixa do Feijão projects after successfully bidding in the A5 auction for 20 year PPAs schedule to start in 2016.

In Europe, 24 MW were under construction: 10 MW in Italy, 6 MW in Portugal, 6 MW in Poland and 2 MW in Spain related to a turbine prototype.

88% OF EDPR'S INSTALLED CAPACITY IS COVERED BY ISO 14001 CERTIFICATION

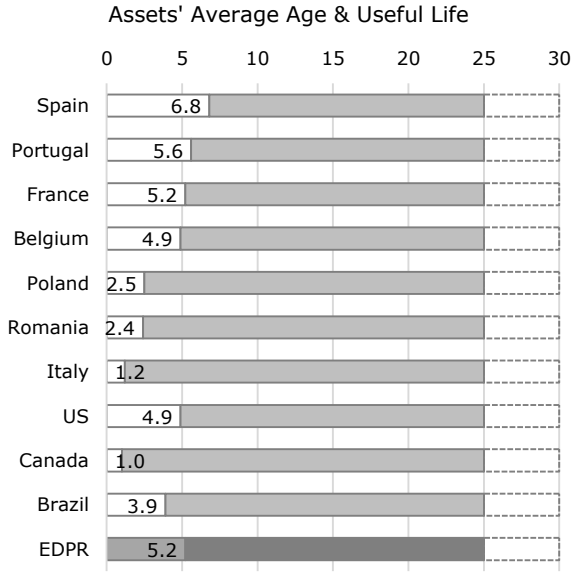
The Environmental Management System (EMS) is developed in accordance with the ISO 14001 international standard and certified by an independent certifying organization. These consensus standards are considered the world's benchmark for EMS Management Systems and is a guarantee that EDPR sites, regardless of its regulatory environment are aligned and at the same level of compliance.

In addition to operating high quality and safe assets, EDPR also has a young portfolio with an average operating age of 5 years, with an estimate of at least 20 years of useful life remaining to be captured.

In Europe, EDPR's portfolio had an average age of 5 years, in North America 5 years, and in Brazil 4 years.

Throughout the entire process, from development to operations, EDPR maintains the highest standards in construction quality, integrity, and sustainability.

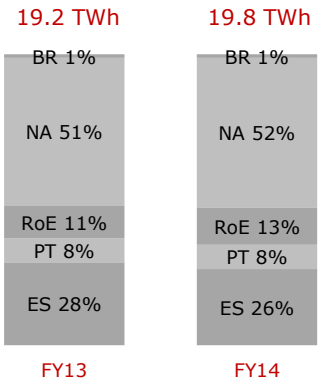
Considerable efforts were conducted to restore the land and biodiversity to either its original state or an improved state, for example by removing hazardous wastes uncovered during construction in California or burying high voltage lines underground to diminish visual impact. During the construction of the solar plants in the U.S., nearly 35 acres of conservation lands for preserving habitat for desert species were created. In Indiana, over 120 kilometres of public county roads were maintained and nearly half of those were strengthened.



However, environmental sustainability is not the only concern. In Italy, an archaeological area was found by the archaeological surveillance team resulting in a very deep campaign to discover and catalogue all the archaeological findings and protect them against the earthworks to be performed. Similarly in California, palaeontologists sifted through over 100 cubic yards of soil in an area of potential significance and all finds will be curated in a museum.

All in all, the total value created by the installation of nearly 0.5 GW is greatly positive.

3% INCREASE IN YOY GENERATION



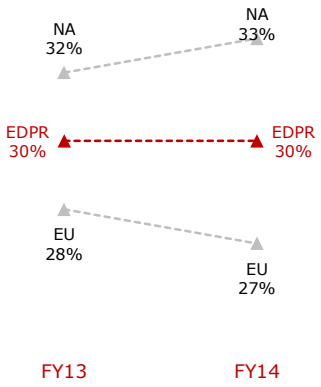
EDPR generated 19.8 TWh during 2014. When adding the over 1 TWh produced from our equity projects, enough clean energy was produced to serve nearly 50% of the electricity demand of Portugal.

The 3% year over year increase in the electricity output benefited from the capacity additions over the last 12 months and the strong wind resource in North America throughout 2014.

EDPR achieved a 30% load factor during 2014, which is in line with last year, maintaining its leading position within the wind sector and reflecting the intrinsic quality of the wind farms.

EDPR also achieved a stellar 98% availability. EDPR continues to leverage on its competitive advantages to maximize wind farm output and on its diversified portfolio to mitigate the wind volatility risk.

PREMIUM PERFORMANCE AND DIVERSIFIED PORTFOLIO DELIVERS BALANCED OUTPUT



EDPR's operations in North America were the main driver for the electricity production growth in 2014, increasing by +4% YoY to 10.2 TWh and represented 52% of the total output (51% in 2013). This performance was driven by EDPR's unique ability to capture the strong wind resource available and the contribution from new additions. EDPR achieved a 33% load factor in North America, +1pp vs. 2013, further reflecting the high quality assets.

Production growth in Europe was mainly due to reaping the benefits from the installed capacity in 2013, which help offset the decline in year over year load factor. All countries deliver positive growth except for Spain where 2013 was considered an above average year.

Iberia delivered a 28% load factor (vs. 29% in 2013), although a decline YoY, the efficiency achieved was above normal expectations and 2013 was an exceptional year for Spain. Moreover, EDPR delivered once again a solid premium over the Spanish market average load factor (+2pp).

The Rest of Europe operations delivered a 24% load factor (25% in 2013) and posted higher year over year generation. Poland increased its production by 253 GWh as new capacity and a solid resource contributed to the strong performance. Higher production in Italy was mainly due to a full year of operations for capacity installed in 2013. The remaining countries delivered stable growth of 28 GWh.

In 2014, EDPR's output in Brazil increased 3% YoY to 236 GWh, as a result of a higher wind resource during the year, and led to a higher load factor of 32%. The Tramandaí wind farm continues to deliver above average load factors.

CARBON FREE EMISSIONS

The 19.8 TWh of electricity produced has zero carbon emissions, thus contributing to the world's fight against climate change. Based on each countries' thermal emission factors, an estimate of 17 million tons of CO_2 equivalent emissions were avoided that would have otherwise been emitted by burning fossil fuels to generate the same amount of electricity in the geographies where EDPR is present.

3.1.2. FINANCIAL PERFORMANCE

Revenues totalled 1.3 billion euros and EBITDA summed 903 million euros

In 2014, EDPR revenues totalled 1,277 million euros, a decrease of 40 million euros when compared to 2013 mainly driven by the lower selling price but mitigated by the 3% output increase. EDPR's average selling price decreased 6% as the result of the lower average selling price in Europe and partially offset by the higher average selling price in North America and Brazil. In Europe, revenues evolution was mainly impacted by EDPR operations in Spain, following the change in assets remuneration framework with the approval of RDL 413/2014 in June 2014 in addition to the unfavourable pool prices, and minimized by EDPR's younger assets and load factor.

EBITDA decreased 17 million euros year on year to 903 million euros, as a result of the top-line evolution and partially offset by lower net operating costs. EBITDA margin increased from 70% to 71%, demonstrating EDPR control over costs and strong efficiency levels.

Financial Highlights (€m)	2014	2013	▲% / €
Income Statement			
Revenues	1,277	1,316	(3%)
EBITDA	903	921	(2%)
Net Profit (attributable to EDPR equity holders)	126	135	(7%)
Cash-Flow			
Operating Cash-Flow	707	677	+4%
Net investments	515	548	(6%)
Balance Sheet			
Assets	14,316	13,058	+1,258
Equity	6,331	6,089	+241
Liabilities	7,986	6,969	+1,017
Liabilities			
Net Debt	3,283	3,268	+14
Institutional Partnerships	1,067	836	+230

Net Profit reached 126 million euros

Impacted by the top line evolution, Net Profit decreased 7% year over year to 126 million euros, while Adjusted Net Profit decreased 25% to 105 million euros, adjusted for non-recurring events, forex differences and capital gains.

Robust Cash-flow

Operating Cash-Flow increased 4% to 707 million euros, higher than the net investments of the period. In 2014, EDPR received 215 million euros related to the financial closing of the asset rotation transactions signed in October 2013 with Axpo Group, and in October and November 2014 with EFG Hermes and Northleaf respectively. In August 2014, EDPR structured an additional asset rotation transaction with Fiera Axium for a portfolio of wind farms in the United States, which final financial close is expected to occur in the first quarter of 2015. Additionally, in 2014, a cash grant of 22 million euro was collected in Poland.

Capital expenditures (Capex) totalled 732 million euros reflecting the capacity additions in the year and the capacity under construction, leading to Net Investments of 515 million euro. As a result of forex translation (impact 170 million euros), investments done in the period, robust cash-flow generation, the execution of the asset rotation strategy and close monitoring of operating costs, Net Debt increase by 14 million euros.

Note: 2013 figures are restated for comparison purposes with IFRS 11 (mandatory from Jan 1st 2014)

INCOME STATEMENT

Solid top line performance despite regulatory changes

EDPR revenues totalled 1,277 million euros, a 3% decrease on the back of a lower average selling price and forex depreciation, mitigated by the positive impact from higher volumes. The impact in the average selling price is mainly driven by changes in Spanish remuneration for renewable assets and negatively magnified by the low market price in the period.

Other operating income increased by 4 million euros, while Operational expenses (Opex) – defined as Operating costs excluding Other operating income - decreased by 18 million euros, leading to a 8% decrease in the Opex per average MW. Excluding levies and write-offs, Opex per average MW decreased by 6% and Opex per MWh by 5%, showing strict control over costs and strong efficiency levels.

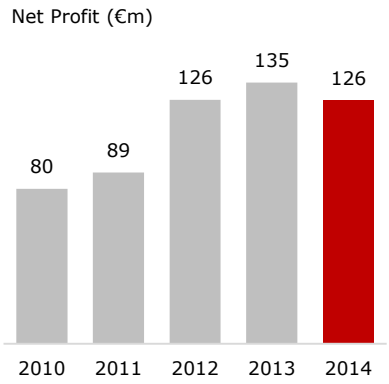
Impacted by the top line, EBITDA decreased 2% to 903 million euros, while EBITDA margin improved to 71% versus 70% in 2013.

Operating income (EBIT) summed 422 million euros, reflecting the 8% higher depreciation and amortisation costs. In 2014, impairments had an impact of 27 million euros in EBIT, mainly as a consequence of a new long-term scenario with more conservative assumptions for EDPR operations in Romania.

At the financing level, Net Financial Expenses decreased 5%. Net interest costs increased 3% due to higher average net debt (+123 million euros versus previous year) along with a stable 5.2% cost of debt. Institutional Partnership costs in 2014 were 7% lower, while capitalised expenses increased by 11 million euros. Forex differences and derivatives had a negative impact of 5 million euros, as the positive impact from Leu was offset by the US dollar appreciation and Zloty depreciation.

Share of profits of associates increased by 7 million euros to 22 million euros, mainly reflecting EDPR's interest in ENEOP, the positive performance of United States associate companies and a Purchase Price Allocation post the acquisition of a company in Mexico, offsetting the negative performance of Spanish associate companies.

Pre-Tax Profit amounted to 194 million euros and income taxes decreased to 16 million euros, due to the positive effect of the approved corporate tax reform in Spain (income tax will be reduced to 25% in 2016 and beyond) impacting deferred assets and liabilities. Non-controlling interests in the period totalled 52 million euros, an increase of 18 million euros on the back of the non-controlling interests sold to CTG in the context of the EDP strategic partnership, to Fiera Axium, Axpo Group, EFG Hermes and Northleaf as part of the execution of the asset rotation strategy. All in all, Net Profit decreased to 126 million euros.



Consolidated Income Statement (€m)	2014	2013	▲%
Revenues	**1,277**	**1,316**	**(3%)**
Other operating Income	46	41	+10%
Supplies and services	(257)	(255)	+1%
Personnel costs	(66)	(66)	(1%)
Other operating costs	(96)	(116)	(17%)
Operating Costs (net)	**(374)**	**(396)**	**(6%)**
EBITDA	**903**	**921**	**(2%)**
EBITDA/Net Revenues	*71%*	*70%*	*+1pp*
Provisions	(0.0)	(1.3)	(98%)
Depreciation and amortisation	(500)	(465)	+8%
Amortization of government grants	19	18	+3%
EBIT	**422**	**473**	**(11%)**
Financial Income / (expenses)	(250)	(262)	(5%)
Share of profits of associates	22	15	+48%
Pre-tax profit	**194**	**226**	**(14%)**
Income taxes	(16)	(57)	(71%)
Profit of the period	178	169	+5%
Net Profit Equity holders of EDPR	**126**	**135**	**(7%)**
Non-controlling interest	52	34	+53%

BALANCE SHEET

Total equity increases by 242 million euros

Total Equity of 6.3 billion euros increased by 242 million euros during year, of which 131 million euros attributable to non-controlling interests. The increased equity attributable to the shareholders of EDPR by 111 million euros is mainly a result of the 126 million euros of Net Profit, reduced by the 35 million euros in dividend payments.

Total liabilities increased 15% by +1,017 million euros, mainly in accounts payable (+549 million euros), financial debt (+236 million euros) and institutional partnerships (+231 million euros).

With total liabilities of 8.0 billion euros, the debt-to-equity ratio of EDPR stood at 126% by the end of 2014, which is an increase from the 114% in 2013. Liabilities were mainly composed of financial debt (49%), liabilities related to institutional partnerships in the US (13%) and accounts payable (24%).

Liabilities to tax equity partnerships in the US stood at 1,067 million euros, and including +217 million euros of new tax equity proceeds received in the 2014. Deferred revenues related to institutional partnerships primarily represent the non-economic liability associated to the tax credits already realized by the institutional investor, arising from accelerated tax depreciation, and yet to be recognized as income by EDPR throughout the remaining useful lifetime of the respective assets.

Deferred tax liabilities reflect the liabilities arising from temporary differences between the accounting and the tax basis of assets and liabilities. Accounts payables include trade suppliers, PP&E suppliers, deferred income related to investment grants received and derivative financial instruments.

As total assets totalled 14.3 billion euros in 2014, the equity ratio of EDPR reached 44%, versus 47% in 2013. Assets were 77% composed of net PP&E - property, plant and equipment, reflecting the cumulative net invested capital in renewable energy generation assets.

Total net PP&E of 11.0 billion euros changed to reflect 749 million euros of new additions during the year of and 630 million euros from forex translation (mainly as the result of a US Dollar appreciation), and reduced by 487 million euros for depreciation charges, impairment losses and write-offs.

Net intangible assets mainly include 1.4 billion euros from goodwill registered in the books, for the most part related to acquisitions in the US and Spain, while accounts receivable are mainly related to loans to related parties, trade receivables, guarantees and tax receivables.

Statement of Financial Position (€m)	2014	2013	▲%
Assets			
Property, plant and equipment, net	11,013	10,095	918
Intangible assets and goodwill, net	1,405	1,301	104
Financial investments, net	376	346	30
Deferred tax assets	46	109	(63)
Inventories	21	15	6
Accounts receivable – trade, net	146	202	(56)
Accounts receivable – other, net	859	655	204
Financial assets at fair value through profit and loss	-	0	0
Collateral deposits	81	78	3
Cash and cash equivalents	369	255	114
Total Assets	**14,316**	**13,058**	**1,258**
Equity			
Share capital + share premium	4,914	4,914	-
Reserves and retained earnings	742	623	119
Net profit (equity holders of EDPR)	126	135	(9)
Non-controlling interests	549	418	131
Total Equity	**6,331**	**6,089**	**242**
Liabilities			
Financial debt	3,902	3,666	236
Institutional partnerships	1,067	836	231
Provisions	99	65	34
Deferred tax liabilities	270	367	(97)
Deferred revenues from institutional partnerships	735	672	63
Accounts payable – net	1,912	1,363	549
Total Liabilities	**7,986**	**6,969**	**1,017**
Total Equity and Liabilities	**14,316**	**13,058**	**1,258**

CASH FLOW STATEMENT

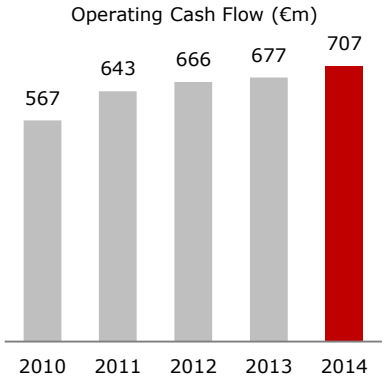
Strong Operating Cash Flow

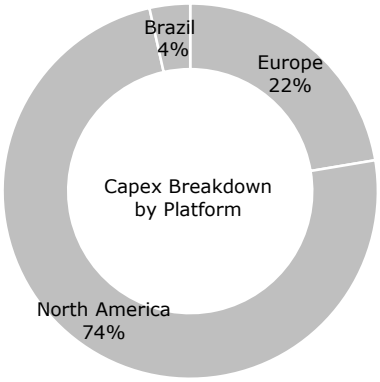
In 2014, EDPR generated Operating Cash-Flow of 707 million euros, a 4% increase from the prior year. EDPR continues to benefit from the strong cash-flow generation capabilities of its assets in operation.

The key items that explain 2014 cash-flow evolution are the following:

- Funds from operations, resulting from EBITDA after net interest expenses, share of profits of associates and current taxes, increased to 668 million euros;
- Operating Cash-Flow, which is the EBITDA net of income tax and adjusted by non-cash items (namely income from US institutional partnerships and write-offs) and net of changes in working capital, amounted to 707 million euros;
- Capital expenditures with the ongoing construction and development works totalled 732 million euros. In Europe capex totalled 164 million euros, mainly in Rest of Europe, while 543 million euros were invested in North America, the core growth of EDPR 2014-17 business plan. Other net investing activities amounted to +198 million euros, mostly reflecting equipment suppliers invoices already booked but not yet paid and a government grant for investments collected in Poland;
- Pursuing its asset rotation strategy, in 2014 EDPR signed agreements with Fiera Axium, EFG Hermes, Northleaf and CTG (in the context of EDP strategic partnership). In 2014 EDPR received 215 million euros of proceeds regarding EFG Hermes, Northleaf and Axpo Group (signed in October 2013) transactions. The settlement of Fiera Axium transaction is expected to occur in the first quarter of 2015;
- Net proceeds from Institutional Partnerships reached 148 million euros. In 2014, EDPR secured three institutional tax equity financing structures in the United States for a total of 332 million US Dollars. Proceeds received in 2014 from these transactions totaled 289 million US Dollars (217 million euros);
- Total net dividends and other capital distributions paid to minorities, including the payment of dividends to EDPR shareholders (35 million euros), amounted to 79 million euros. Forex & Other had a negative impact increasing Net Debt by 291 million euros, mainly explained by the impact from US dollar appreciation and other forex translation (170 million euros), and shareholder loans to associates.

All in all, Net Debt increased by 14 million euros, to 3,283 million euros by year end. In line with the self-funded business model and focus on operational excellence, EDPR continues to benefit from the solid free cash-flow generation capabilities of its premium assets.





Cash Flow (€m)	2014	2013	▲%
EBITDA	**903**	**921**	**(2%)**
Current Income Tax	(50)	(89)	(44%)
Net interest costs	(207)	(199)	+4%
Share of profits of associates	22	15	+48%
FFO (Funds from operations)	**668**	**648**	**+3%**
Net interest costs	207	199	+4%
Income from associated companies	(22)	(15)	+48%
Non-cash items adjustments	(130)	(125)	+4%
Changes in working capital	(16)	(30)	(44%)
Operating Cash Flow	**707**	**677**	**+4%**
Capex	(732)	(627)	+17%
Financial Investments	(19)	(47)	(58%)
Changes in working capital related to PP&E suppliers	192	(180)	-
Government Grants	22	91	(76%)
Net Operating Cash Flow	**173**	**(86)**	-
Sale of non-controlling interests and shareholders' loans	215	402	(47%)
Proceeds/(Payments) related to Institutional partnerships	148	(36)	-
Net interest costs (post capitalisation)	(180)	(183)	(2%)
Dividends net and other capital distributions	(79)	(58)	+37%
Forex & Other	(291)	(21)	-
Decrease / (Increase) in Net Debt	**(14)**	**19**	**-**

FINANCIAL DEBT

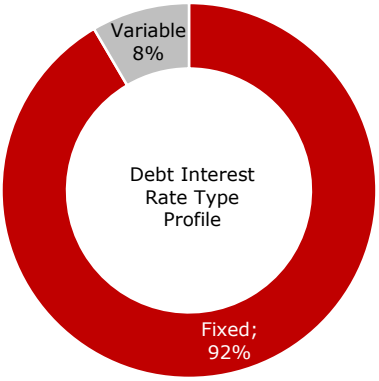
Long-term and stable debt profile

EDPR's total Financial Debt increased by 234 million euros to 3.8 billion euros, reflecting US Dollar appreciation, investments done in the period and the proceeds from the execution of the asset rotation transactions. Loans with EDP group, EDPR's principal shareholder, accounted or 76% of the debt, while loans with financial institutions represented 24%.

To continue to diversify its funding sources EDPR keeps on executing top quality projects enabling the company to secure local project finance at competitive costs. In 2014, EDPR closed three project finance transactions: i) 49 million Canadian dollars for 30 MW of EDPR's first wind farm in Canada; ii) 30 million euros for 50 MW of solar power plants in operation in Romania; iii) 220 million Zlotys for 70 MW wind farm in Poland.

As of December 2014, 52% of EDPR's financial debt was Euro denominated, 39% was funded in US Dollars, related to the company's investment in the United States, and the remaining 9% was mostly related with debt in Polish Zloty and Brazilian Real.

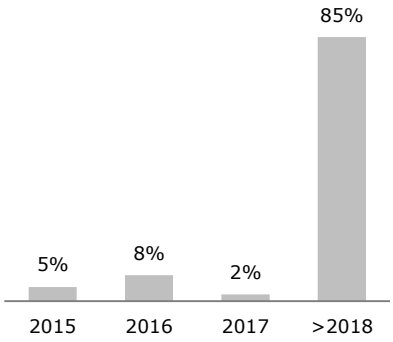
EDPR's debt has a long-term profile as 85% of the financial debt has a 2018 and beyond maturity. EDPR continues to follow a long-term fixed rate funding strategy, matching the Operating Cash-Flow profile with its financial costs and therefore mitigating interest rate risk. Accordingly, 92% of EDPR's financial debt has a fixed interest rate and, as of December 2014, the average interest rate was 5.2%, stable year on year.



Institutional Partnerships

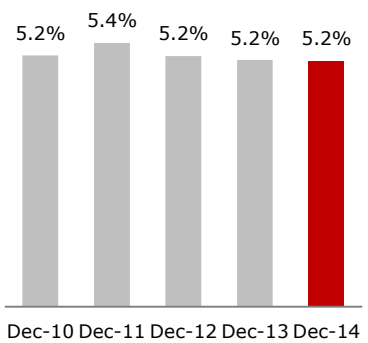
Liabilities referred to Institutional Partnerships increased 230 million euros to 1,067 million euros, due to US dollar appreciation in December 2014 versus December 2013, the benefits captured by the tax equity partners and the establishment of new institutional tax equity financing structures during the period.

Debt Maturity Profile



Financial Debt (€m)	2014	2013	▲€
Nominal Financial Debt + Accrued interests	3,902	3,666	+236
Collateral deposits associated with Debt	81	78	+2
Total Financial Debt	**3,821**	**3,588**	**+234**
Cash and Equivalents	369	255	+113
Loans to EDP Group related companies and cash pooling	170	64	+106
Financial assets held for trading	-	0.1	(0.1)
Cash & Equivalents	**538**	**319**	**+219**
Net Debt	**3,283**	**3,268**	**+14**

Cost of Debt

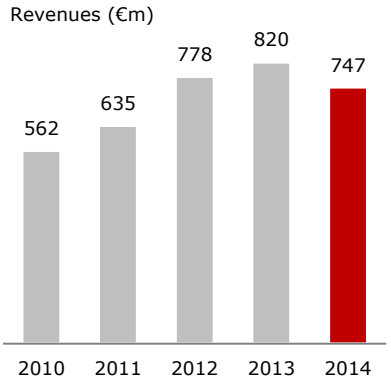


EUROPE

Revenues

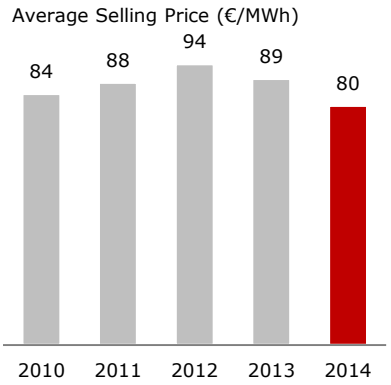
In Europe, EDPR delivered revenues of 747 million euros, a decrease of 73 million euros versus 2013, reflecting the impact from the lower average selling price of 93 million euros, that offset the positive effect from the increase in output, of 21 million euros.

In detail, the decrease in revenues was a result of lower revenues in Spain (-93 million euros), mitigated by the increase in revenues in Portugal (+5 million euros) and Rest of Europe (+16 million euros). Consequently, the contribution from Spain decreased from 53% to 46%, while contribution from Portugal and Rest of Europe increased from 20% to 22% and 27% to 31%, respectively.



Average Selling Price

The average selling price in Europe decreased 10% to 80 euros per MWh, mainly driven by Spanish changes in the remuneration framework for renewable assets, and in Rest of Europe by the lower realised price in Romania, with green certificates being sold at the floor of the regulated collar.



Net Operating Costs

Net Operating Costs decreased 12% year on year, to 202 million euros, as a results of 12 million euros decrease in Operating costs and a 15 million euros increase in Other operating income, mainly due to a price adjustment in the sale of Portuguese assets to CTG following lower corporate taxes in Portugal. EDPR strict control over costs and high level of efficiency is reflected in the 11% decreased of Opex per average MW in operation ratio, reaching 57.3 thousand euros.

All in all, EBITDA in Europe totalled 544 million euros, leading to an EBITDA margin of 73%, while EBIT reached 275 million euros.

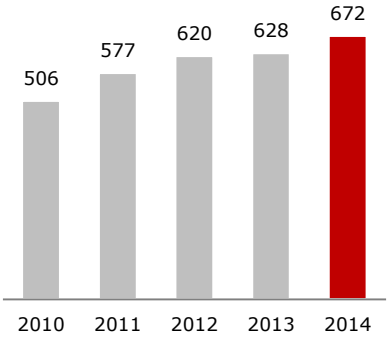
Europe Income Statement (€m)	2014	2013	▲€
Revenues	**747**	**820**	**(9%)**
Other operating income	27	12	+128%
Supplies and services	(141)	(138)	+2%
Personnel costs	(22)	(26)	(12%)
Other operating costs	(65)	(78)	(16%)
Operating Costs (net)	**(202)**	**(230)**	**(12%)**
EBITDA	**544**	**590**	**(8%)**
EBITDA/Net Revenues	*73%*	*72%*	*+1pp*
Provisions	(0.0)	(0.1)	(79%)
Depreciation and amortisation	(271)	(236)	+15%
Amortization of government grants	2	1	+46%
EBIT	**275**	**355**	**(23%)**

NORTH AMERICA

Revenues

In 2014, Revenues increased 7% to 672 million US Dollars, supported by 5% increase in the average selling price and 4% increase in production.

Revenues (US$m)



Average Selling Price

Average selling price increased by 5% versus 2013, to 51 US Dollars per MWh, propelled by higher output towards wind farms under PPA/Hedge. Selling prices for the production exposed to wholesale electricity prices also went up, from 32 US Dollars per MWh in 2013 to 41 US Dollars per MWh, benefiting from higher gas prices, due to low gas inventories and unusually cold winter in the first months of 2014, and an increase in REC prices.

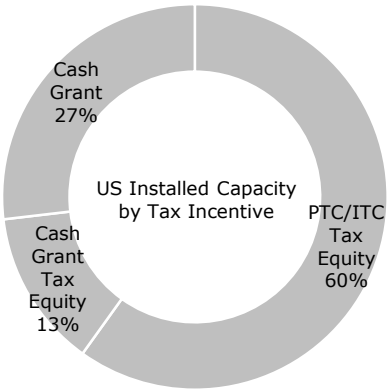
Net Operating Costs

Net Operating Costs increased 2% to 194 million US Dollars, mainly due to the lower Other operating income that offset the decrease in operating costs. The decrease in other operating income reflects the 18 million US Dollars from the restructuring of the off-taking volumes of a PPA for 200 MW in 2013. A strict control over costs and high efficiency levels resulted in 7% decrease in Opex per MW, to 61 thousand US Dollars.

Institutional Partnerships and Government Grants

Income from Institutional Partnerships totalled 164 million US Dollars. The projects that opted for the cash grant benefited from lower depreciation charges, booked in the income statement as amortisation of government grants, totalling 23 million US Dollars.

In 2014, EDPR established three institutional tax equity financing structures for a total amount of 332 million US Dollars, in exchange for an interest in the 200 MW Headwaters wind farm, 30 MW Lone Valley solar PV plant and 99 MW Rising Tree North.



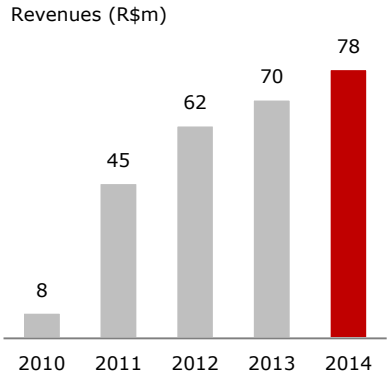
All in all, EBITDA went up 9% to 477 million US Dollars, leading the EBITDA margin to increase to 71%.

North America Income Statement (US$m)	2014	2013	▲%
Electricity Sales & Other	508	462	+10%
Income from Institutional Partnerships	164	166	(1%)
Revenues	**672**	**628**	**+7%**
Other operating income	23	40	(43%)
Supplies and services	(145)	(143)	+1%
Personnel costs	(37)	(38)	(3%)
Other operating costs	(36)	(49)	(27%)
Operating Costs (net)	**(194)**	**(190)**	**+2%**
EBITDA	**477**	**438**	**+9%**
EBITDA/Net Revenues	*71%*	*70%*	*+2pp*
Provisions	-	(2)	-
Depreciation and amortisation	(292)	(288)	+1%
Amortization of government grants	23	23	+0%
EBIT	**208**	**171**	**+22%**

BRAZIL

Revenues

In Brazil, EDPR reached revenues of 78 million reais, representing a year on year increase of 13%, mainly explained by the higher average selling price.



Average Selling Price

The average selling price in Brazil increased 12% to R$346 per MWh, basically reflecting the PPA update price according with inflation type adjustment.

EDPR installed capacity in Brazil, 84 MW, is fully under incentive programs for renewable energy development. These programs provide long-term visibility, setting long-term contracts to sell the electricity produced for 20 year, which translates into a stable and visible cash-flow generation throughout the projects' life.

Net Operating Costs

Net Operating Costs increased during the year by 3 million reais, mainly due to higher Other operating costs and at a lesser extend due to the increase in personnel costs, mitigated by lower supplies and services. Following the outstanding top line performance, in 2014, EBITDA reached 48 million reais, an increase of 15% versus previous year, with the EBITDA margin increasing to 61%.

Brazil Income Statement (R$m)	**2014**	**2013**	**▲%**
Revenues	**78**	**70**	**+13%**
Other operating income	0.0	-	-
Supplies and services	(19)	(22)	(15%)
Personnel costs	(4)	(3)	+27%
Other operating costs	(8)	(2)	+202%
Operating Costs (net)	**(31)**	**(28)**	**+9%**
EBITDA	**48**	**41**	**+15%**
EBITDA/Net Revenues	*61%*	*59%*	*+2pp*
Provisions	-	(0.1)	-
Depreciation and amortisation	(19)	(18)	+1%
Amortization of government grants	0.1	-	-
EBIT	**29**	**23**	**+27%**

3.2. ENVIRONMENT

3.2.1. ECOLOGICAL FOOTPRINT

EDPR is a leading company in renewable energy. We produce clean and green energy, energy without emissions. Our strategy towards the environment is based on four pillars: the generation of CO_2-free and water-free energy, minimization of environmental impacts during the life-cycle of our wind farms, respect for the biodiversity and a culture of responsibility and recycling.

Even though we are in a clean energy business, we go beyond our commitment with the environment by fostering a corporate culture in which initiatives and activities are consistent with environmental responsibility. Therefore we are committed to minimize the environmental impact of our operations and measure the footprint from our administrative activities and plants electricity consumption, representing 0.2% of the emissions avoided. Despite this low impact we encourage reducing these emissions by improving our practices. EDPR's small footprint regarding CO_2 emissions and water is due to administrative activities and plants electricity consumption.

ZERO EMISSIONS

- Zero carbon emissions
- Avoided 17.0 million tons of CO_2 emission

WATER FREE

- Virtually no water used in electricity generation
- 0.56 litres of consumed water per MWh

LOW WASTE GENERATION

- 26 kilograms of hazardous wastes per GWh
- 96% of hazardous wastes recovered

OVERALL POSITIVE IMPACT IN BIODIVERSITY

EDPR...

- Co-exists peacefully and abundantly with most wildlife
- Mitigates climate change; being a zero-emission company is the best way to protect biodiversity
- Respects biodiversity in all phases of the plant's life-cycle
- Seeks a positive biodiversity balance, defining initiatives to prevent, correct and compensate identified risks

3.2.2. BIODIVERSITY

In the long term, EDPR aims to contribute to an overall positive balance to the world's objective of reducing biodiversity loss due to human activity, one of today's greatest challenge.

In an effort to seek a positive balance in biodiversity, numerous initiative were performed in 2014:

Iberian wolf

The Iberian wolf is a species subject to particular attention as stated in the specific legislation for the protection and preservation of its habitat. It is estimated that there are nearly 300 specimens of Iberian wolf in Portugal whose habitat extends from the district of Viseu to the north of the country.

EDPR has several wind farms in this area, which have been developed with the contribution of specialists in Iberian wolf. Tracking programs were established in the most sensible areas, as well as mitigation and compensation measures for this species and its habitat.

Many of these measures are intended to reduce the conflict between the local population and the Iberian wolf, trying to direct the wolf towards the wild prey species existing in their habitat.

Rainwater collection systems

In 2014, as part of one of its environmental targets within environmental management system, EDPR has conducted a series of implementations of rainwater uptake systems in several Spanish substations.

The main objective is to reduce water consumption from other less sustainable sources in such a way that, taking advantage of rainwater, good environmental practice is done and a trend towards a self-sufficiency model is performed. Before the establishment of the target, there were already 14 installations using this system and, from the implementation to date, rainwater systems have been installed in further 17 substations. As a result of this measure, today 53% of the water consumed in Spain is rainwater origin.

During 2015 it is expected this system to be installed in another 5 substations, so that almost 80% of Spanish installations would benefit from this supply.

Additionally, this type of systems were implemented in other European geographies, 65% of the water used in Portugal and 100% in Belgium is rainwater collected.

Environmental restoration

EDPR has launched an environmental restoration program in several Spanish facilities. The aim of this measure is to prevent problems arising from erosion as well as improving the landscape integration.

Since 2013 and until late 2014, the actions that have been made, were plantations and hydro-seeding, slopes restructuring and drainage structures improvement. Furthermore, aged rock slope labors were carried out for optimal integration. After completion of each performance, environmental technicians along with the companies in charge of the environmental monitoring, keep tracking the evolution.

So far, 16.2 hectares have been hydro-seeded, 24,215 units were planted and 2.83 hectares have been integrated in landscape. Results to date are satisfactory and the development of more planned measures are expected for 2015.

Golden Eagle study

The golden eagle population status largely affects the manner by which EDPR develops and operates its wind projects in adherence with the Bald and Golden Eagle Protection Action (BGEPA).

EDPR has contributed funding to the Oregon Eagle Foundation (OEF) and the Washington Department of Fish and Wildlife (WDFW) to conduct state-specific efforts to understand population status of eagles in those states. Thus far, OEF has completed four years of surveys, and WDFW has completed two years. Results of these surveys are forthcoming, but initial results do not indicate that Washington and Oregon eagle populations are in large decline.

Bat curtailment story

Direct mortality at wind turbines is currently the greatest concern for bats in general at wind facilities

EDPR has instituted a conservation program that incorporates feathering* operational wind turbines below the manufacturer's operational cut-in speed from ½ hour before sunset to ½ hour after sunrise during the fall migration period (August 1st to October 15th).

Starting in 2014, seven of EDPR's wind facilities fully feathered all wind turbines below the manufacturer's operational cut-in speed for the fall migration season. EDPR will continue to implement this conservation plan in future years and will enhance the functionality at many sites for the 2015 season.

3.2.3. ENVIRONMENTAL MANAGEMENT

EDPR is strongly committed to contribute to the protection of the environment and biodiversity through a proactive environmental management of its wind farms in operation, as is stated in our Environmental and Biodiversity policies (detailed information available at www.edpr.com).

The operation stage of wind farms, with a useful life of 25 years, stands as the core of our business. According to this, we are conscious of the importance of proper management of environmental matters in our facilities in operation, which is assured through the Environmental Management System (EMS).

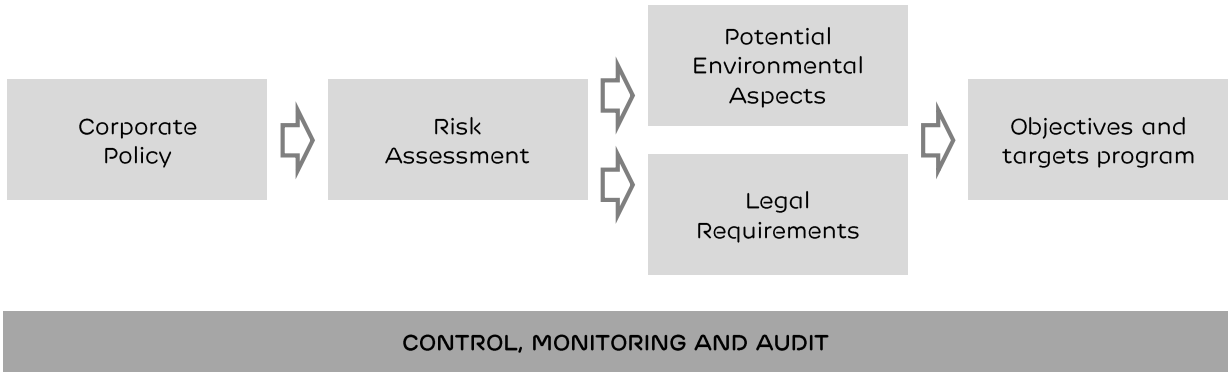
WHAT IS THE EMS?

EDPR's Environmental Management System (EMS) is a framework that helps the company achieve its environmental goals through consistent control of its operations, applicable to operations and maintenance phase of wind farms and solar PV plants, with the aim of improving its environmental performance.

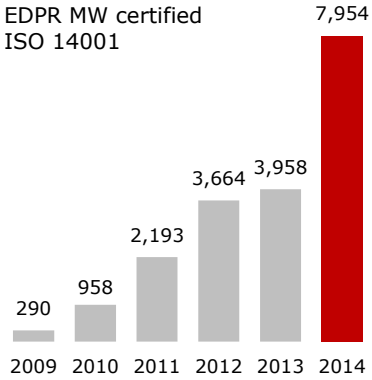
The system ensures focus on relevant environmental aspects, compliance with legal requirements while setting environmental objectives and targets to improve our environmental performance at country and platform levels.

HOW DOES THE EMS PROCESS WORK?

The implementation efforts of EDPR EMS started in 2008. All this is sustained by a continual improvement of the environmental performance mind-set and a qualified team aligned with the environmental strategy of the company. Both, our environment specialists and the network of external partners working with us, stand out for their extensive professional experience and knowledge of the environmental field.



HOW IS THE EMS CERTIFIED?



The EMS is developed in accordance with the ISO 14001 international standard and certified by an independent certifying organization. These consensus standards are considered the world's benchmark for EMS Management Systems and is a guarantee that EDPR sites, regardless of its regulatory environment are aligned and at the same level of compliance.

In 2014, EDPR accomplished its target to have its EMS certified ISO 14001 in all its wind farms in the US, adding 3.655 certified MW to its portfolio of 100% European sites in operations certified in 2014 in Europe. **88% of EDPR's 9.0 GW installed capacity is covered by ISO 14001 certification,** including 7,649 EBITDA MW and 305 Equity MW.

3.3. STAKEHOLDERS

3.3.1. EMPLOYEES

To attract, develop and retain talent is a main goal of EDPR's Human Resources strategy. At EDPR, our people are very important and we, as a responsible employer, want to retain them by offering quality employment that can be balanced with personal life.

Despite a difficult macroeconomic environment, our employee base increased by three percent over last year to reach 919. New employees have the opportunity to join a company with a strong work culture that emphasizes team work within a diverse environment represented by 24 nationalities.

We strive to offer our workforce with opportunities to develop professionally and to assume new roles to reach the company's goals. Our employees are distributed globally as 21% of our employees work at EDPR Holding, 46% within the European Platform, 30% within the North American Platform and 3% in Brazil. All are encouraged to take advantage of the functional and geographic mobility opportunities so they can assume more responsibilities.

HIRING

As part of the employee recruiting strategy, EDPR is committed to hiring the brightest people and seeks potential employees attending top universities and business schools. We have carried out different initiatives to enhance employer branding by participating in different Employer forums and hosting visits from top-tier universities. EDPR offers an internship program aimed at giving young professionals work experience and potentially identifying future employees with growth potential who can contribute to the future development of the business.

EDPR hires talented individuals who are passionate about the industry and share our vision and purpose. When hiring, the company takes into account not only the specific job skills for a certain position but also the behavioural skills, which are at the base of the organisational culture. As a company devoted to sustainability, EDPR aims to combine career goals with company values.

- Team Oriented Environment: EDPR promotes an environment based on team building.
- Career Development: EDPR recognizes the importance of career development, helps employees acquire knowledge to master the business, and rewards employees for their innovation, hard work and performance.
- Diversity: EDPR has a diverse team, with employees from a wide range of backgrounds and cultures.
- Sustainability: EDPR aims to encourage environmental, economic and social stewardship by its employees.

At EDPR, we hire top talent ensuring a non-discriminatory selection processes. This is confirmed in the Code of Ethics which contains specific clauses of non-discrimination and equal opportunities in line with the company's culture of diversity.

In 2014, EDPR hired 120 employees, 29% of which are women. EDPR additionally offered 69 long term internships and 22 summer internships.

INTEGRATION

EDPR has a strong company culture, and wants new hires to be able to understand this culture and quickly adopt it in their day-to-day activities. To encourage this, new hires are involved in a number of workshops and team building activities aimed at improving integration and gaining a better understanding of the company.

Our Welcome Day, a three day event for new hires, allows new employees to obtain basic knowledge of the company, our business, and depending on the employee's profile, a visit to one of the wind farms or the remote control dispatch centre. In 2013, EDPR introduced a new integration tool called the Induction Plan that was further developed in 2014. New hires spend a few days at the corporate headquarters and are guided by colleagues from different areas to learn key aspects of their job and gain a better understanding of their work and how it contributes to the mission of EDPR.

SAFE ENVIRONMENT

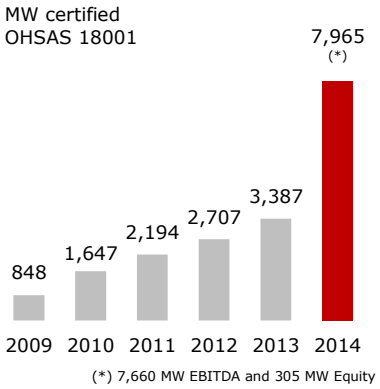
Guaranteeing a healthy and safe work environment for our employees and contractors is fundamental in all aspects of the business. EDPR's Health and Safety policy, available on our website, reflects the company's commitment to the prevention of occupational risks associated with our activities.

To support our strategy on health and safety, we have implemented proper management systems. These systems are adapted to each country, with specific standards and procedures based on the regulation and best practices.

The Management System is being certified OHSAS 18001:2007. During 2014, EDPR achieved an important milestone with the implementation of the Environmental Management System in the United States. With the implementation, almost 88% of EDPR's capacity is now OHSAS 18011 certified.

During 2014, EDPR registered an injury rate of 4.50 and a severity rate of 140. The increase in the injury rate is mainly driven by an increase in the number of accidents with short-term absences; however, the average duration of the absence was lower versus 2013. Additionally, the severity rate increased due to a long-term absence coming from 2013.

Overall, the trend improves despite the increase in the number of accidents recorded. In 2015, greater focus on communicating the policies and the realization of benefits from OHSAS certification achieved during 2014 will help drive improvements in the ratios.



BENEFITS AND WORK LIFE BALANCE

EDPR is committed to offer a competitive compensation and benefits package to recognize the work and talent of our employees. The compensation policy addresses the needs of local markets and provides flexibility to adapt to the specifics of each region. In addition to a fixed base compensation, there is a variable component that depends on a performance evaluation measured against the company's performance, area and individual KPIs.

Our performance based compensation is an important tool to promote a greater focus from our employees on not only the company's objectives but personal and team objectives as well. In order to be competitive in the marketplace and recruit the best talent, EDPR reviews and benchmarks itself against local markets in order to offer the most attractive benefits packages.

At EDPR, we understand the importance of maintaining a balance between work and personal commitments. This understanding has led to an increase of employees' satisfaction, while boosting productivity, and morale.

EDPR has work-life balance programs and aims to constantly improve and provide the most suitable benefits to employees. Often specific benefits are only applicable to certain countries in which EDPR is present. As an example of normalizing key benefits across the countries, EDPR employees in the United States and non-Iberian European countries can now enjoy extended time off when they get married. Additionally, employees in the United States can now enjoy their birthday as paid leave.

Since 2011, EDPR's practices have been recognized with the Family Responsible Employer Certification (EFR- Empresa Familiarmente Responsable) by the MásFamilia Foundation, in Spain. This certification reflects EDPR's commitment to promote a healthy work-life balance for its employees. EDPR stood out for its effectiveness in terms of scheduling flexibility, family support, equal opportunities and its ambitious policy of continuous improvement.

DEVELOPMENT & TRAINING

€1.6 million invested in training

43 hours of training per employee

€1,755 in training per employee

POTENTIAL APPRAISAL

Assessing the potential of our talented pool of employees is a fundamental tool in people management. The purpose of the annual Potential Appraisal is to prepare employees to achieve his/her top potential development based on a set of strategic skills. All of EDPR's employees, regardless of their professional category, are evaluated yearly to determine their development potential by providing the most suitable training. EDPR creates tailored development plan to address specific needs. The potential assessment process is independent from performance appraisal and is based on a 360 degree evaluation model which considers feedback from oneself, peers, subordinates and the manager.

In 2014, in order to reinforce communication and transparency, EDPR carried out meetings, led by the executive team and directors, with employees explaining the 2014 Transversal area objectives that apply to each platform.

TRAINING PLAN

Each year a customized Training Plan is created based on the results of the potential performance assessment. The plan provides a framework for managing training within the company, in close alignment with the business strategy. When defining our strategy for the future, we strive to align current and future demands of the organization with our employees' capabilities while fulfilling their professional development expectations and supporting their continuous improvement. EDPR is committed to offer employees an attractive career plan, as well as advanced education and training opportunities.

In 2014, the number of training hours increased to 38,298, representing 43 hours of training per employee. Almost 83% of our employees received training during 2014.

During 2014, EDPR introduced the Executive

Development Program in collaboration with the Instituto de Empresa (IE), a top ranked global business school in Madrid, Spain. The MBA style program, offered 34 participants advanced education in subjects ranging from Strategy and Leadership to Finance and Operations Management. The multi-month program culminated in a group presentation of a solution to several business challenges in front of members of the Executive Committee, the HR Director, and an IE Director.

Expanding upon the Coaching Program, initially developed for the High Potential Program (HIPO), one on one coaching sessions were provided by directors of the company to a wider pool of participants to advance professional development and soft skills. Since promoting talent from within is a strategic choice, the HIPO program was continued to further develop the skills of high potential employees. The program involves various modules focusing on communication, leadership, and analysis of market trends.

RENEWABLE ENERGY SCHOOL

The Renewable Energy School, which forms part of the corporate EDP University, is an established platform for internal capacity building and knowledge sharing.

In 2014, which corresponds to the third academic year of the School, the focus was on streamlining the training activities to ensure greater alignment between the training offers of the School and the needs of different employees. The School worked closely with managers and the Human Resources department to improve the process of selecting participants to ensure greater relevance and value creation. Significant effort was also dedicated to improving the existing courses through greater usage of EDPR specific case studies and practical exercises designed to enrich the employees' learning experience.

During the year, 30 training sessions were delivered in Europe, the United States, and Brazil, representing a total of 8,431 training hours and 730 attendances. The School engaged 80 internal experts in the preparation and delivery of the training courses.

Next year, EDPR plans to have a similar level of activity. To prepare the Training Plan for 2015, the School has developed individual training roadmaps for each of its employees in Europe in order to guide managers and their teams and to facilitate the selection of the most relevant courses.

Since the beginning of the project in 2011, the School has already reached 804 employees of EDPR in all the geographies.

PROMOTIONS & MOBILITY

All our employees are covered by our performance evaluation system that collects information from several data sources to evaluate employee performance.

In the context of fostering workers' growth through diversity of experience, EDPR encourages professional mobility. To support the global growth strategy, mobility is of upmost importance as a powerful tool to share EDPR culture and best practices with new markets where we plan to enter.

During 2014, 73 employees had functional or geographical mobility including 8 new expatriates (expats). EDPR now has a total of 23 expats.

COMMUNICATION

EDPR is committed to provide employees with the best workplace experience. To help determine key drivers of employee satisfaction, EDPR ran a survey in 2013 to collect, analyse and act upon the results. After holding workshops to further discuss the results, an Action Plan was created to improve satisfaction during 2014. The plan was primarily focused on improving communication within the company. It is important to have open lines of communications with employees so in order to improve the channels, different measures were implemented:

- Meetings with the CEO: During these meetings, employees are given the opportunity to share their point of view of the business from their positions and learn about the strategy of the company and how this relates to their day-to-day tasks. This is a great opportunity for employees to better understand their impact on the business. Almost 85% of our employees already had the chance to meet the CEO.
- Meetings with HR: EDPR is keen on connecting with employees. HR regularly holds organized meetings with a small group of employees to discuss important issues via an open forum. Almost 85% of the employees have participated.
- HR Monthly: EDPR employees receive a monthly newsletter with human resources related news. The publication includes upcoming events, training and volunteering opportunities, social benefits, information on new hires, ongoing recruitments, and is an important tool to share the social initiatives with the employees.

In addition to open communication channels established for employees, satisfaction surveys are conducted every two years to gather opinions and gain an understanding of the motivation and satisfaction level of employees. The participation rate in the last survey reached 95% with a satisfaction score of 77%.

During 2014, the Great Place to Work (GPTW) organization named EDP Renewables in Poland the best place to work. EDPR also continued to be among the 50 best companies to work for in the GPTW Rankings in Spain and the UK.

EDPR's ability to attract, develop, and retain talent is a testament to its commitment to excelling in all areas. It's no wonder that EDPR continues to be among the 50 best companies to work for as determined by the Great Place to Work rankings. A motivated workforce aligned with the company's strategy is one of the key drivers behind our ability to deliver on results during 2014.

3.3.2. LOCAL COMMUNITIES

EDPR is well aware of the impact that our activity has in the local communities where we develop our sites and how we can maximize those potential benefits for the company and the inhabitants of the surrounding areas through an open communication with our stakeholders.

Therefore, we establish a relationship of trust and collaboration with the communities where we have presence from the very initial stages of our projects, organizing informative sessions, we hold open dialogs with these communities, to explain the benefits of wind and solar energy. We also organize volunteering activities to promote a sustainable development of the society.

The dialog with the surrounding community is an integral part of our business activity. We carry on discussions and meetings with the local stakeholders during all the phases of the sites, to learn about their concerns and to define the best way to address them. It is also a means to communicate some of EDPR's core values to the local community.

FUNDACIÓN EDP

Fundación EDP's mission is to strengthen the commitment of the EDP Group in Spain, with special emphasis on those social, cultural, environmental and educational areas related to research that spearheads global sustainable development.

As such, Fundación EDP has promoted during 2014 a whole series of initiatives in Spain, funded by EDPR:

- In the educational area EDPR has kept and reinforced the previously existing initiatives, namely the trainees programme, the sixth edition of the University Challenge contest and the Green Education grants for young students. In addition to these, EDPR has implemented for its first time the initiative "Tu Energía", to explain primary education students the importance of renewable energy and the differences with fossil energy sources. The programme was attended by 3,862 students in Albacete province.
- In the environmental area Fundación EDP has been supporting, among others, two sounding projects carried out by the University of Málaga and by Fundación del Patrimonio Natural de Castilla y León, respectively. In both cases the programmes are studying and implement actions to protect several species of birds of prey.
- And in the social area EDPR together with Fundación EDP has supported several initiatives, some developed internally such as the volunteering programmes or the interrelation with the community activities, and many others developed by third parties such as Fundación Sociedad, Educación y Desarrollo, several food banks or Fundación Cerro Verde.

EDPR has devoted more than 0.5 million euros in 2014 to support the activities of Fundación EDP. For 2015 EDPR will keep supporting the activities of Fundación EDP, including the new social programme called "EDP Solidaria 2015" to contribute to improve the quality of life and the integration of social disadvantaged people.

Details of these activities can be obtained in the web page of Fundación EDP (www.fundacionedp.es).

EDPR devotes time and resources to local communities in all countries in which it operates. Therefore, and in line with EDP Foundation's strategy, its activities are focused on three pillars: education, social and environment. EDPR has several modalities of collaboration with communities, initiatives that only involve the company, others in which it does it along with their employees and others in which are EDPR employees who dedicate their resources or time to these activities . Thereby, EDPR shows that is a company concerned about one of its key stakeholders both at organizational and individual level.

SOLIDARITY TEAMBUILDING

In 2014, taking the opportunity that most of the employees in Europe were together in Madrid in order to assist to the Annual Meeting, a team-building event took place December 2014.

600 employees were challenged to spend one full morning assembling a large variety of furniture that EDPR then distributed to several Spanish non-profit organizations. Soñar Despierto, Espiral, Nuestra Señora de los Desamparados, Corazones Menudos and Afanias were the NGOs involved.

More than 2,400 hours dedicated together to a one same goal, collaborate with the disadvantaged. This activity reinforces the team spirit and EDPR's commitment with community.

CHRISTMAS CAMPAIGN IN POLAND

EDPR's support to local Community in Poland is increasing year by year. One of the most relevant actions this year was the collaboration between EDPR and the local authorities during the 2014 Christmas campaign. EDPR organizes this initiative each year in all the polish regions where the Company is present. The campaign was addressed to more than 500 kids aged between 3 and 14 years old, who received several packages with Christmas presents.

All this in addition to the enjoyment of a Christmas party that was specially organized for them in each of the towns, where kids enjoyed a memorable and festive day with colleagues and relatives.

These type of events receive high recognition by the community.

KILOS GLOBAL SOLIDARITY CAMPAIGN

Kilos Global Solidarity Campaign is a EDPR initiative that aims to collect food and products of first necessity. Food and products donated by EDPR employees are collected in each office and then distributed to local NGOs.

This initiative was developed in Spain, Romania, the UK, Italy, Poland and the US where more than 825 kilos were collected. Through this project, 9 NGOs of 6 countries will receive the solidarity impact of EDPR employees.

Moreover, in countries where EDPR has more presence, Spain and the US, employees also participated in volunteering activities with these NGOs. The possibility of being involved in all the process help employees to develop their volunteering capabilities.

GREEN EDUCATION

Green Education is a scholarship program launched by EDPR in 2011 with the purpose of offering financial support for the educational development of children and young ones coming from families with limited resources.

During 2014, EDPR has continued providing education grants to 107 students from Spain, Portugal, Poland, Romania, France, Italy and the UK based on their academic merits and financial situation.

The commitment with EDPR with society and the new generations is constant and growing. Proof of that is the number of Green Education program scholarships has increased respect to last year.

This program creates strong ties with the communities.

PARTE DE NÓS – IT'S UP TO US!

In June, the EDPR Group volunteering campaign "Parte de Nós" dedicated several activities across Europe and North America to the Environment. Employees were invited to participate as well as their families and friends.

In Spain, volunteers collaborated with non-profit organization "Fundación Oxígeno" in Tubilla del Lago (Burgos) by restoring the lagoon of Valcabadillo. In Italy volunteers worked together with Legambiente on cleaning an area that will be used as an urban garden. Also in Houston, volunteers met in the Urban Harvest to help maintaining a community garden. In the UK the organization Lothian Conservation Volunteers did environmental conservation works in Edinburgh. In the US, EDPR collaborated with Urban Harvest Community Garden. Volunteers helped harvest the garden's vegetables and improve the appearance of the garden.

The objective of "Parte de Nós" is to sensitize the community with the conservation of nature and biodiversity. During 2014, 67 volunteers in Spain, Italy and the US have collaborated in this Campaign with more than 500 hours contributions in their own time.

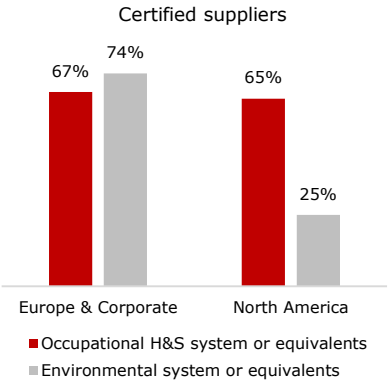
3.3.3. SUPPLIERS

The performance of suppliers is essential for the success of EDPR. The company bases its relationship with suppliers on trust, collaboration and the creation of shared values shared, and this results in a joint capacity to innovate, strengthen sustainability policy and improve the quality of our operations. This significantly contributes to EDPR keeping the leadership in its areas of operation and it is a factor inducing competitiveness in the markets in which it operates.

The importance of sustainability in the supply chain is a key thing for EDPR. EDPR's Code of Ethics defines the core values that must be respected and the framework of the relationship with suppliers. Moreover, our Health & Safety and our Environmental Management Systems require our employees and all other individuals working on behalf of EDPR to follow a series of best practices in those areas, as required in our Environmental and H&S Policy.

EDPR Procurement Manual includes a chapter that guides each Purchasing Department to put our values and principles into practice, therefore when procuring and contracting goods and services EDPR appeals to all reasonable endeavours so that selected suppliers accept to comply with the UN Global Compact's ten principles in the areas of human rights, labour, the environment and anti-corruption and the spirit of EDPR's Code of Ethics. Additionally, EDPR collects sustainability information for the main services provider to be used in the supplier's selection. In Europe, this is made by an independent partner and in the US by internal questionnaires.

In 2014, about 67% of EDPR's suppliers in Corporate and Europe had Occupation Health & Safety system and 74% Environmental system. In North America, 25% and 65% of the companies have safety and environmental management systems, respectively.



- Europe includes suppliers above 500k euros;
- North America started capturing Sustainability data as part of the supplier qualification in 2014;
- North America figures consider Biodiversity programs as Environmental Management System

SUPPLY CHAIN DEVELOPMENT IN THE UK

The development of offshore wind energy brings significant new markets and opportunities to Scotland and the UK. As a developing industry, offshore wind requires the development of new enterprises and diversification of existing enterprise to undertake the works associated with the deployment of infrastructure.

MORL a joint venture between EDPR and Repsol Nuevas Energias UK has worked with a variety of agencies to enable businesses local to the Moray Firth, Scotland and the UK to take advantage of the new offshore wind market.

As result of this work, new companies were created and also spurred the establishment of new joint ventures with broad-ranging capabilities. Since 2012 MORL's competitive tender process has driven the development of 7-8MW turbines suitable for deeper water, high wind sites which are capable of reducing the cost of energy. Where monopoles have been the industry standard in the past, MORL is driving competition between next generation substructures. Successful deployment will support the evolution of the industry, establishing the standard for the rest of R3 and opening new areas of seabed worldwide to development. Additionally, MORL has identified partners in both the public and private sector to identify the skills gap and develop strategies to fill it. Resolving the skills gap has already yielded benefits beyond the UK market. Skills which were established developing MORL's projects were successfully exported to France where EDPR won both sites of the French Round 2 tender.

3.4. INNOVATION

Innovation is about new technologies for more renewable energy - such as offshore wind - but that is not all: it is also about attitude, looking for ongoing improvement every day at what we do

INNOVATION IN DEVELOPMENT AND CONSTRUCTION

OPTIMIZATION OF WIND FARM LAYOUT AND CONSTRUCTION

During the construction of a wind farm, finding the optimal design for wind farm foundations is critical to control capex requests. Optimal superficial foundations are those that minimize the volume for the specific conditions of the site, while ensuring all applicable safety requirements. However, in the case of deep foundations (piloted ones), finding the optimal solution is more complex as it is a process of optimizing a number of different variables: shape of the foundation and the number, diameter, type and length of the piles. EDPR internally developed an algorithm to obtain the optimal design piloted foundation for a wind farm project once known the wind turbine weight and the geotechnical information of the site.

WIND FARM OPTIMIZATION MODEL

After three years of work, the Department of Energy Assessment EDPR created the edpWOM (Windfarm Optimization Model) program. It is a specific software for estimating annual energy production and optimization of layout adapted to the particularities of the company. This program has been the reference tool in the project offshore Moray Firth.

The programming environment allows simulations automatically and in a reduced period of time compared to other commercially available software. One of its strengths is that being a code generated internally, supports any modification or addition of new criteria according to the needs of the project at the time, without modelling the data again as with the other standard software marketed. It is able to optimize according to different adaptable and independent criteria according to the study to be performed (production, deep foundation costs, financial variables, offshore...)

INNOVATION IN OPERATIONS

REGULATION OF ACTIVE AND REACTIVE SEVERAL WIND FARMS ON THE SAME NODE

The topology of certain parks EDPR, evacuating several wind farms through the same node, creates a new challenge for EDPR, it is considered as a single wind farm for compliance with grid code proposes (regulation of active, reactive or voltage). There are no commercial tools to control grid code compliance in these specific situations when different technologies interact. EDPR developed a control system that depending on the data collected at the node and the data from each one of the difference sites, balance and send the appropriate instructions to each wind farm control system to guarantee grid code compliance. This requires some preliminary simulations of static and dynamic wind turbines and control systems behaviour for each site, to be able to define the balancing control algorithms.

MINIMIZING IMBALANCE COSTS

One of the main challenges at EDPR consist on minimizing the error in the energy estimates of the six intraday market sessions, and thus minimizing the imbalance costs. To do so, EDPR has developed an adaptive system based on a non-conventional technology in the energy sector that corrects the original estimates based on the historical errors committed in past predictions. These algorithm improvements not only reduce costs but also enhances the integration of wind energy in the national electricity system.

RESEARCH AND DEVELOPMENT

EDP Inovação is the EDP group company responsible for promoting innovation and research and development within the different business units within the group, EDPR among them. It operates in three distinct areas: 1) technological development; 2) innovation in products, organization and processes; 3) transversal support for R&D+i.

WINDFLOAT

The 'WindFloat' project is one of the flagstaffs of the renewable R&D project list at EDP, with a deep waters offshore prototype that has been reporting excellent results after three years in operation under harsh conditions, having to endure waves up to 15 meters high, off the coast of Aguçadoura in the north of Portugal.

This is the most ambitious innovation project on floating offshore technology conducted worldwide so far, the first wind energy turbine in open waters in the Atlantic ocean, and also the first time for a triangular semi-submersible floating structure supporting a 2 MW wind turbine allowing the utilization of offshore winds with great stability at water depths below 40 meters, existing at long distances from the coast. It is the first offshore wind energy project in the world not requiring the use of any heavy offshore lifting equipment. The whole process of final assembly, installation and commissioning preparation was performed on land, in a controlled environment. When the construction on land was completed in dry docks located in Setúbal, south of Lisbon, the structure was towed for about 350 kilometres in the open water. The capability to undertake the towing operation under such circumstances can be attributed to the performance and stability of WindFloat. These factors also allow any ready-to-use commercial wind turbines of any manufacturer to be installed on WindFloat. The project is a partnership between EDP, Repsol, Principle Power, A. Silva Matos, Vestas and InovCapital and is also supported by the Innovation Support Fund (FAI), involving more than 60 suppliers, more than two thirds are Portuguese.

In March, while the competition for the offshore wind energy capacity tender in France was ongoing, EDPR hosted French journalists to visit the 'Windfloat' project. The journalists met at the dispatch centre in Oporto, and were flown by helicopter to see from the sky, this project live and in action. In July, French mayors from 20 municipalities also paid a visit to this project, this time going on a boat out in the ocean to see the turbine operate. These visits were a great opportunity for EDPR to demonstrate how wind energy generation works offshore, while strengthening ties with key opinion leaders in France, a country that has historically relied greatly on nuclear energy.

Last October, Joao Manso Neto participated in an international conference held in Lisbon, organized by the Wave Energy Centre (WavEC) in partnership with the United States Embassy in Portugal, where companies, research centres, public agencies and political decision-makers gathered to discuss about the transatlantic efforts to create a technology cluster capable of leveraging the tremendous economic potential of the sea. Wind offshore renewable energy was highlighted at the event and EDPR solid commitment to developing technologies for offshore wind exploration showcased with the WindFloat case.

3.5. INTEGRITY AND ETHICS

Ethical behaviour is absolutely essential for the functioning of the economy. EDPR recognizes its importance and complexity, and is committed to address ethics and its compliance. But is employees' responsibility to comply with ethical obligations.

GOVERNANCE MODEL FOR ETHICS

Ethics are the cornerstone of EDPR strategy, to the extent that EDPR has a Code of Ethics that goes beyond just defining the company principles to be adopted, but also how employees and any other service provider working on behalf of EDPR should behave when dealing with the company stakeholders. The code of Ethics has its own regulation that defines a process and channels to report any potential incident or doubt on the application of the code. The Ethics Ombudsman is behind this communication channel, and to analyse and present to the Ethics Committee any potential ethical problem. The code is communicated and distributed to all employees and interested parties, and complemented with tailored training sessions.

CODE OF ETHICS

EDPR's Code of Ethics applies to all company employees, regardless of their position in the organization and working location, and they all must comply with. Our suppliers should be aligned with the spirit of our Code of Ethics, and this is reflected in our procurement policies.

During 2014, a revision of the code was approved, to reinforce some areas such as integrity, human rights, compliance with the legislation and transparency. In addition, the revised code, is divided into principles of action, engagement with stakeholders and ethical process. This division aims to clearly state which are the values and the behaviours with stakeholders that anyone representing EDPR should have, and how the process of overseeing the code compliance works.

After this revision, the code was announced and published on the Company's intranet and sent by e-mail by the General Secretary to all employees. All new hires find the Code of Ethics included in the welcome pack that each employee receives when entering the Company and are required to return it with a signed acknowledgment.

CODE OF ETHICS REGULATION

The Code of Ethics regulation, adopted by the Board of Directors in 2011, aims to regulate the application within EDPR of the Code of Ethics. Particularly, it defines the procedures for the reception, registration and processing of information received by the Company concerning violations of the Code in matters of legislation, ethics, conduct in the work environment, human rights, equal opportunities, integrity, relations with customers and suppliers, environment and sustainability. The Regulation of the Code of Ethics features aspects such as:

- Job description and responsibilities;
- Procedures;
- Confirmation, investigation and corrective measures;
- Confidentially and anonymity; Management supervision and revision.

ETHICS COMMITTEE

The Ethics Committee will receive, register, process and report to the Board of Directors all reports regarding violations of the Code in matters of legislation and ethics, establishing, if appropriate, corrective actions.

The Ethics Committee is composed of three members: the presidents of the Audit and Control Committee, the Related Parties Transactions Committee, and the Appointments and Remuneration Committee.

The Committee's main functions include:

- Proposing corporate ethics instruments, policies, goals and targets.
- Monitoring application of the Code of Ethics, laying down guidelines for its regulation and overseeing its proper application by the Company and its subsidiaries.
- Analysing reported violations of the Code of Ethics, deciding on their relevance and admissibility.
- Deciding if there is any need for a more in-depth investigation to ascertain the implications and persons involved.
- Appointing the Ethics Ombudsman.

ETHICS OMBUDSMAN

In the first meeting of the Ethics Committee held in 2011, EDPR's Ethics Ombudsman was nominated.

The Ethics Ombudsmen plays an essential role in the ethics process. He guarantees impartiality and objectivity in registering and documenting all complaints of ethical nature submitted to him. He monitors their progress and ensures that the identity of the complainants remains confidential, while entering into contact with them whenever appropriate, until the case is closed.

EDPR ETHICS PROCESS

EDPR stakeholders, both internal and external, can easily start an ethical process or resolve doubts through the Ethics Channel, either contacting via e-mail the Ethics Ombudsman or filling the form available in the corporate website. The Ethics Ombudsman guarantees transparency and professional secrecy throughout the entire process.

In addition, EDPR provides employees with a whistleblowing channel enabling them to report directly and confidentially to the Audit and Control Committee any practice presumed illicit or any alleged accounting or financial irregularity in their Company.

In 2014 there were no communications to the Ethics Ombudsmen regarding any irregularity at EDPR and no communications regarding any irregularity with material impact at EDPR though the whistleblowing channel.

Identify an alleged violation of the code of ethics	Reports of alleged violations of the Code of Ethics must be submitted to the Ethics Ombudsmen, indicating personal data and a detailed description of the situation.
Ombudsman performs a summary investigation	Ethics Ombudsmen first confirms the events reported and submits a preliminary report on the initial confirmations to the Ethics Committee.
Ethics Committee decides if the complaint portrays a violation	Ethics Committee analyses every situation reported and decides as to whether it should be classified as a violation of the Code of Ethics.
When a violation is confirmed, the Committee opens an investigation	When conducting an investigation, the Company shall abide by the law and its own in-house rules. After the investigation is complete, the Committee decides whether any corrective or disciplinary action is required.

ETHICS PROGRAM

Our commitment to ethics is reflected in our Ethics Program. It was first launched in 2010 and in order to renew ethical behaviours within the company and transmit the new additions to the code, will be performed again during the first half of 2015. The Ethics program is an important tool to assess the current status and promote awareness on the issue internally. The Program consists of an interpretative guide of the Code of Ethics, a survey to assess how ethics is understood by EDPR's workers and a training program. During 2015, the training program will consist on a transversal online session, to transmit general concepts to all employees, and specific on-site sessions, tailored to the different work positions and associated risks.

ANTI-BRIBERY REGULATION

In order to ensure compliance with the standards of Anti-bribery Regulation in every geography where EDPR operates, the Company has developed an Anti-Bribery Policy of application to all EDPR Group, which was approved by its Board of Directors on December, 2014. This Anti-Corruption Policy will involve a series of new procedures regarding the relationships of EDPR employees with external parties, namely the approval of certain actions regarding hospitality to and from external parties, charitable donations, and sponsorships. This Policy will be implemented in the Group throughout 2015.

A full description of the Ethics governance model can be found in the Corporate Governance Report.

EMPLOYEE RELATIONS

EDPR is committed to respect freedom of trade union association and recognise the right to collective bargaining

Our commitment is reflected in the Code of Ethics, and its compliance is controlled through the Ethics Channel, where stakeholders can anonymously report on any infraction.

At EDPR, from 919 employees, 21% were covered by collective bargaining agreements. Collective bargaining agreements apply to all employees working under an employment relationship with and for the account of the some companies of EDPR group, regardless of the type of contract, the professional group into which they are classified, their occupation or job. However, matters relating to the corporate organization itself, the laws of each country or even usage and custom in each country result in certain groups being expressly excluded from the scope of collective bargaining agreements.

The collective bargaining agreements that are applied at EDPR are usually negotiated at state level or regional level, and EDPR may be just one of the players among other leading sectorial companies in the negotiation with employees' representatives, and in some cases, governmental representatives. In Portugal and Brazil, EDP negotiates its own agreements with employees, and those apply to all employee working for companies of the group, including EDPR.

Despite not taking an active part in the negotiations, EDPR wants to facilitate the broadcast of any update in those agreements. For example, in Portugal, during 2014 a new collective bargaining agreement was negotiated. EDPR organized training sessions for its employees to inform about the results of those negotiations.

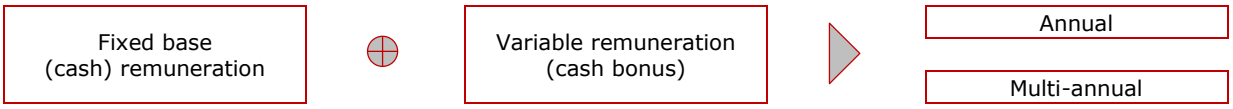
During the last years, EDPR has performed different benchmark analysis of the benefits stated at the different collective bargaining agreements that apply to our employees, comparing them against the benefits offered by the company and, in general terms, the company offers a more competitive benefits package compared to what is stated in the collective bargaining agreement.

During 2014, representatives of the company held different meetings with employees' representatives to deal with some critical topics that affect EDPR, such as the health and safety of its employees, or the bonus payment that is being done in Brazil. In France, EDPR representatives defined a roadmap with the elected employees' representatives with the actions to follow in the short term.

3.6. EXECUTIVE REMUNERATION

REMUNERATION STRUCTURE

EDPR's remuneration policy approved by the General Shareholders Meeting on April 8th 2014 (with 99.6% votes in favour), submitted by the Board of Directors after a proposal of its Nominations and Remunerations Committee (that composed of three non-executive and independent Directors), defines a structure with a fixed remuneration for all members of the Board and a variable remuneration, with annual and multi-annual components, for the members of the Executive Committee.



The maximum annual variable remuneration approved by the General Shareholders Meeting for all the executive members of the Board of Directors was € 1 million per year. EDPR has not incorporated any share remuneration or share purchase options plans as components of remuneration of its Directors. Variable annual and multi-annual remuneration are a percentage of fixed annual component, with a superior weight for multi-annual vs annual component. The value of variable annual remuneration may range between 0% and 85% of the 80% of annual fixed remuneration. The value of variable multi-annual remuneration may range between 0% and 85% of the 120% of annual fixed remuneration.

For the CFO and COOs there is a qualitative evaluation by the CEO about the annual performance, weighting 20% in the calculation of the annual variable remuneration and 32% of the multi-annual variable remuneration. The remaining is calculated based on the KPIs and respective weights indicated below.

The Key Performance Indicators (KPIs) used to determine the amounts of the annual and multi-annual variable are aligned with the strategic grounds of the Company: growth, risk/return and efficiency. These are the same for all members of the Executive Committee, although with specific targets for in the case of the Chief Operating Officers for Europe/Brazil and North America.

KPI	Weight
Total Shareholder Return vs. Peers & PSI 20	15%
Incremental MW (EBITDA + Net Equity)	15%
ROIC Cash %	8%
EBITDA	12%
Net Income	12%
Technical Availability	6%
Opex / MW	6%
Capex / MW	6%
Sustainability *)	10%
Employee satisfaction	5%
Appreciation of the Remuneration Committee	5%

*) based on external performance evaluation using a Sustainability Index methodology that benchmarks the company to its sector

OTHER REPORTING TOPICS

RELEVANT SUBSEQUENT EVENTS

EDPR executes a new asset rotation transaction in the US

During the third quarter of 2014, EDP Renováveis S.A. (EDPR) has reached an agreement with Fiera Axium Infrastructure US L.P. (Fiera Axium) to sell a minority cash equity interest in a US wind portfolio with a total production capacity of 1,101 MW. Fiera Axium's interest in the portfolio will represent 394.5 MW and is the second asset rotation transaction announced by EDPR with Fiera Axium, further strengthening the existing partnership.

The portfolio is comprised of 9 operating wind farms. All of the wind farms have long-term offtake agreements in place.

Based on i) the transaction price and ii) the expected tax equity liabilities of the projects, the total enterprise value on the 1,101 MW portfolio amounts to US 1.7 billion of US Dollar translating to 1.54 million of US Dollar/MW.

The transaction is subject to regulatory approvals. The offer contemplates an initial funding to occur upon obtaining regulatory approvals and a final funding to occur upon achievement of commercial operations of the assets under construction.

Acquisition by EDPR of 45% of the share capital of EDP Renováveis Brasil

In November 2014, EDP Renováveis, S.A. and EDP Energias do Brasil (EDP Brasil) have signed a Memorandum of Understanding envisaging the acquisition by EDPR of 45% of the share capital of EDP Renováveis Brasil, S.A. controlled by EDP Brasil. Following this transaction EDPR will control 100% of the share capital of EDPR Brasil. EDPR Brasil operates 84 MW of wind energy and has in execution 237 MW of wind energy projects with long-term power purchase agreements (PPAs) awarded in the 2011 and 2013 energy auctions.

EDPR announces the sale of minority stakes in wind farms in Brazil to CTG

In December 2014, EDP Renováveis, S.A. through its subsidiary EDPR Brasil entered into an agreement with CWEI (Brasil) Participações Ltda, a subsidiary of CTG to sell an equity shareholding of 49% in both operational and under development wind farms in Brasil. The transaction scope covers 84 MW in operation, as mentioned above, with an average age of 4 years, as well as 237 MW under development, remunerated according to long-term awarded contracts to sell the electricity produced for 20 years.

EDP Renováveis executes project finance for 120 MW in Brazil

On 26 January 2015, EDP Renováveis, S.A. (EDPR) has executed project finance structure agreements with the Brazilian Development Bank (BNDES) for the Baixa do Feijão project, which comprises four wind farms with a total capacity of 120 MW. The Baixa do Feijão project is currently under construction and is located in the State of Rio Grande do Norte, one of the windiest locations of Brazil.

The long-term contracted debt facilities amount to 306 million of Brazilian Reais and its financial closing is subject to customary conditions. The execution of this agreement reflects EDPR financing strategy to contract long-term debt in local currency at competitive prices in order to mitigate the refinancing risk and to reduce the foreign exchange risk by having a natural hedge between revenues and costs.

In December 2011, at the Brazilian energy A-5 auction, these four projects were awarded with 20-year Power Purchase Agreements (PPAs) starting in January 2016.

INFORMATION ON AVERAGE PAYMENT TERMS TO SUPPLIERS

In 2014 total payments made from Spanish companies to suppliers, amounted to €107,975 thousands with a weighted average payment period of 62.4 days, therefore grossly in line with the payment period stipulated by law of 60 days. Notwithstanding, the company is maintaining an optimization of its internal processes in order to settle all payments due within the maximum legal period.