



**EDP – ENERGIAS DE PORTUGAL, S.A.**  
(incorporated with limited liability in the Portuguese Republic)

**EDP FINANCE B.V.**  
(incorporated with limited liability in The Netherlands  
and having its statutory seat in Amsterdam)

**€12,500,000,000**

**Programme for the Issuance of Debt Instruments**

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As at the date hereof, the nominal amount of the Programme has been increased from EUR 7,000,000,000 to EUR 12,500,000,000.

Under this EUR 12,500,000,000 Programme for the Issuance of Debt Instruments (the "Programme"), EDP – Energias de Portugal, S.A. ("EDP") and EDP Finance B.V. ("EDP B.V." and together with EDP, the "Issuers") may from time to time issue instruments (the "Instruments") as agreed between the Issuer and the relevant Dealer (as defined below).

The Instruments issued by EDP B.V. will not be guaranteed by EDP but EDP B.V. has the benefit of the Keep Well Agreement executed by EDP as more fully described herein under "Relationship with the EDP".

The maximum aggregate nominal amount of all Instruments from time to time outstanding under the Programme will not exceed EUR 12,500,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Instruments may be issued on a continuing basis to one or more of the Dealers party to the amended and restated Dealership Agreement dated 23 October, 2007 and any additional Dealer appointed under the Programme from time to time by the Issuer (each a "Dealer" and together the "Dealers"), which appointment may be for a specific issue or on an ongoing basis. References in this Prospectus to the "relevant Dealer" shall, in the case of an issue of Instruments being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Instruments.

**An investment in Instruments issued under the Programme involves certain risks.** For a discussion of these risks see "Risk Factors".

Application has been made to the Financial Services Authority in its capacity as competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000 (the "UK Listing Authority") for Instruments issued under the Programme during the period of 12 months from the date of this Prospectus to be admitted to the official list of the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for such Instruments to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market.

References in this Prospectus to Instruments being listed (and all related references) shall mean that such Instruments have been admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market and have been admitted to the Official List. The London Stock Exchange's Gilt Edged and Fixed Interest Market is a regulated market for the purposes of Directive 93/22/EEC (the "Investment Services Directive").

Notice of the aggregate nominal amount of Instruments, interest (if any) payable in respect of Instruments, the issue price of Instruments and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "Terms and Conditions of the Instruments") of Instruments will be set out in a final terms supplement (the "Final Terms") which, with respect to Instruments to be listed on the London Stock Exchange will be delivered to the UK Listing Authority and the London Stock Exchange.

The Programme provides that Instruments may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuers and the relevant Dealer. The Issuers may also issue unlisted Instruments and/or Instruments not admitted to trading on any market.

The Issuers may agree with any Dealer and the Trustee (as defined herein) that Instruments may be issued in a form not contemplated by the Terms and Conditions of the Instruments herein, in which event a supplemental Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Instruments.

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**Arranger for the Programme**

**MORGAN STANLEY**

**Dealers**

**ABN AMRO**

**Banco Espirito Santo Investimento S.A.**

**Barclays Capital**

**BNP PARIBAS**

**Citi**

**Dresdner Kleinwort**

**Morgan Stanley**

**Banco BPI, S.A.**

**Banco Santander Negócios Portugal, S.A.**

**Banco Millennium bcp Investimento, S.A.**

**Caixa – Banco de Investimento, S.A.**

**Deutsche Bank**

**Mitsubishi UFJ Securities International plc**

**UBS Investment Bank**

This Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the “Prospectus Directive”).

Each Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of EDP and EDP B.V. (each of which have taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Subject as provided in the applicable Final Terms, the only persons authorised to use this Prospectus in connection with an offer of Instruments are the persons named in or identifiable following the applicable Final Terms as the relevant Dealer or the Managers, as the case may be.

This Prospectus should be read and construed with any amendment or supplement thereto and with any other documents incorporated by reference (see “Documents Incorporated by Reference”) and should be read and construed on the basis that such documents are incorporated in and form part of this Prospectus.

Each Issuer has confirmed to the Dealers and Deutsche Trustee Company Limited (the “Trustee”) that this Prospectus is true, accurate and complete in all material respects and is not misleading; that the opinions and intentions expressed herein are honestly held and based on reasonable assumptions; that there are no other facts in relation to the information contained or incorporated by reference in this Prospectus the omission of which would, in the context of the Programme or the issue of Instruments, make any statement herein or opinions or intentions expressed herein misleading in any material respect; and that all reasonable enquiries have been made to verify the foregoing. Each Issuer has further confirmed to the Dealers and the Trustee that this Prospectus (together with the relevant Final Terms) contains all such information as may be required by all applicable laws, rules and regulations.

No person has been authorised by EDP, EDP B.V., any of the Dealers or the Trustee to give any information or to make any representation not contained in or not consistent with this Prospectus or any other document entered into in relation to the Programme or any information supplied by EDP and/or EDP B.V. or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer any of the Dealers or the Trustee.

Neither the Dealers nor the Trustee have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers or the Trustee as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuers in connection with the Programme. No Dealer or the Trustee accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuers in connection with the Programme.

Neither this Prospectus nor any other information supplied in connection with the Programme or any Instruments (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, any of the Dealers or the Trustee that any recipient of this Prospectus or any other information supplied in connection with the Programme or any Instruments should purchase any Instruments. Each investor contemplating purchasing any Instruments should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuers. Neither this Prospectus nor any other information supplied in connection with the Programme or the issue of any Instruments constitutes an offer or invitation by or on behalf of the Issuer, any of the Dealers or the Trustee to any person to subscribe for or to purchase any Instruments.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Instruments shall in any circumstances imply that the information contained herein concerning the Issuers is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers and the Trustee expressly do not undertake to review the financial condition or affairs

of the Issuers during the life of the Programme or to advise any investor in the Instruments of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Prospectus when deciding whether or not to purchase any Instruments.

The Instruments have not been and will not be registered under the United States Securities Act of 1933, as amended, (the “Securities Act”) and are subject to U.S. tax law requirements. Subject to certain exceptions, Instruments may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (see “Subscription and Sale”).

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Instruments in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Instruments may be restricted by law in certain jurisdictions. The Issuers, the Dealers and the Trustee do not represent that this Prospectus may be lawfully distributed, or that any Instruments may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Dealers or the Trustee which would permit a public offering of any Instruments outside the UK or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Instruments may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Instruments may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Instruments. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Instruments in the United States, the European Economic Area (including the United Kingdom, Portugal and The Netherlands) and Japan, see “Subscription and Sale”.

This Prospectus has been prepared on the basis that any offer of Instruments in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Instruments. Accordingly any person making or intending to make an offer in that Relevant Member State of Instruments which are the subject of an offering contemplated in this Prospectus as completed by final terms in relation to the offer of those Instruments may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither of the Issuers nor any Dealer have authorised, nor do they authorise, the making of any offer of Instruments in circumstances in which an obligation arises for the Issuers or any Dealer to publish or supplement a prospectus for such offer.

All references in this document to *U.S. dollars*, *U.S.\$* and *\$* refer to United States dollars; all references to *Sterling* and *£* refer to pounds sterling; all references to *EUR*, *euro* and *€* refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

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IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF INSTRUMENTS, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN THE APPLICABLE FINAL TERMS MAY OVER-ALLOT INSTRUMENTS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE INSTRUMENTS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF A STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF INSTRUMENTS IS MADE AND, IF BEGUN, WILL BE IN COMPLIANCE WITH ALL RELEVANT LAWS AND REGULATIONS AND MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF INSTRUMENTS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE OF INSTRUMENTS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

## GENERAL DESCRIPTION OF THE PROGRAMME

*The following is a brief overview only and should be read in conjunction with the rest of this document and, in relation to any Instruments, in conjunction with the relevant Final Terms and, to the extent applicable, the Terms and Conditions of the Instruments set out herein.*

Issuers:	EDP – Energias de Portugal, S.A. (“EDP”) EDP Finance B.V. (“EDP B.V.”)
Keep Well Provider:	Instruments issued by EDP B.V. will benefit from a Keep Well Agreement provided by EDP. See “Relationship of EDP B.V. with EDP”.
Arranger:	Morgan Stanley & Co. International Limited.
Dealers:	ABN AMRO Bank N.V., Banco BPI, S.A., Banco Espírito Santo Investimento, S.A., Banco Santander de Negócios Portugal, S.A., Barclays Bank PLC, BNP PARIBAS, Banco Millennium bcp Investimento, S.A., Caixa – Banco de Investimento, S.A., Citigroup Global Markets Limited, Deutsche Bank AG, London Branch, Dresdner Bank Aktiengesellschaft, Mitsubishi UFJ Securities International plc, Morgan Stanley & Co. International plc and UBS Limited and any other dealer appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Tranche (as defined below) of Instruments.
Issue and Paying Agent:	Deutsche Bank AG, London Branch.
Paying Agent:	Deutsche Bank Luxembourg S.A.
Portuguese Paying Agent:	Deutsche Bank (Portugal), S.A.
Registrar:	Deutsche Bank Luxembourg S.A.
Authorised Adviser:	Morgan Stanley & Co. International plc.
Trustee:	Deutsche Trustee Company Limited.
Initial Programme Amount:	€12,500,000,000 (and, for this purpose, any Instruments denominated in another currency shall be translated into euro at the date of the agreement to issue such Instruments using the spot rate of exchange for the purchase of such currency against payment of euro being quoted by the Issue and Paying Agent on the date on which the relevant agreement in respect of the relevant Tranche was made or such other rate as the relevant Issuer and the relevant Dealer may agree) in aggregate principal amount of Instruments outstanding at any one time. The maximum aggregate principal amount of Instruments which may be outstanding under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealership Agreement as defined under “Subscription and Sale”.

Issuance in Series:

Instruments will be issued in series (each, a “Series”). Each Series may comprise one or more tranches (“Tranches” and each, a “Tranche”) issued on different issue dates. The Instruments of each Series will all be subject to identical terms, except that the issue date, issue price and the amount of the first payment of interest may be different in respect of different Tranches. The Instruments of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Instruments of different denominations.

Form of Instruments:

Instruments may be issued in bearer form or in registered form. In respect of each Tranche of Instruments (other than Book Entry Instruments, as defined below) issued in bearer form, the relevant Issuer will deliver a temporary global Instrument (a “Temporary Global Instrument”) or (if so specified in the relevant Final Terms in respect of Instruments to which U.S. Treasury Regulation §1.163-5(c) (2)(i)(C) (the “TEFRA C Rules”) applies (as so specified in such Final Terms)) a permanent global instrument (a “Permanent Global Instrument”). Such global Instrument will be deposited on or before the relevant issue date therefor with a depositary or a common depositary for Euroclear S.A./N.V. (“Euroclear Bank”) and/or Clearstream Banking, société anonyme (“Clearstream, Luxembourg”) and/or any other relevant clearing system. Each Temporary Global Instrument will be exchangeable for a Permanent Global Instrument or, if so specified in the relevant Final Terms, for Instruments in definitive bearer form (“Definitive Instruments”) and/or (if so specified in the relevant Final Terms) registered form in accordance with its terms (“Registered Instruments”) upon certification as to non-U.S. beneficial ownership as required by United States Treasury regulations. Each Permanent Global Instrument will be exchangeable for Definitive Instruments and/or (if so specified in the relevant Final Terms) Registered Instruments in accordance with its terms. (See further under “Provisions Relating to the Instruments while in Global Form” below). Definitive Instruments will, if interest-bearing, either have interest coupons (“Coupons”) attached and, if appropriate, a talon (“Talon”) for further Coupons and will, if the principal thereof is repayable by instalments, have payment receipts (“Receipts”) attached. Each Instrument issued in registered form shall represent the entire holding of Registered Instruments by the same holder. A Registered Instrument may be registered in the name of a nominee for one or more clearing system and such an Instrument is referred to herein as a “Global Registered Instrument”. Instruments in registered form may not be exchanged for Instruments in bearer form.

Book Entry Instruments will be issued in dematerialised book-entry registered or bearer (“ao portador”) form, as further described under “Book Entry Instruments held through Interbolsa” (“Book Entry Instruments”). Book Entry Instruments may only be transferred in accordance with the applicable procedures established by the Portuguese Securities Code and the regulations issued by the Comissão do Mercado de Valores Mobiliários (Portuguese Securities Market Commission, the “CMVM”) and Interbolsa. EDP B.V. will not issue Book Entry Instruments.

As of the date hereof, no Book Entry Instrument may be a Dual Currency Instrument.

Currencies:	Instruments may be denominated in euro, U.S. dollars, Yen or in any other currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Book Entry Instruments may only be denominated in euro until such date as Interbolsa accepts registration and settlement of securities denominated in currencies other than euro. Payments in respect of Instruments may, subject to compliance as aforesaid, be made in, and/or linked to, any currency or currencies other than the currency in which such Instruments are denominated.
Status of the Instruments:	The Instruments will constitute direct, unconditional, unsubordinated and unsecured obligations of the relevant Issuer and will rank <i>pari passu</i> among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the relevant Issuer from time to time outstanding.
Issue Price:	Instruments may be issued at any price and either on a fully or partly paid basis, as specified in the relevant Final Terms.
Maturities:	Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements. Book Entry Instruments shall not be issued with a maturity of less than one year.
Redemption:	Instruments may be redeemable at par or at such other Redemption Amount (detailed in a formula or otherwise) as may be specified in the relevant Final Terms.
Early Redemption:	Early redemption will be permitted for taxation reasons as mentioned in “Terms and Conditions of the Instruments – Early Redemption for Taxation Reasons”, but will otherwise be permitted only to the extent specified in the relevant Final Terms.
Instruments having a maturity of less than one year:	Instruments having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of a least £100,000 or its equivalent.
Interest:	Instruments may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed or floating rate and may vary during the lifetime of the relevant Series.
Denominations:	Instruments will be issued in such denominations as may be specified in the relevant Final Terms, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements and to a minimum denomination of €50,000 per Instrument (or, if the Instruments are issued in a currency other than euro, the equivalent amount in such currency) where the Instruments are admitted to trading on a regulated market within the European Economic Area or offered to the public in the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive. So long as the Instruments are represented by the Temporary Global Instrument or Permanent Global Instrument and the relevant clearing system(s) so permit, the Instruments shall be tradeable only in principal amounts of €50,000 and integral multiples of €1,000 in excess thereof. In the case of Instruments not admitted to trading on a regulated market within the European Economic Area (the “EEA”) or offered to the public in the

EEA, the minimum denomination of €50,000 specified above shall not apply.

Negative Pledge: The Instruments will have the benefit of a negative pledge as described in Condition 4.

Taxation: Payments in respect of Instruments will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of The Netherlands (where the Issuer is EDP B.V.) and Portugal (where the Issuer is EDP) or any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, (subject to customary exceptions) such additional amounts will be paid as will result in the holders of Instruments or Coupons receiving such amounts as they would have received in respect of such Instruments or Coupons had no such withholding or deduction been required.

Governing Law: The Instruments and all related contractual documentation will be governed by, and construed in accordance with, English law save that, with respect to Book Entry Instruments only, the form (*representação formal*) and transfer of the Instruments, creation of security over the Instruments and the Interbolsa procedures for the exercise of rights under the Book Entry Instruments are governed by, and shall be construed in accordance with, Portuguese law.

Listing and admission to trading: Application has been made to the UK Listing Authority for Instruments issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Instruments to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market.

Instruments may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Instruments which are neither listed nor admitted to trading on any market may also be issued.

Terms and Conditions: Final Terms will be prepared in respect of each Tranche of Instruments a copy of which will, in the case of Instruments to be admitted to the Official List and admitted to trading on the London Stock Exchange plc's Gilt Edged Financial Fixed Interest Market be delivered to the London Stock Exchange on or before the date of issue of such Instruments. The terms and conditions applicable to each Tranche will be those set out herein under "Terms and Conditions of the Instruments" as supplemented, modified or replaced by the relevant Final Terms.

Clearing Systems: Save for Book Entry Instruments, Euroclear Bank, Clearstream, Luxembourg and/or, in relation to any Instruments (other than Book Entry Instruments), any other clearing system as may be specified in the relevant Final Terms or as may otherwise be approved by the relevant Issuer, the Issue and Paying Agent and the Trustee.

In the case of Book Entry Instruments, only through the clearing system operated at Interbolsa.

Ratings:

Unless otherwise specified in the applicable Final Terms, Instruments to be issued under the Programme will be rated A2 in respect of Instruments with a maturity of more than one year by Moody's Investors Service Limited ("Moody's") and A in respect of Instruments with a maturity of more than one year by Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies Inc. ("Standard & Poor's"). Instruments issued under the Programme may be rated or unrated. Where an issue of Instruments is rated, its rating will not necessarily be the same as the rating applicable to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

Selling Restrictions:

For a description of certain restrictions on offers, sales and deliveries of Instruments and on the distribution of offering material in the United States of America, Portugal, The Netherlands, the United Kingdom, the European Economic Area and Japan. See under "Subscription and Sale".

## RISK FACTORS

*Each of the Issuers believes that the following factors may affect its ability to fulfil its obligations under Instruments issued under the Programme. Most of these factors are contingencies which may or may not occur and the Issuers are not in a position to express a view on the likelihood of any such contingency occurring.*

*In addition, factors which are material for the purpose of assessing the market risks associated with Instruments issued under the Programme are also described below.*

*Each of the Issuers believes that the factors described below represent the principal risks inherent in investing in Instruments issued under the Programme, but the inability of the Issuers to pay interest, principal or other amounts on or in connection with any Instruments may occur for other reasons which may not be considered significant risks by the Issuers based on information currently available to them or which they may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.*

*References in this section to EDP means EDP and its group of companies.*

### **RISKS RELATED TO EDP's BUSINESS**

**The competition EDP faces in the businesses of the generation and supply of electricity is increasing, which may affect its electricity sales and operating margins.**

The increase in competition from the Portuguese and Spanish implementation of EU directives intended to create a competitive electricity market may materially and adversely affect EDP's business, results of operations and financial condition.

In Portugal, EDP currently faces limited competition from independent power generators, but competition is expected to increase since this segment of the electricity business is now fully liberalised. Under current Portuguese law, electricity generation is subject to licensing and is carried out in a competitive environment. Consequently, EDP may not be able to obtain the licences for the construction and/or operation of new power plants that it has applied for before the Portuguese authorities and therefore be unable to increase or maintain its generation capacity. For further information on the structure of the Portuguese electricity market, see the Business Description on pages 73 to 107.

EDP also faces competition from "special regime" electricity generators, which is expected to increase in the future. The Portuguese government has implemented selected measures to encourage the development of various forms of special regime electricity generation, including auto-generation (where an entity generates electricity for its own use and may sell surplus electricity generated), co-generation (the use of a heat engine or a power station to simultaneously generate both electricity and useful heat), small hydro-electric generation (under 10 MW installed capacity) and generation from renewable sources. To promote these forms of electricity generation, the Portuguese government has implemented laws requiring that all electricity generated by these special regime generators must always be acquired by the "last recourse" supplier. In 2006, the installed capacity of these producers was 3,766 megawatts ("MW") (of which EDP's subsidiaries have 494 MW), which represents 27 per cent. of the total installed capacity in Portugal.

In Spain, the generation business has operated in a fully liberalised market since 1998. Although the projects included in Hidrocantábrico's business plan have all the construction licenses currently required, these projects still face construction risks in addition to general market risks. In addition, the Spanish government has adopted measures for the promotion of special regime generation – renewable and co-generation – that may affect the operation of EDP's power plants and its ability to compete.

Since 4 September 2006, a fully competitive legal framework has been implemented for the business of electricity supply in Portugal. Up to now EDP has faced limited competition in the Portuguese supply business, in which it operates as the "last recourse" supplier and as a common supplier in the liberalised market, due to the fact that the majority of consumers have not changed their electricity supplier. It is expected that in the future more competitor suppliers will become established in the

market, and that more electricity will be sold by such competitors. The effects of this increased competition could materially and adversely affect EDP's sales of electricity.

Although the Spanish generation and wholesale market has been completely liberalised since 1 January 2003, energy in the liberalised market represents only approximately 20 per cent. of total consumption. Liberalisation has mainly affected medium and high voltage consumers, who had approximately 30 per cent. of consumption on the liberalised market. Until now, liberalisation in low voltage consumers has been lower due to competition from the regulated tariff. Although fixed rate tariffs are expected to predominate, at least in the short and medium term, among Spanish electricity consumers, especially low voltage consumers, the Spanish government has announced an interest in promoting liberalisation, which could result in a more pronounced move to contractually agreed prices in the future, and these prices could be lower than regulated tariffs.

Additionally, and in the context of the liberalisation of the electricity market within the European Union, since the end of 2001 the Portuguese and Spanish governments have entered into several agreements for the creation of an Iberian electricity market, *Mercado Ibérico da Energia Eléctrica* ("MIBEL"), the main principles of which are free competition, transparency, objectivity and efficiency. The intent of MIBEL is to guarantee Portuguese and Spanish consumers competitive access to electricity suppliers and to create interconnections with third countries on conditions equal to those applicable to Portugal and Spain. In addition, it is intended that the electricity business in Portugal and Spain be subject to similar regulation, allowing generators in one country to execute bilateral agreements for electricity supply to consumers in the other country, and facilitating the creation of an Iberian common electricity pool.

The scope of increased competition and any adverse effects on EDP's operating results and market share resulting from the full liberalisation of the European electricity markets, and in particular the Portuguese and Spanish electricity markets, combined with the implementation of MIBEL, is dependent upon a variety of factors that cannot be assessed with precision and that are beyond EDP's control. Accordingly, and although MIBEL has already begun operating EDP cannot anticipate the risks and advantages that may arise from the ongoing market liberalisation. The complete implementation of MIBEL and the resulting competition may materially and adversely affect EDP's business, results of operations and financial condition.

**EDP's core electricity operating results are affected by laws and regulations, including regulations regarding the prices EDP may charge for electricity.**

As a provider of electricity to the public, EDP operates in a highly regulated environment. The Portuguese government has created the current legal and regulatory framework governing the Portuguese electricity sector in which EDP operates. In addition, the European Commission and national regulators and authorities can unilaterally impose measures or change, sometimes significantly, on the rules and regulations applicable to the electricity industry. EDP cannot predict what measures or legal or regulatory changes will be made in the future or, if any such measures or legal or regulatory changes are made, the effects these measures or changes would have on its business, results of operations and financial condition.

An independent regulator appointed by the Portuguese government, the *Entidade Reguladora dos Serviços Energéticos* ("ERSE"), regulates the electricity industry through, among other things, a tariff code that defines the prices EDP may charge for the supply of electricity while acting as "last recourse" supplier. In attempting to achieve an appropriate balance between the interests of electricity consumers, and the needs of EDP and other participants in the electricity sector to generate adequate profit, ERSE may take actions that adversely impact EDP's profitability.

In real terms, very high, high and medium voltage tariffs, generally applied to industrial customers, have declined by an average of 3.3 per cent. per year over the period 1999 to 2007. The tariffs for low voltage customers have also declined in real terms by an average of approximately 2 per cent. per year over the same period. For 2007, in nominal terms, tariffs for all voltage levels increased, on average, by 5.2 per cent. compared to 2006 levels.

The final tariff collected by EDP Serviço Universal, S.A., the “last recourse” supplier in Portugal, operated by EDP, is calculated by adding together certain sub-components relating to energy acquisition, global use of the system, use of the transmission and distribution networks and supply. The value of each sub-component is set by the regulator, and the formula used varies from sub-component to sub-component. During the 2002-2004 regulatory period, the efficiency coefficient used in the formula related to the use of the distribution network increased from 5 per cent. (applicable during the 1999-2001 regulatory period) to approximately 7 per cent. There was no explicit efficiency coefficient for 2005, because it was a one-year regulatory period. For 2006-2008, the efficiency coefficient is approximately 4 per cent. The tariffs to be set for 2008 and following years may adversely affect EDP’s business, results of operations and financial condition, as a result of any new regulations that may be promulgated in respect of each given year.

**If the concessions, licences or permits necessary for the conduct of EDP’s electricity business were terminated, EDP could lose control over some of its fixed assets or its business, results of operations and financial condition could be materially and adversely affected.**

Most of EDP’s revenues currently come from the generation, distribution and supply of electricity. EDP conducts these activities in several jurisdictions pursuant to concessions, licences and other legal or regulatory permits, as applicable, granted by the governments, municipalities and regulatory entities in such jurisdictions. These concessions, licences and permits might, in some cases, be granted for certain periods of time and might be subject to early termination under specified circumstances, including failure to comply with the terms of the relevant concession, licence or permit. Upon termination of a concession or the expiration of a licence or permit, the fixed assets associated with such concessions, licences or permits, in general, revert to the government or municipality which granted the relevant concession, licence or permit. Although specified compensatory amounts might be payable to EDP with respect to these assets, the loss of any of these assets may adversely affect its business, results of operations and financial condition. Moreover, the expiration or termination of concessions, licences or permits might limit its ability to conduct its business in any jurisdiction and, consequently, might have an adverse effect on its business, results of operations and financial condition.

**EDP’s operational cash flow is affected by variable hydrological and wind conditions.**

Hydro-electric plants operating in Portugal account for approximately 44 per cent. of the conventional installed capacity in the National Electricity System (“SEN”). These hydro-electric power plants are dependent on the amount and location of rainfall and river flows from Spain, all of which vary widely from year to year. In years of favourable hydrological conditions, there is an increase in hydro-electric generation, while in years of unfavourable hydrological conditions, there is a decrease in hydro-electric generation and a greater dependence on thermal electricity generation. Thermal generation, which is fired by coal, fuel oil, natural gas or a combination of fuels, is more expensive in terms of variable costs than hydro-electric generation.

To account for the variability of hydrological conditions and their impact on generation costs in the SEN, EDP uses the “hydrological correction account”, or hydro account, which was established in accordance with Portuguese law. Because the tariffs in Portugal are computed based on the assumption of conditions in an average hydrological year, the purpose of this account is to correct the short-term effect of hydro variability on the SEN generation costs.

The hydro account is reinforced through cash payments by REN – Rede Eléctrica Nacional S.A. (“REN Rede Eléctrica”) (the transmission system operator of the SEN), in years of favourable hydrological conditions, while in years of unfavourable hydrological conditions EDP draws from the hydro account and makes cash payments to REN Rede Eléctrica in order to compensate for the increased generation costs in the SEN. Both the cash payments and withdrawals are based on the economic reference costs calculated on the basis of an average hydrological year and observed fuel prices. The increased SEN generation costs in a dry year could have an adverse impact on EDP’s operational cash flow but not on its results of operations, due to the effects of the hydro account. For further information on the hydrological correction account, see the Business Description on pages 73 to 108.

It is expected that the termination of the hydro account mechanism may occur in the near future. The terms and conditions under which the hydro account mechanism will be terminated are not yet

known and, therefore, EDP cannot assess if such terms and conditions of the hydro account mechanism termination will be finally determined in a manner favourable to it. If they are not, such termination and the consequent variable hydrological conditions risk EDP would have to face, may have a material and adverse effect on its business, results of operations and financial condition.

EDP's renewable portfolio consists mainly of wind generation activities. EDP manages its wind portfolio in such a way as to minimise risk through geographical diversification, by conducting extensive wind studies prior to the approval and development of each project, by basing its approval on conservative wind forecasts, and by developing projects in markets with favourable regulatory frameworks. Nevertheless, EDP cannot ensure the accuracy of wind estimates, and a generalised and persistent fall in wind levels in the countries in which it operates may have an adverse effect on business, results of operations and financial condition.

**EDP is exposed to fluctuations in market prices for the fuel used in its generation activities.**

EDP is exposed to market price risk for the purchase of fuel (including fuel-oil, coal and natural gas) used to generate electricity and the sale of a portion of the electricity that it generates. A portion of this risk, corresponding to the Portuguese power plants that early terminated their power purchase agreements ("PPAs") on 1 July, 2007 (and which represent approximately 50 per cent. of EDP's conventional energy generation in the Iberian Peninsula), is currently managed under the mechanism of compensation for the early termination of the PPAs (the "CMEC"). This mechanism is designed to ensure a parity between the revenues expected in a market regime based on the initial compensation value (calculated by reference to amounts expected to be received under the PPAs) and the revenues obtained in the market. For the fuel purchases for these plants, there is a risk that the compensation provided under the CMEC will be insufficient due to the difference between the indices defined by the mechanism and the actual market prices paid. Therefore, there can be no assurance that such management will eliminate all market price risk relating to EDP's fuel requirements and thus materially and adversely affect EDP's business, results of operations and financial condition.

The CMEC mechanism is subject to a yearly revision during the first ten years of implementation. The yearly revision analysis considers the optimised average volume of electricity that would have been generated by the Portuguese power plants previously operated under PPAs in the relevant year. At the end of the ten-year period, the revision procedure will forecast the electricity generation volumes and other relevant factors for the period until the end of the applicability of the CMEC mechanism. If EDP is not able to optimise the management of its generation mix in terms similar to those considered for the calculation of the revised amount, its results of operation may be affected if it either must return to the energy tariffs the excess amount received or if it has not earned the level of revenue that could have been obtained under the optimised volume of electricity generation. In addition, the yearly revision procedure only applies until a maximum global compensation amount defined by law is reached. Finally, and although the "true-up" system of the CMEC mechanism should allow for recovery in the year following a year in which there was a failure of collections, the operation of the CMEC mechanism in a given year may also be affected by significant decreases in the level of contracted power or by extensive failure of the electricity system to collect tariffs from consumers, and thus materially and adversely affecting EDP's results of operation and financial condition.

For the remaining generation not covered by the mechanism for the compensation of early termination of the PPAs in Portugal – the combined cycle gas turbine plant ("CCGT"), of Ribatejo and all power plants in Spain – the energy and corresponding primary fuels (coal, fuel oil, natural gas or a combination of fuels) used to generate it is subject to full market price risk. If the fuel price is too high, the thermal plants may not generate electricity or electricity generation may be limited, thus materially and adversely affecting EDP's business, results of operation and financial condition.

EDP's thermal power plants are also dependent upon an adequate supply of the primary fuel necessary to operate these power plants and to generate electricity. The adequacy of the supply of primary fuel depends not only on the management of long-term purchase agreements, but also on shipping and transportation conditions involving a variety of third parties. Although EDP actively manages long-term purchase agreements for the acquisition of primary fuel and the respective transportation agreements, EDP cannot exclude the possibility of failures in the supply chain of primary

fuel. In the event of failures in the supply chain of primary fuel, EDP may not be able to generate electricity in some or all of EDP's thermal power plants until the supply chain is reinstated, thus materially and adversely affecting EDP's business, results of operations and financial condition.

To mitigate risks relating to price and volume, EDP operates in the power forward markets and has long-term fuel supply contracts. As the prices of these contracts are mainly in United States Dollars, EDP also enters into transactions in the derivative markets for electricity, fuel, shipping and foreign exchange too. Nevertheless, there can be no assurance that the fluctuations in fuel supply and prices will not materially and adversely affect its business, results of operations and financial condition.

**EDP's electricity business is subject to numerous environmental regulations that could affect EDP's results of operations and financial condition.**

EDP's electricity business is subject to extensive environmental regulations. These include regulations under Portuguese and Spanish law, laws adopted to implement EU regulations and directives, and international agreements on the environment. In Brazil, although EDP operates only hydro-electric plants and Brazil does not belong to Annex I of the Kyoto Protocol, EDP is nonetheless subject to strict environmental regulations relating to operators of generation facilities. Environmental regulations affecting EDP's business primarily relate to air emissions, water pollution, waste disposal and electromagnetic fields. The principal waste products of fossil-fuelled electricity generation are sulphur dioxide ("SO<sub>2</sub>"), nitrogen oxides ("NO<sub>x</sub>"), carbon dioxide ("CO<sub>2</sub>"), and particulate matter, such as dust and ash. A primary focus of the environmental regulations applicable to EDP's business is to reduce these emissions. EDP's renewable development, construction and operation activities in the United States are also subject to extensive environmental and permitting regulations at three levels – federal, state and local. Environmental and permitting regulations affecting EDP's business primarily relate to the impact on fauna and natural resources, the maintenance of safe distances from existing structures and dwellings, and water pollution and waste disposal during the operation of the projects.

EDP incurs significant costs to comply with environmental regulations requiring it to implement preventative or remediation measures. EDP made approximately €115 million of capital expenditures in 2006 in the reduction of SO<sub>2</sub> and NO<sub>x</sub> emissions at its coal-fired power plants in the Iberian Peninsula, to comply with applicable environmental laws and regulations to minimise the atmospheric emissions impact of its operations on the environment. Environmental regulatory measures may take the form of emission limits, taxes or required remediation measures, and may influence EDP's policies in ways that affect its business decisions and strategy, such as by discouraging its use of certain fuels.

Under the EU Directive relating to the emission of pollutants from Large Combustion Plants, Portuguese environmental authorities created a new National Emissions Reduction Plan ("PNRE") to reduce SO<sub>2</sub> and NO<sub>x</sub> emissions. The new PNRE, which replaces the 1996-2003 PNRE, was developed during 2004 and 2005 and formally approved in June 2006. The investments EDP made to minimise emissions impact took into account these newly imposed targets. Additionally, with regard to CO<sub>2</sub> emissions, the Emission Trading Scheme ("ETS") began in the EU in 2005, and emission allowances were distributed to EDP's operators in Portugal and Spain. EDP was allocated allowances for Portugal and Spain totalling 68.7 MtCO<sub>2</sub> for the period spanning 2005 to 2007. The total amount of allowances received by the electricity sectors accounts for nearly 43 per cent. and 40 per cent. of the total CO<sub>2</sub> accounted for in Portugal and Spain, respectively.

In the SEN in Portugal, the costs of EDP's thermal installed capacity were previously covered by the PPAs and are currently covered by the CMEC, taking into account allowances of CO<sub>2</sub>. As a result, about 50 per cent. of the risk of insufficient CO<sub>2</sub> emissions allowances is protected. For the other 50 per cent., relating to the thermal generation in Spain and the Ribatejo CCGT plant (not covered by the CMEC), EDP is dependent on its CO<sub>2</sub> risk management practices. There can be no assurance that EDP will manage its CO<sub>2</sub> emissions within the applicable allowances.

EDP also has an interest in a nuclear power plant through Hidrocontábrico, which holds a 15.5 per cent. interest in the Trillo nuclear power plant in Spain. As required by the international treaties ratified by Spain, Spanish law and regulations limit the liability of nuclear plant operators for nuclear accidents. Current Spanish law provides that the operator of each nuclear facility is liable for up to €700 million as a result of claims relating to a single nuclear accident. EDP would be liable for its

proportional share of this €700 million amount. Trillo currently has insurance to cover potential liabilities related to third parties arising from a nuclear accident in Trillo up to €700 million, including environment liability up to the same limit. In the proportion of Hidrocarburo's stake in Trillo, EDP could be subject to the risks arising from the operation of nuclear facilities and the storage and handling of low-level radioactive materials. These risks, including the breakdown or failure of equipment or processes or human performance, including safety controls, and other events that could result in injury or damage to property, are covered up to a maximum of €700 million per loss under another insurance policy. Liabilities EDP may incur in connection with these risks could further result in negative publicity and reputation damage.

**EDP's involvement in international activities subjects it to particular risks that could affect its profitability.**

EDP's investments in Brazil and in other countries outside the European Union present a different or greater risk profile than that of its energy business in Europe. Risks associated with its investments outside the European Union may include but are not limited to:

- economic volatility;
- exchange rate fluctuations and exchange controls;
- strong inflationary pressures;
- government involvement in the domestic economy;
- political uncertainty; and
- unanticipated changes in regulatory or legal regimes.

**EDP can give no assurance that it will successfully manage its operations in Brazil, the United States and other international operations.**

Exchange rate instability and, in particular, fluctuations in the value of the Brazilian real against the value of the U.S. dollar (appreciation of 8.1 per cent., 12.1 per cent. and 8.6 per cent. during 2004, 2005 and 2006, respectively) could result in uncertainty in the Brazilian economy, which could adversely affect the results of EDP's Brazilian operations.

EDP is exposed to translation risk when the accounts of its Brazilian and U.S. businesses, denominated in Brazilian reais and United States Dollars, respectively, are translated into its consolidated accounts, denominated in euros. EDP cannot predict movements in the currency of Brazil or the United States and a major devaluation of the Brazilian real or the United States dollar could adversely affect EDP's results of operations and financial condition.

EDP's wind energy generation activities in the United States are dependent on certain tax benefits the U.S. government provides to renewable energy generators. These tax benefits (which include production tax credits and accelerated depreciation) are currently effective through 31 December 2008. A potential extension of these tax benefits lies beyond EDP's control and there can be no assurance that such extension will take place, or that if it does happen, the tax benefits will be extended under the same terms as currently effective.

While EDP has secured long-term power sales contracts for most of its current operating assets in the United States, which are aimed at minimising the price and volume risks of its operations in that market, there can be no assurance that the financial credit of the customers of the electricity EDP produces, or that the development of the energy markets and emissions markets in the future will not adversely impact the profitability and financial condition of EDP's existing and future operations.

**Regulatory, hydrological and infrastructure conditions in Brazil may adversely affect EDP's Brazilian operations.**

EDP holds interests in Brazilian distribution companies and has invested in Brazilian generation projects. In the past, its distribution activities and generation projects in Brazil have been adversely

affected by regulatory, hydrological and infrastructure conditions in Brazil. These conditions could have a similar adverse effect on EDP's Brazilian generation and distribution operations in the future.

Delays by the Brazilian energy regulatory authorities in developing a regulatory structure that encourages new generation have led to, and might also in the future contribute to, shortages of electricity to meet demand in some regions of Brazil. As a result, the supply of electricity available for EDP's distribution companies in Brazil has been limited in certain periods in the past and may again be limited in the future. In addition, the geographic location of generation plants, combined with transportation constraints, has limited, and might also in the future limit, the electric system's ability to transmit electricity generated in abundant rainfall areas to distribution companies operating in areas experiencing drought conditions. Sales by these distribution businesses have been, and might in the future be, affected by such conditions that limit the supply of electricity available for distribution.

The Brazilian electricity-rationing programme that started in June 2001 and ended in February 2002 had an adverse effect on electricity consumption and on consumption habits in affected areas. During this rationing programme, electricity consumption in EDP's concession area decreased and did not return to pre-rationing levels until 2004. Consequently, in 2002 and 2003, EDP's Brazilian operations could only dispose of surplus electricity at depressed prices. Although total electricity distributed by EDP's subsidiaries in the Brazilian market increased in 2004, reflecting a stronger economic environment in that region and an increase in the number of customers, material reductions in electricity consumption or generation, due to below-average rainfall or otherwise, may adversely affect EDP's future financial results. In 2005, according to data from the EPE energy consumption in Brazil grew 4.6 per cent. compared to 2004 and exceeded pre-2001 rationing levels for almost every month of the year, reflecting a recovery in demand. In 2006, energy consumption increased by 3.8 per cent. compared to 2005. Due to the continuous market growth and the insufficiency of new generation, independent analysts believe that there is a moderate risk of power shortage in the 2009-2012 period.

In 2004, Law No. 10,848, the Law of the New Electricity Industry Model (*Lei do Novo Modelo do Setor Elétrico*) (the "New Electricity Law"), for the Brazilian electricity utility sector was enacted. On 30 July 2004, the Brazilian government enacted a decree governing the purchase and sale of electricity in the regulated market and the liberalised market, as well as the granting of authorisations and concessions for electricity generation projects. The regulations in this decree include, among other items, rules relating to auction procedures, the form of power purchase agreements and the mechanism for passing costs through to final consumers. In addition, the New Electricity Law contemplates significant control by the Brazilian government, creating uncertainty regarding competition and further investments in the private sector.

EDP's Brazilian distribution companies (Bandeirante, Escelsa and Enersul) operate in a highly regulated environment. The Brazilian regulator (ANEEL) regulates and controls the business operations of the distribution companies and has the power to require reductions in tariffs charged and increases in investments.

Concession agreements and Brazilian legislation establish a mechanism for fixing tariffs that allows for three types of tariff adjustments: (i) an annual adjustment; (ii) periodic revision; and (iii) extraordinary revision. A distribution company may adjust tariffs annually to compensate for certain effects of inflation and to pass through to consumers certain costs that are not manageable by the company. Moreover, ANEEL reviews tariffs every three years to identify variations in the costs of a distribution company and develop an index based on its operational efficiency that will be used as the reference for the annual adjustments of that distribution company. This adjustment mechanism rewards good cost management and helps share the results of any efficiency gains with consumers. A distribution company is also entitled to request an extraordinary revision of its tariffs if non-manageable costs become a significant part of its cost structure.

Although it is expected that the annual tariff adjustments will continue to allow EDP to pass through non-manageable costs, there might be delays in readjustment of the tariffs in the event of large macro-economic fluctuations (e.g., inflation and exchange rates). EDP can give no assurance that regulations implementing the New Electricity Law will fully mitigate the risk of delayed tariff adjustments.

### **EDP faces risks and uncertainties related to its activities in the gas sector.**

EDP operates its Iberian gas business within the regulatory framework set out by the Portuguese and Spanish governments, as described in more detail in the Business Description on pages 73 to 108. Although the level of development of the liberalised regulatory framework is more advanced in Spain than in Portugal, it is expected that legal or regulatory changes will occur, from time to time, in both countries. However, EDP cannot predict what those changes will entail or evaluate the full impact that they will have on its business, financial condition and results of operations. EDP's gas business is also exposed to economic risks relating to fluctuation in the price of energy, currencies in which gas prices are quoted and time lags in prices between the times of purchase and sale. Preparations have been made in order to manage these risks although EDP cannot assure that they will not have an adverse effect on its business, results of operations and financial condition.

The supply chain of gas to the Iberian Peninsula by foreign countries involves gas production and treatment, transportation through international pipelines and in vessels, and processing in liquefaction terminals. This supply chain is subject to political and technical risks. Although these political and technical risks are often dealt with through “*force majeure*” clauses in supply, transit and shipping contracts that may, to a certain extent, shift risk to the end-user market, thereby mitigating contractual risk, contractual provisions do not mitigate margin risk associated with loss of profits. Moreover, any capacity access or operational restrictions imposed by the transmission system operator on the usage of liquefied natural gas terminals, international grid connections or internal grid connections may impair normal supply and sales activities with resulting contractual risk leading to loss of profits.

The gas market is becoming more complex and more interrelated with the dynamics of other markets, including the market for electricity and CO<sub>2</sub>. This leads to volatility in international spot markets, with greater alternation between periods of high prices and low prices. Both high and low prices cause margin risk for market participants whose supply chain does not rely on long-term, stable contracts. Although EDP negotiates long-term, stable contracts wherever possible, EDP can give no assurance that its contractual structure will fully mitigate the risk arising from market volatility.

The demand for natural gas by electricity generators may be significantly affected not only by gas prices but also by a number of other factors including wind and hydrological conditions, prices in electricity pool markets, prices of competing fuels and the availability of plants that are not gas fired. Commercial gas sales and gas distribution are affected by tariff levels, the economic conditions of the countries in which EDP sells and distributes gas, environmental and climate conditions and competition.

The European Commission and national regulators and authorities can unilaterally impose measures or change, sometimes significantly, the rules and regulations applicable to the local gas industry. These measures or changes may affect the return on investment of gas infrastructure owners, the conditions for access to infrastructure by participants, the level of storage or stranded costs supported by participants and, consequently, the potential financial results of all market participants.

### **OTHER RISKS**

#### **Increases in interest rates and lack of financing on favourable terms could have a material adverse effect on EDP's business, financial condition and results of operations.**

EDP has historically financed its operations principally through bank loans and issuances in the capital markets (equity and debt). EDP can give no assurance about the availability of financing methods or the conditions under which EDP may be able to secure funding. If interest rates increase more than EDP anticipates, or if obtaining new financing proves more expensive than in the past (for example, due to the downgrade in EDP's credit ratings or to changes in financial market conditions), EDP's business, results of operations and financial condition might be materially and adversely affected.

EDP's exposure to financial risks lies essentially in its debt portfolio, arising from interest rate risk, exchange rate risk and risk of non-compliance by counterparties. EDP monitors financial markets on an ongoing basis in accordance with the risk management policy of EDP and its subsidiaries (“EDP Group”) and uses financial instruments to minimise potential adverse effects on its financial condition resulting from fluctuations in interest rates and foreign exchange rates. EDP only contracts with high-quality credit institutions in derivatives and financial transactions, and tries to avoid significant

concentration of credit risk. Nevertheless, there can be no assurance that EDP's risk management practices will eliminate all financial risks related to its debt.

**EDP may not be able to finance its planned capital expenditures.**

EDP's business activities require significant capital expenditures. EDP expects to finance a substantial part of these capital expenditures out of cash flows from its operating activities. If its operations do not generate sufficient cash flows, EDP may have to finance more of its planned capital expenditures from outside sources, including bank borrowings and offerings in the capital markets. No assurance can be given that EDP will be able to raise the financings required for its planned capital expenditures on acceptable terms or at all. If EDP is unable to raise the necessary financing, EDP may have to reduce its planned capital expenditures. Any such reduction could adversely affect EDP's business, results of operation or financial condition.

**EDP may face labour disruptions that could interfere with its operations and business.**

Approximately 65 per cent. of EDP's employees are members of unions. Although EDP has established a workers committee of representatives of its employees that meets with its board of directors every month to discuss and resolve any significant employment issues, and EDP believes that it maintains satisfactory working relationships with its employees, EDP is still subject to the risk of labour disputes and adverse employee relations and these disputes and adverse relations could disrupt its business operations and adversely affect its business, results of operation and financial conditions. Although EDP has not experienced any significant labour disputes or work stoppages, EDP's existing labour agreements may not prevent a strike or work stoppage at any of EDP's facilities in the future. Any such strike or work stoppage could have a material and adverse effect on EDP's business, results of operations or financial condition.

**EDP is a party to certain litigation.**

EDP is or has been subject to a number of claims relating to its activities and business and it may be subject to further claims in the future. EDP cannot ensure that it will prevail in these disputes, or any future disputes, and an adverse decision could have a material and adverse effect on its business, results of operations or financial condition.

**EDP's assets could be damaged by natural and man-made disasters and EDP could incur liabilities as a result thereof.**

EDP's assets include infrastructures, buildings, vehicles and other equipment. These assets could be damaged by fire, earthquakes, acts of terrorism, gas explosions and other natural and man-made disasters. While EDP seeks to take precautions against such disasters, maintain disaster recovery strategies and purchase levels of insurance coverage that EDP regards as commercially appropriate, should any damage occur and be substantial, EDP could incur losses and damages not recoverable under insurance policies in force, which could have a material adverse impact on its business, results of operations and financial condition.

EDP may also face civil liabilities or fines in the ordinary course of its business as a result of damages to third parties caused by natural and man-made disasters. These liabilities may result in EDP being required to make indemnification payments in accordance with applicable laws to the extent and in the amount that such indemnification payments are not covered by its insurance policies.

**EDP's facilities and other critical operating systems could face service interruptions arising from malfunction or other events beyond EDP's control, resulting in potential costs, losses and liabilities that could have a material adverse effect on EDP's financial condition and results of operations.**

EDP's generation plants and distribution networks are constantly exposed to risks related to their malfunction and other interruptions in service resulting from events outside of EDP's control. These events may result in increased costs and other losses. Although EDP has acquired insurance coverage for events of this nature in line with general market practice, EDP's coverage may prove insufficient to fully compensate it for any increased costs or losses that may occur as a result of service interruptions or malfunctions, with a consequent material adverse effect on EDP's business prospects, financial condition

and results of operations. Malfunctions or interruptions of service at EDP's facilities could also expose it to legal challenges and sanctions. Any such legal proceedings or sanctions could, in turn, have a material adverse effect on EDP's financial condition and results of operations.

**EDP may incur future costs with respect to its defined benefit pension plans.**

EDP grants its employees a supplementary retirement and survival plan (the "pension plan"). The liabilities and corresponding annual costs are determined through annual actuarial calculations, using the projected-unit credit method, by an independent actuary. The most critical risks relating to pensions accounting often relate to the returns on pension plan assets and the discount rate used to assess the present value of future payments. Pension liabilities can place significant pressure on cash flows. In particular, if EDP's pension fund is under-funded according to local regulations, EDP may be required to make additional contributions to the fund, which could adversely affect its business, results of operations and financial condition.

**EDP may have difficulty in hiring and retaining qualified personnel.**

EDP intends to expand and develop its business, particularly in the United States, and will need to hire additional personnel to continue its expansion strategy. This strategy will require EDP to recruit and promote additional executive management and technical personnel. The inability in the future to attract and retain sufficient technical and managerial personnel could limit or delay EDP's network and associated infrastructure development efforts, which could have an adverse effect on its business, results of operations and financial condition.

**EDP may be exposed to additional risks if it makes acquisitions.**

EDP may seek opportunities to expand its operations in the future if appropriate by way of acquisitions. EDP will assess each investment based on extensive financial and market analysis, which may include certain assumptions.

Additional investments could materially adversely affect EDP's business, results of operations and financial condition, as follows:

- EDP may incur substantial costs, delays or other operational or financial problems in integrating acquired businesses;
- EDP may not be able to identify, acquire or profitably manage such additional businesses;
- such acquisitions may adversely affect EDP's operating results;
- such acquisitions may divert management's attention from the operation of existing businesses;
- EDP may not be able to retain key personnel of acquired businesses;
- EDP may encounter unanticipated events, circumstances or legal liabilities; and
- EDP may have difficulties in obtaining the required financing or the required financing may only be available on unfavourable terms.

**RISK FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH INSTRUMENTS ISSUED UNDER THE PROGRAMME**

**The Instruments are not guaranteed by EDP, and you do not have any direct rights to enforce payment on the Instruments against EDP in case of default by the Issuer under the Instruments.**

The Instruments are obligations of the Issuer and not of EDP. EDP has no obligation to pay any amounts due under the Instruments. EDP has entered into a Keep Well Agreement with the Issuer, which is not a guarantee. Under the Keep Well Agreement, EDP has agreed that, for so long as the Issuer has any Instruments outstanding under the Programme, it will make available to the Issuer funds sufficient to meet its payment obligations or repay borrowings then maturing to the extent that the Issuer's funds or other liquid assets are insufficient to meet its payment obligations or repay its borrowings. Although under the terms of the Keep Well Agreement the Trustee may, on behalf of

holders of any instruments issued under the Programme, enforce the Issuer's rights under the Keep Well Agreement against EDP, holders do not have any direct rights against EDP. (See "Relationship of EDP B.V. with EDP S.A." for more information on the Keep Well Agreement.)

**The Instruments may not be a suitable investment for all investors.**

Each potential investor in the Instruments must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Instruments, the merits and risks of investing in the Instruments and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Instruments and the impact the Instruments will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Instruments, including Instruments with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Instruments and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Instruments are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in instruments which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the instruments will perform under changing conditions, the resulting effects on the value of the instruments and the impact this investment will have on the potential investor's overall investment portfolio.

## **RISKS RELATED TO THE STRUCTURE OF A PARTICULAR ISSUE OF INSTRUMENTS**

A wide range of Instruments may be issued under the Programme. A number of these Instruments may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

### **Instruments subject to optional redemption by the Issuer**

The optional redemption feature of the Instruments could limit their market value. During any period when the Issuers may elect to redeem the Instruments, the market value of the Instruments generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuers may redeem the Instruments when their cost of borrowing is lower than the interest rate on the Instruments. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Instruments being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

### **Index Linked Instruments and Dual Currency Instruments**

The Issuer may issue Instruments with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a “Relevant Factor”). In addition, the Issuers may issue Instruments with principal or interest payable in one or more currencies which may be different from the currency in which the Instruments are denominated. Potential investors should be aware that:

- (i) the market price of such Instruments may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Instruments in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical performance of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Instruments. Accordingly, each potential investor should consult its own financial and legal advisers about the risks entailed with an investment in any Index Linked Instruments and the suitability of such Instruments in light of its particular circumstances.

### **Partly-paid Instruments**

The Issuer may issue Instruments where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

### **Variable rate Instruments with a multiplier or other leverage factor**

Instruments with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

### **Inverse Floating Rate Instruments**

Inverse Floating Rate Instruments have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Instruments typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Instruments are more volatile because an increase in the reference rate not only decreases the interest rate of the Instruments, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Instruments.

### **Fixed/Floating Rate Instruments**

Fixed/Floating Rate Instruments may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuers have the right to effect such a conversion, this will affect the secondary market and the market value of the Instruments since the Issuers may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Instruments may be less favourable than then prevailing spreads on comparable Floating Rate Instruments tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Instruments. If the Issuers convert from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Instruments.

### **Instruments issued at a substantial discount or premium**

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

## **RISKS RELATING TO INTERBOLSA INSTRUMENTS**

### **Risks related to withholding tax**

Under Portuguese law, income derived from the Book Entry Instruments integrated in and held through Interbolsa, as management entity of the Portuguese Centralised System (*Central de Valores Mobiliários*) held by non-resident investors (both individual and corporate) eligible for the debt securities special tax exemption regime which was approved by Decree-Law193/2005, of 7 November, as amended, (“Decree-Law193/2005”) and in force as from 1 January 2006, may benefit from withholding tax exemption, provided that certain procedures and certification requirements are complied with. Failure to comply with these procedures and certifications will result in the application of Portuguese domestic withholding tax.

Decree-Law193/2005 does not apply to Instruments other than Book Entry Instruments.

See details of the Portuguese taxation regime in “Taxation – Portugal”.

The Issuer will not gross up payments in respect of any such withholding tax in any of the cases indicated in Condition 8, including failure to deliver or incorrect completion of the certificate or declaration referred to above. Accordingly, holders of Book Entry Instruments must seek their own advice to ensure that they comply with all procedures to ensure correct tax treatment of their Book Entry Instruments.

## **RISKS RELATED TO INSTRUMENTS GENERALLY**

Set out below is a brief description of certain risks relating to the Instruments generally:

### **Instruments where denominations involve integral multiples: definitive Instruments**

In relation to any issue of Instruments which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Instruments may be traded in amounts that are not integral multiples of such minimum

Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Instrument in respect of such holding (should definitive Instruments be printed) and would need to purchase a principal amount of Instruments such that its holding amounts to a Specified Denomination.

If definitive Instruments are issued, holders should be aware that definitive Instruments which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

### **Modification, waivers and substitution**

The conditions of the Instruments contain provisions for calling meetings of Instrumentholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Instrumentholders including Instrumentholders who did not attend and vote at the relevant meeting and Instrumentholders who voted in a manner contrary to the majority.

The conditions of the Instruments also provide that the Trustee may, without the consent of Holders, (i) agree to any modification of the Instruments of the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Holders; (ii) agree to any modification of the Instruments or the Trust Deed which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law; or (iii) determine that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such which, in any such case, is not, in the opinion of the Trustee, materially prejudicial to the interests of the Holders, in the circumstances described in Condition 16 of the conditions of the Instruments.

Furthermore, the Trustee may, without the consent of the Instrumentholders, agree with the Issuer to the substitution in place of the Issuer as the principal debtor under the Instruments and the Trust Deed of another company, being a Subsidiary of the Issuer, subject to (a) the Instruments being unconditionally and irrevocably guaranteed by the Issuer or having the benefit of a Keep Well Agreement by EDP on the same basis as that on which they had such benefit immediately prior to the substitution or the substitute Issuer is EDP, (b) the Trustee being satisfied that the interests of the Instrumentholders will not be materially prejudiced by the substitution and (c) certain other conditions set out in the Trust Deed being complied with. See Condition 15 of “Terms and Conditions of the Instruments”.

### **EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required, from 1 July 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

If, following implementation of this Directive, a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Instrument as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent following implementation of this Directive, the Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

### **Change of law**

The conditions of the Instruments are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus.

## **RISKS RELATED TO THE MARKET GENERALLY**

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

### **The secondary market generally**

Instruments may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Instruments easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of Instruments.

### **Exchange rate risks and exchange controls**

The Issuers will pay principal and interest on the Instruments in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Instruments, (2) the Investor's Currency-equivalent value of the principal payable on the Instruments and (3) the Investor's Currency-equivalent market value of the Instruments.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

### **Interest rate risks**

Investment in Fixed Rate Instruments involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Instruments.

### **Credit ratings may not reflect all risks**

One or more independent credit rating agencies may assign credit ratings to the Instruments. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Instruments. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

### **Legal investment considerations may restrict certain investments**

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisors to determine whether and to what extent (1) Instruments are legal investments for it, (2) Instruments can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Instruments. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Instruments under any applicable risk-based capital or similar rules.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published and have been filed with the Financial Services Authority shall be incorporated in, and form part of, this Prospectus:

- (a) in respect of EDP, the auditors report and audited consolidated annual financial statements for the financial year ended 31 December 2005 which appear on pages 102 to 111 and pages 32 to 39 respectively, of the annual report for the year ended 31 December 2005; the auditors report and audited consolidated annual financial statements for the financial year ended 31 December 2006 which appear on pages 110 to 115 and pages 24 to 33 respectively, of the annual report for the year ended 31 December 2006 and pages 1 and 2 of the interim consolidated financial statements for the six months ended 30 June 2007;
- (b) in respect of EDP B.V., the auditors report and audited annual financial statements for the financial year ended 31 December 2005 which appear on page 18 and pages 4 to 7 respectively, of the annual report for the year ended 31 December 2005; the auditors report and audited annual financial statements for the year ended 31 December 2006 which appear on page 20 and pages 4 to 7 respectively, of the annual report for the year ended 31 December 2006 and pages 1 and 2 of the interim financial statements for the six months ended 30 June 2007; and
- (c) memorandum and articles of association of each of the Issuers.

Following the publication of this Prospectus a supplement may be prepared by the Issuer and approved by the UK Listing Authority in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus or in a document which is incorporated by reference in this Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

Copies of documents incorporated by reference in this Prospectus can be obtained from the registered office of the Issuers and from the specified office of the Paying Agent for the time being in London.

The Issuers will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus which is capable of affecting the assessment of any Instruments, prepare a supplement to this Prospectus or publish a new Prospectus for use in connection with any subsequent issue of Instruments. The Issuers have undertaken to the Dealers in the Programme Agreement (as defined in "Subscription and Sale") that they will comply with section 87G of the Financial Services and Markets Act 2000.

## FORM OF FINAL TERMS

*Set out below is the form of Final Terms which will be completed for each Tranche of Instruments issued under the Programme.*

[Date]

**[EDP – ENERGIAS DE PORTUGAL, S.A./EDP FINANCE B.V.] (\*)**

Issue of

*[Aggregate Nominal Amount of Tranche]*

*[Title of Instruments]*

**under the €12,500,000,000**

**Programme for Issuance of Debt Instruments**

### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated 23 October 2007 [and the supplement to the Prospectus dated [date]] which constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the “Prospectus Directive”). This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus. Full information on the Issuers and the offer of the Instruments is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. The Prospectus [and the supplement to the Prospectus] [is/are] available for inspection and collection from the registered office of the Issuer at [if EDP is the issuer insert – Praça Marquês de Pombal, 1250-162 Lisbon, Portugal/if EDP B.V. is the issuer insert – Strawinskylaan 3105, 1077ZX, Amsterdam, The Netherlands] and the specified offices of the Paying Agents.

*[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Prospectus with an earlier date.]*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the Conditions) set forth in the Prospectus dated 10 January 2006. This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the “Prospectus Directive”) and must be read in conjunction with the Prospectus dated 23 October 2007 which constitutes a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Prospectus dated 10 January 2006 and are attached hereto. Full information on the Issuer and the offer of the Instruments is only available on the basis of the combination of these Final Terms and the Prospectus dated 23 October 2007 and 10 January 2006. Copies of such Prospectus are available for inspection and collection from the registered office of the Issuer at [if EDP is the issuer insert – Praça Marquês de Pombal, 1250-162 Lisbon, Portugal/if EDP B.V. is the issuer insert – Strawinskylaan 3105, 1077ZX, Amsterdam, The Netherlands] and the specified offices of the Paying Agents.

*[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Final Terms.]*

*[When adding any other final terms or information consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]*

*[If the Instruments have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]*

\*EDP Finance B.V. will not issue Book Entry Instruments.

1. Issuer: [EDP – Energias de Portugal, S.A./EDP Finance B.V.] (\*)
  
2. [(i) Series Number: [            ]  
 [(ii) Tranche Number: [            ]  
 (If fungible with an existing Series, details of that Series, including the date on which the Instruments become fungible)]
  
3. Specified Currency or Currencies: [            ]  
 (N.B. Book Entry Instruments may only be denominated in Euro until such time as when Interbolsa registers and settles the securities in currencies other than Euro).
  
4. Aggregate Nominal Amount:  
 – Tranche: [            ]  
 – Series: [            ]
  
5. Issue Price: [     ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)]
  
6. (i) Specified Denominations: [            ]  
 [            ]  
 (Where multiple denominations above [€50,000] (which multiples are less than [€50,000]) or equivalent are being used, the following wording should be followed:  
 “[€50,000] and integral multiples of [€1,000] in excess thereof up to and including [€99,000]. No Instruments in definitive form will be issued with a denomination above [€99,000].)  
  
 (N.B. If an issue of Instruments is (i) NOT admitted to trading on a European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the €50,000 minimum denomination is not required.)
  
- (ii) Calculation Amount: (If only one Specified Denomination insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note, there must be a common factor in the case of two or more Specified Denominations).

\*EDP Finance B.V. will not issue Book Entry Instruments.

7. [(i) Issue Date: [            ]  
(ii) Interest Commencement Date (if different from the Issue Date): [specify/Issue Date/Not Applicable]
- (N.B. An Interest Commencement Date will not be relevant for certain Instruments, for example Zero Coupon Instruments.)*
8. Maturity Date: [Fixed rate – specify date/Floating rate – Interest Payment Date falling in or nearest to [specify month]]
9. Interest Basis: [[        ] per cent. Fixed Rate]  
[[LIBOR/EURIBOR] +/- [        ] per cent. Floating Rate]  
[Zero Coupon]  
[Index Linked Interest]  
[Dual Currency Interest]  
[specify other]  
(further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]  
[Index Linked Redemption]  
[Dual Currency Redemption]  
[Partly Paid]  
[Instalment]  
[specify other]
- (N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Instruments will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply)*
11. Change of Interest Basis or Redemption/Payment Basis: [Specify details of any provision for change of Instruments into another Interest Basis or Redemption/Payment Basis]
12. Put/Call Options: [Investor Put]  
[Issuer Call]  
[(further particulars specified below)]
13. (a) Status of Instruments: [Senior/[Dated/Perpetual] Subordinated]  
(b) Date of Board approval for issuance of Instruments obtained: [        ]
- (N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Instruments)*
14. Listing: [London/specify other/None]
15. Method of distribution: [Syndicated/Non-syndicated]

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

16. **Fixed Rate Instrument Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

- (i) Rate[(s)] of Interest: [ ] per cent. per annum [payable [annually/semi-annually/quarterly] in arrear]  
*(If payable other than annually, consider amending Condition 5)*
- (ii) Interest Payment Date(s): [[ ] in each year up to and including the Maturity Date]/*specify other*  
*(N.B. This will need to be amended in the case of long or short coupons)*
- (iii) Fixed Coupon Amount(s): [ ] per Calculation Amount  
*(Applicable to Instruments in definitive form)*
- (iv) Broken Amount(s): [ ] per Calculation Amount payable on the Interest Payment Date falling [in/on] [ ]  
*(Applicable to Instruments in definitive form)*
- (v) Day Count Fraction: [30/360 or Actual/Actual (ICMA) or *specify other*]
- (vi) Determination Date(s): [ ] in each year  
*[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon]*  
*(N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration)*  
*(NB: Only relevant where Day Count Fraction is Actual/Actual (ICMA))*
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Instruments: [None/Give details]
17. **Floating Rate Instrument Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Specified Period(s)/Specified Interest Payment Dates: [ ]
- (ii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/*specify other*]
- (iii) Additional Business Centre(s): [ ]
- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/*specify other*]
- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Issue and Paying Agent): [ ]
- (vi) Screen Rate Determination:  
– Reference Rate: [ ]  
*(Either LIBOR, EURIBOR or other, although additional information is required if other – including fallback provisions in the Agency Agreement)*

- Interest Determination Date(s): [            ]  
(Second London business day prior to the start of each Interest Period if LIBOR (other than sterling or euro LIBOR), first day of each Interest Period if sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
  - Relevant Screen Page: [            ]  
(In the case of EURIBOR, if not Reuters EURIBOR 01 (formerly Telerate Page 248) ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
  - (vii) ISDA Determination:
    - Floating Rate Option: [            ]
    - Designated Maturity: [            ]
    - Reset Date: [            ]
  - (viii) Margin(s): [+/-] [ ] per cent. per annum
  - (ix) Minimum Rate of Interest: [            ] per cent. per annum
  - (x) Maximum Rate of Interest: [            ] per cent. per annum
  - (xi) Day Count Fraction: [Actual/Actual – (ISDA)  
Actual/365 (Fixed)  
Actual/365 (Sterling)  
Actual/360  
30/360  
30E/360  
30E/360 (ISDA)  
Other]  
(See Condition 5 for alternatives)
  - (xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Instruments, if different from those set out in the Conditions: [            ]
18. **Zero Coupon Instrument Provisions** [Applicable/Not Applicable]  
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Accrual Yield: [            ] per cent. per annum
  - (ii) Reference Price: [            ]
  - (iii) Any other formula/basis of determining amount payable: [            ]
  - (iv) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 7.5 and 7.10 apply/specify other]  
(Consider applicable day count fraction if not U.S. dollar denominated)

19. **Index Linked Instrument Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*  
*(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Instruments will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*
- (i) Index/Formula: [give or annex details]
  - (ii) Calculation Agent: [give name]
  - (iii) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Agent): [ ]
  - (iv) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [Include a description of market disruption or settlement disruption events and adjustment provisions]
  - (v) Specified Period(s)/Specified Interest Payment Dates: [ ]
  - (vi) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]
  - (vii) Additional Business Centre(s): [ ]
  - (viii) Minimum Rate of Interest: [ ] per cent. per annum
  - (ix) Maximum Rate of Interest: [ ] per cent. per annum
  - (x) Day Count Fraction: [ ]
20. **Dual Currency Instrument Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*  
*(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Instruments will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*
- (i) Rate of Exchange/method of calculating Rate of Exchange: [give or annex details]
  - (ii) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Agent): [ ]
  - (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [ ]
  - (iv) Person at whose option Specified Currency(ies) is/are payable: [ ]

## PROVISIONS RELATING TO REDEMPTION

21. Issuer Call: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date: [ ]
- (ii) Optional Redemption Amount of each Instrument and method, if any, of calculation of such amount(s): [[ ] per Calculation Amount/specify other/see Appendix]
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: [ ]
- (b) Maximum Redemption Amount: [ ]
- (iv) Notice period (if other than as set out in the Conditions): [ ]  
*(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee)*
22. Investor Put: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date: [ ]
- (ii) Optional Redemption Amount of each Instrument and method, if any, of calculation of such amount(s): [[ ] per Calculation Amount/specify other/see Appendix]
- (iii) Notice period (if other than as set out in the Conditions): [ ]  
*(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee)*
23. Final Redemption Amount of each Instrument: [[ ] per Calculation Amount/specify other/see Appendix]  
*(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Instruments will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply)*

24. Early Redemption Amount of each Instrument payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7.5):
- [[ ] per Calculation Amount/specify other/see Appendix]

**GENERAL PROVISIONS APPLICABLE TO THE INSTRUMENTS**

25. (i) Form of Instruments(\*):
- [Temporary Global Instrument exchangeable for a Permanent Global Instrument which is exchangeable for definitive Bearer Instruments and/or Registered Instruments [on 60 days’ notice given at any time/only upon an Exchange Event]]
- [Temporary Global Instrument exchangeable for definitive Bearer Instruments and/or Registered Instruments on and after the Exchange Date]
- [Permanent Global Instrument exchangeable for definitive Bearer Instruments and/or Registered Instruments [on 60 days’ notice given at any time/only upon an Exchange Event]]
- [Global Registered Instrument (U.S.\$[ ] nominal amount (*specify nominal amount*)) exchangeable for Registered Instruments [on 60 days’ notice given at any time/only upon an Exchange Event]]
- [Dematerialised book-entry registered form/ Dematerialised book-entry bearer form] (“ao portador”) [Book Entry Instruments]]
- (The ‘exchange upon 60 days’ notice’ option should not be expressed to be applicable if the Specified Denomination in paragraph 6 includes language substantially to the following effect: [€50,000] and integral multiples of [€1,000] in excess thereof up to and including [€99,000]’)*
- (ii) New Global Note:
- [Yes/No] [*N.B. Not applicable to Book Entry Instruments*]
26. Additional Financial Centre(s) or other special provisions relating to Payment Dates:
- [Not Applicable/*give details*]  
*(Note that this item relates to the place of payment and not Interest Period end dates to which item 16(iii) and 18(vi) relate)*
27. Talons for future Coupons or Receipts to be attached to definitive Bearer Instruments (and dates on which such Talons mature):
- [Yes/No. *If yes, give details*]

\*EDP Finance B.V. will not issue Book Entry Instruments.

28. Details relating to Partly Paid Instruments: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Instruments and interest due on late payment: [Not Applicable/give details. NB: a new form of Temporary Global Instrument and/or Permanent Global Instrument may be required for Partly Paid issues]
29. Details relating to Instalment Instruments:  
 (i) Instalment Amount(s): [Not Applicable/give details]  
 (ii) Instalment Date(s): [Not Applicable/give details]
30. Redenomination applicable: Redenomination [not] applicable  
 [(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))]  
 [(if Redenomination is applicable, specify the terms of the redenomination in an Annex to the Final Terms)]
31. Other terms or conditions: [Not Applicable/give details]  
 (When adding any other final terms consideration should be given as to whether such terms constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)

## **DISTRIBUTION**

32. (i) If syndicated, names of Managers: [Not Applicable/give names]  
 (ii) Date of [Subscription] Agreement: [ ]  
 (The above is only relevant if the Instruments are derivative securities to which Annex XII of the Prospectus Directive Regulation applies)  
 (iii) Stabilising Manager (if any): [Not Applicable/give name]
33. If non-syndicated, name of relevant Dealer: [ ]
34. U.S. Selling Restrictions: [Reg. S Compliance Category; TEFRA D/TEFRA C/TEFRA not applicable]
35. Additional selling restrictions: [Not Applicable/give details]

## **[LISTING AND ADMISSION TO TRADING APPLICATION**

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Instruments described herein pursuant to the EUR 12,500,000,000 Programme for the Issuance of Debt Instruments of EDP – Energias de Portugal S.A. and EDP B.V.]

**RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in these Final Terms. [[ ] has been extracted from [ ]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [ ], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Signed on behalf of the Issuer:

By:.....

Duly authorised

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

- (i) Listing and Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Instruments to be admitted to trading on [specify relevant regulated market (for example the Bourse de Luxembourg, the London Stock Exchange’s Gilt Edged and Fixed Interest Market or the Regulated Market of the Irish Stock Exchange) and, if relevant, admission to an official list (for example, the Official List of the UK Listing Authority)] with effect from [ ].] [Application is expected to be made by the Issuer (or on its behalf) for the Instruments to be admitted to trading on [specify relevant regulated market (for example the Bourse de Luxembourg, the London Stock Exchange’s Gilt Edged and Fixed Interest Market or the Regulated Market of the Irish Stock Exchange) and, if relevant, admission to an official list (for example, the Official List of the UK Listing Authority)] with effect from [ ].] [Not Applicable.]
- (ii) Estimate of total expenses related to admission to trading: [ ]

### 2. RATINGS

Ratings:

The Instruments to be issued have been rated:

[S & P: [ ]]  
[Fitch: [ ]]  
[Moody’s: [ ]]  
[[Other]: [ ]]

*(The above disclosure should reflect the rating allocated to Instruments of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

### 3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Instruments has an interest material to the offer. – *Amend as appropriate if there are other interests*]

*[(When adding any other description, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive.)]*

### 4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- (i) Reasons for the offer [ ]
- (ii) Estimated net proceeds: [ ]

- (iii) Estimated total expenses: [     ]  
*(N.B.: Delete unless the Instruments are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, in which case (i) above is required where the reasons for the offer are different from making profit and/or hedging certain risks and, where such reasons are inserted in (i), disclosure of net proceeds and total expenses at (ii) and (iii) above are also required.)*
5. **YIELD** (*Fixed Rate Instruments only*)  
 Indication of yield: [     ]  
 The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.
6. **PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING** (*Index-Linked Instruments only*)  
*[Need to include details of where past and future performance and volatility of the index/formula can be obtained.]*  
*[Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained.]*  
*[Include other information concerning the underlying required by paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.]*  
*[(When completing this paragraph, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]*  
 The Issuer [intends to provide post-issuance information [specify what information will be reported and where it can be obtained]] [does not intend to provide post-issuance information].  
*(N.B. This paragraph 6 only applies if the Instruments are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)*
7. **PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT** (*Dual Currency Instruments only*)  
*[Need to include details of where past and future performance and volatility of the relevant rates can be obtained.]*  
*[If there is a derivative component in the interest or the Instruments are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]*  
*[(When completing this paragraph, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]*  
*(N.B. The above applies if the Instruments are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)*
8. **OPERATIONAL INFORMATION**
- (i) ISIN Code: [     ]
- (ii) Common Code: [     ]

- (iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s)/ Interbolsa clearing system identification number [ ]].
- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of initial Paying Agent(s) (if any): [ ]
- (vi) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes][No]  
 [Note that the designation “yes” simply means that the Instruments are intended upon issue to be deposited with one of the international central securities depositories (ICSD) as common safekeeper and does not necessarily mean that the Instruments will be recognised as eligible collateral for the Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria] [include this text if the Instruments are in global form and “yes” selected, in which case Instruments must be issued in NGN form] [Note that Book Entry Instruments are already in a form which may be Eurosystem eligible].

## TERMS AND CONDITIONS OF THE INSTRUMENTS

*The following are the Terms and Conditions of the Instruments which as supplemented, modified or replaced in relation to any Instruments by the relevant Final Terms, will be applicable to each Series of Instruments. Certain provisions relating to the Instruments whilst in global form, and certain modifications of these Terms and Conditions applicable to Instruments whilst in global form, are described in the section entitled “Provisions relating to the Instruments whilst in Global Form”.*

This Instrument is one of a Series (as defined below) of Instruments issued by an Issuer (the “Issuer”) which will be, as specified in the Final Terms (as defined below), either EDP – Energias de Portugal, S.A. (“EDP”) or EDP Finance B.V. (“EDP B.V.”) and (except in the case of Instruments in book-entry form (“Book Entry Instruments”)) constituted by an amended and restated Trust Deed (such Trust Deed as modified and/or supplemented and/or restated from time to time, the “Trust Deed”) dated 23 October 2007 made between EDP, EDP B.V. and Deutsche Trustee Company Limited (the “Trustee”, which expression shall include any successor as Trustee). Book Entry Instruments are integrated in the Interbolsa book-entry system and governed by these conditions, certain provisions of the Trust Deed as provided therein and a deed poll given by EDP in favour of the holders of Book Entry Instruments dated 23 October 2007 (the “Interbolsa Instrument”).

References herein to the “Instruments” shall be references to the Instruments of this Series. As used herein, “Tranche” means Instruments which are identical in all respects (including as to listing) and “Series” means a Tranche of Instruments together with any further Tranche or Tranches of Instruments which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The Instruments, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Amended and Restated Issue and Paying Agency Agreement (such Amended and Restated Issue and Paying Agency Agreement as amended and/or supplemented and/or restated from time to time, the “Agency Agreement”) dated 23 October 2007 and made between EDP, EDP B.V., Deutsche Bank AG, London Branch as issue and principal paying agent and agent bank (the “Issue and Paying Agent”, which expression shall include any successor agent), Deutsche Bank Luxembourg S.A. as registrar in respect of Instruments in registered form and as paying agent (the “Registrar” which expression shall include any successor registrar and together with the Issue and Paying Agent, unless the context otherwise requires, the “Paying Agents”, which expression shall include any additional or successor paying agents) and the Trustee. In the case of Book Entry Instruments, Deutsche Bank (Portugal) S.A. will be the paying agent in Portugal (the “Portuguese Paying Agent”).

The Final Terms for this Instrument (or the relevant provisions thereof) is attached to or endorsed on this Instrument and supplements these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Instrument. References to the “Final Terms” are to the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Instrument.

In respect of Instruments issued by EDP B.V., EDP B.V. has the benefit of a Keep Well Agreement (the “Keep Well Agreement”) also dated 14 March 2001 between EDP and EDP B.V.

Subject as provided in the Interbolsa Instrument the Trustee acts for the benefit of the Holders (as defined below) for the time being of the Instrument, of the Receipts (as defined below), of the Coupons (as defined below) (which expression shall, unless the context otherwise requires, include the holders of the Talons (as defined below)), and in the case of Book Entry Instruments, the persons shown in the individual securities accounts held with an Interbolsa Participant (defined below) (the “Book Entry Instrumentholders”, and, together with the holders of Instruments other than Book Entry Instruments, the “Holders”, which expression shall, in relation to any Instruments represented by a Global Instrument, be construed as provided below) all in accordance with the provisions of the Trust Deed. “Interbolsa Participant” means any authorised financial intermediary entitled to hold control accounts with Interbolsa on behalf of their customers and includes any depositary banks appointed by Euroclear

S.A./N.V. (“Euroclear Bank”) and/or Clearstream Banking, société anonyme (“Clearstream, Luxembourg”) for the purpose of holding accounts on behalf of Euroclear Bank and Clearstream, Luxembourg.

Copies of the Trust Deed, the Agency Agreement, the Interbolsa Instrument and the Keep Well Agreement are available for inspection during normal business hours at the registered office for the time being of the Trustee (being at 23 October 2007 at Winchester House, 1 Great Winchester Street, London EC2N 2DB) and at the specified office of each of the Paying Agents. Copies of the Final Terms are obtainable during normal business hours at the specified office of each of the Paying Agents save that, if this Instrument is an unlisted Instrument of any Series, the Final Terms will only be obtainable by Holders holding one or more unlisted Instruments of that Series and such Holders must produce evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding of such Instruments and identity. The Holders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement, the Keep Well Agreement and the Final Terms which are applicable to them. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the the Trust Deed or, in the case of Book Entry Instruments, the Interbolsa Instrument and those provisions of the Trust Deed applicable to them.

Words and expressions defined in the Trust Deed, the Interbolsa Instrument or the Agency Agreement or used in the Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Trust Deed and the Agency Agreement, the Trust Deed will prevail and, in the event of inconsistency between the Trust Deed or the Agency Agreement and the Final Terms, the Final Terms will prevail.

## **1. Form and Denomination**

### ***A: Instruments other than Book Entry Instruments***

**1.1** *Form:* Instruments are issued in bearer form (“Bearer Instruments”) or in registered form (“Registered Instruments”), as specified in the Final Terms and are serially numbered. Registered Instruments are not exchangeable for Bearer Instruments.

**1.2** *Coupons and Talons:* Interest-bearing Bearer Instruments have attached thereto, at the time of their initial delivery, coupons (“Coupons”), presentation of which will be a prerequisite to the payment of interest save in certain circumstances specified herein. In addition, if so specified in the Final Terms, such Instruments have attached thereto, at the time of their initial delivery, a talon (“Talon”) for further coupons and the expression “Coupons” shall, where the context so requires, include Talons.

**1.3** *Interest Basis:* This Instrument may be a Fixed Rate Instrument, a Floating Rate Instrument, a Zero Coupon Instrument, an Index Linked Interest Instrument or a combination of any of the foregoing, depending upon the Interest Basis shown in the Final Terms.

**1.4** *Redemption/Payment Basis:* This Instrument may be an Index Linked Redemption Instrument, an Instalment Instrument, a Dual Currency Instrument, a Partly Paid Instrument or a combination of any of the foregoing, depending on the Redemption/Payment Basis shown in the Final Terms.

**1.5** *Instalment Instruments:* Bearer Instruments, the principal amount of which is repayable by instalments (“Instalment Instruments”) have attached thereto, at the time of their initial delivery, payment receipts (“Receipts”) in respect of the instalments of principal.

**1.6** *Denomination of Bearer Instruments:* Bearer Instruments are in the Specified Denomination or Denominations (each of which denominations is integrally divisible by each smaller denomination) specified in the Final Terms. Bearer Instruments of one denomination may not be exchanged for Bearer Instruments of any other denomination.

**1.7** *Specified Denomination of Registered Instruments:* Registered Instruments are in the minimum Specified Denomination specified in the Final Terms or integral multiples thereof.

**1.8** *Currency of Instruments:* The Instruments are denominated in such Specified Currency as may be specified in the Final Terms. Any currency may be so specified, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

**B: Book Entry Instruments**

**1.9** *Form:* The Book Entry Instruments are issued in dematerialised book-entry (*forma escritural*) and nominative (*nominativas*) or bearer (“ao portador”) form in the specified denomination provided that in the case of any Instruments which are to be admitted to trading on a regulated market within the European Economic Union or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum Specified Denomination shall be EUR 50,000 as indicated in the applicable Final Terms.

**1.10** *Registration:* The Book Entry Instruments will be registered by Interbolsa – Sociedade Gestora de Sistemas de Liquidação de Sistemas Centralizados de Valores Mobiliários, S.A. (“Interbolsa”) as management entity of the Portuguese Centralised System of Registration of Securities (*Central de Valores Mobiliários*) (“CVM”). Each person shown in the individual securities accounts held with a Member (as defined below) as having an interest in the Instruments shall be considered the holder of the principal amount of Instruments recorded. One or more certificates in relation to the Book Entry Instruments (each a “Certificate”) will be delivered by the relevant Interbolsa Participant in respect of its holding of Instruments upon the request by the relevant Instrumentholder and in accordance with that Interbolsa Participant’s procedures and pursuant to article 78 of the Portuguese Securities Code (*Código dos Valores Mobiliários*).

**1.11** *Interest Basis:* This Book Entry Instrument may be a Fixed Rate Instrument, a Floating Rate Instrument, a Zero Coupon Instrument, an Index Linked Interest Instrument or a combination of any of the foregoing, depending upon the Interest Basis shown in the Final Terms.

**1.12** *Redemption/Payment Basis:* This Book Entry Instrument may be an Index Linked Redemption Instrument, an Instalment Instrument, a Partly Paid Instrument or a combination of any of the foregoing, depending on the Redemption/Payment Basis shown in the Final Terms.

**1.13** *Denomination of Book Entry Instruments:* Book Entry Instruments are in the Specified Denomination or Denominations (each of which denominations is integrally divisible by each smaller denomination) specified in the Final Terms. Book Entry Instruments of one denomination may not be exchanged for Book Entry Instruments of any other denomination.

**1.14** *Currency of Instruments:* The Book Entry Instruments will be denominated in Euro or in such other currency as can be settled in Interbolsa, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

In these Conditions, “Book Entry Instrumentholder” for the purposes of Book Entry Instruments and “holder” means the person in whose name a Book Entry Instrument is registered in the relevant individual securities accounts held with an Interbolsa Participant.

**2. Title and Transfer**

**2.1** *Title to Bearer Instruments:* Title to Bearer Instruments, Receipts and Coupons passes by delivery. References herein to the “Holders” of Bearer Instruments or of Receipts or Coupons are to the bearers of such Bearer Instruments or such Receipts or Coupons.

**2.2** *Title to Registered Instruments:* Title to Registered Instruments passes by registration in the register which the Issuer shall procure to be kept by the Registrar. References herein to the “Holders” of Registered Instruments are to the persons in whose names such Registered Instruments are so registered in the relevant register.

**2.3** *Holder as Owner:* The Holder of any Bearer Instrument, Coupon or Registered Instrument will (except as otherwise required by applicable law or regulatory requirement) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest thereof or therein, any writing thereon, or any theft or loss thereof) and no person shall be liable for so treating such Holder.

**2.4** *Transfer of Registered Instruments:* A Registered Instrument may, upon the terms and subject to the conditions set forth in the Agency Agreement, be transferred in whole or in part only (provided that such part is, or is an integral multiple of, the minimum Specified Denomination) upon the surrender of the Registered Instrument to be transferred, together with the form of transfer endorsed on it duly completed and executed, at the specified office of the Registrar or any other Paying Agent. A new Registered Instrument will be issued to the transferee and, in the case of a transfer of part only of a Registered Instrument, a new Registered Instrument in respect of the balance not transferred will be issued to the transferor.

**2.5** *Exchange of Bearer Instruments:* If so specified in the Final Terms, the Holder of Bearer Instruments may exchange the same for the same aggregate nominal amount of Registered Instruments upon the terms and subject to the conditions set forth in the Agency Agreement. In order to exchange a Bearer Instrument for a Registered Instrument, the Holder thereof shall surrender such Bearer Instrument at the specified office outside the United States of the Registrar or of any other Paying Agent together with a written request for the exchange. Each Bearer Instrument so surrendered must be accompanied by all unmatured Receipts and Coupons appertaining thereto other than the Coupon in respect of the next payment of interest falling due after the exchange date (as defined in Condition 2.6) where the exchange date would, but for the provisions of Condition 2.6, occur between the Record Date (as defined in Condition 6.4) for such payment of interest and the date on which such payment of interest falls due.

**2.6** *New Registered Instruments:* Each new Registered Instrument to be issued upon the transfer of a Registered Instrument or the exchange of a Bearer Instrument for a Registered Instrument will, within five Relevant Banking Days of the transfer date or, as the case may be, the exchange date, be available for collection by each relevant Holder at the specified office of the Registrar or, at the option of the Holder requesting such exchange or transfer be mailed (by uninsured post at the risk of the Holder(s) entitled thereto) to such address(es) as may be specified by such Holder. For these purposes, a form of transfer or request for exchange received by the Registrar or another Paying Agent after the Record Date in respect of any payment due in respect of Registered Instruments shall be deemed not to be effectively received by the Registrar or such other Paying Agent until the day following the due date for such payment. For the purposes of these Terms and Conditions:

- (a) “Relevant Banking Day” means a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the place where the specified office of the Registrar is located and, in the case only of an exchange of a Bearer Instrument for a Registered Instrument where such request for exchange is made to another Paying Agent, in the place where the specified office of such Paying Agent is located;
- (b) the “exchange date” shall be the Relevant Banking Day following the day on which the relevant Bearer Instrument shall have been surrendered for exchange in accordance with Condition 2.5; and
- (c) the “transfer date” shall be the Relevant Banking Day following the day on which the relevant Registered Instrument shall have been surrendered for transfer in accordance with Condition 2.4.

**2.7** *No Charges upon Transfer or Exchange:* The issue of new Registered Instruments on transfer or on the exchange of Bearer Instruments for Registered Instruments will be effected without charge by or on behalf of the Issuer, the Registrar or any other Paying Agent, but upon payment by the applicant of (or the giving by the applicant of such indemnity as the Issuer, the Registrar or such other Paying Agent may require in respect of) any tax, duty or other governmental charges which may be imposed in relation thereto.

**2.8** *Transfer of Book Entry Instruments:* Title to the Book Entry Instruments passes upon registration in the relevant individual securities accounts held with an Interbolsa Participant. Any Book Entry Instrumentholder will (except as otherwise required by law) be treated as its absolute owner for all purposes and no person will be liable for so treating the Book Entry Instrumentholder.

### 3. Status of the Instruments

**3.1 Status of the Instruments:** The Instruments and any relative Receipts and Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and rank *pari passu* among themselves and (subject as aforesaid and save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer from time to time outstanding.

### 4. Negative Pledge

So long as any of the Instruments remains outstanding (as defined in the Trust Deed), neither the Issuer nor, if EDP B.V. is the Issuer, EDP will create or, save only by operation of law, have outstanding any mortgage, lien, pledge or other charge (each a “Security Interest”) other than any Permitted Security (as defined below) upon the whole or any part of its undertaking or assets, present or future (including any uncalled capital) to secure any Loan Stock of any Person or to secure any obligation of any Person under any guarantee of or indemnity or purchase of indebtedness undertaking in respect of any Loan Stock of any other Person without at the same time or prior thereto at the option of the Issuer or, if the Issuer is EDP B.V., EDP either (i) securing the Instruments or securing EDP’s obligations under the Keep Well Agreement in each case equally and rateably with such Loan Stock, guarantee, indemnity or purchase of indebtedness undertaking to the satisfaction of the Trustee or (ii) providing such other security for or other arrangement in respect of the Instruments or EDP’s obligations under the Keep Well Agreement as the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Holders or which shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Holders.

For the purposes of these Terms and Conditions:

“Loan Stock” means indebtedness (other than the Instruments) having an original maturity of more than one year which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other debt securities (not comprising, for the avoidance of doubt, preference shares or other equity securities) which for the time being are, or are intended to be with the consent of the issuer thereof, quoted, listed, ordinarily dealt in or traded on any stock exchange and/or quotation system or by any listing authority or other established securities market other than any such indebtedness where the majority thereof is initially placed with investors domiciled in Portugal and who purchase such indebtedness in Portugal.

“Permitted Security” means:

- (i) in the case of a consolidation or merger of EDP with or into another company (the “Combining Company”) any Security Interest over assets of EDP if it is the surviving company or the company (if other than EDP) surviving or formed by such consolidation or merger provided that: (i) such Security Interest was created by the Combining Company over assets owned by it, (ii) such Security Interest is existing at the time of such consolidation or merger, (iii) such Security Interest was not created in contemplation of such consolidation or merger and (iv) the amount secured by such Security Interest is not increased thereafter; or
- (ii) any Security Interest on or with respect to assets (including but not limited to receivables) of the Issuer or, if EDP B.V. is the Issuer, EDP which is created pursuant to any securitisation or like arrangement in accordance with normal market practice and whereby the indebtedness secured by such Security Interest or the indebtedness in respect of any guarantee or indemnity which is secured by such Security Interest is limited to the value of such assets; or
- (iii) any Security Interest securing any indebtedness incurred in relation to any asset for the purpose of financing the whole or any part of the acquisition, creation, construction, improvement or development of such asset where the financial institutions to whom such indebtedness is owed have recourse solely to the applicable project borrower (where such project borrower is formed solely or principally for the purpose of the relevant project)

and/or such asset (or any derivative asset thereof) and/or the shares held in such project borrower.

“Person” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state, agency of a state or other entity, whether or not having separate legal personality.

## **5. Interest**

### **5A. Interest on Fixed Rate Instruments**

Each Fixed Rate Instrument bears interest from and including the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest payable in arrear on the Interest Payment Date(s) in each year and on the Maturity Date if that does not fall on an Interest Payment Date. For so long as any of the Fixed Rate Instruments is represented by a Global Instrument interest will be calculated on the aggregate outstanding nominal amount of the Fixed Rate Instruments represented by such Global Instrument (or, if they are Partly Paid Instruments, the aggregate amount paid up). In respect of each definitive Fixed Rate Instrument, interest will be calculated on its outstanding nominal amount (or, if it is a Partly Paid Instrument, the amount paid up). Interest on Fixed Rate Instruments which are Book Entry Instruments will be calculated on the full outstanding nominal amount of the Fixed Rate Instruments (or, if they are Partly Paid Instruments, the full amount paid up) and will be paid to the Interbolsa Participant for distribution by them to the accounts of entitled Book Entry Instrumentholders in accordance with Interbolsa’s usual rules and operating procedures.

If Instruments are in definitive form, except as provided in the Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the Final Terms, amount to the Broken Amount so specified.

If interest is required to be calculated for a period ending other than on an Interest Payment Date, or if, in the case of Instruments in definitive form, no Fixed Coupon Amount is specified in the applicable Final Terms, such interest shall be calculated by applying the Rate of Interest to:

- (A) in the case of Fixed Rate Instruments which are represented by a Global Instrument, the aggregate outstanding nominal amount of the Fixed Rate Instruments represented by such Global Instrument (or, if they are Partly Paid Instruments, the aggregate amount paid up); or
- (B) in the case of Fixed Rate Instruments in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Instrument in definitive form comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Instrument shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

“Day Count Fraction” means, in respect of the calculation of an amount of interest for any Fixed Interest Period:

- (i) if “Actual/Actual (ICMA)” is specified in the Final Terms:
  - (a) in the case of Instruments where the number of days in the relevant period from and including the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to but excluding the relevant payment date (the “Accrual Period”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

- (b) in the case of Instruments where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
  - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; and
  - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (ii) if “30/360” is specified in the Final Terms, the number of days in the period from and including the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to but excluding the relevant payment date (such number of days being calculated on the basis of 12 30-day months) divided by 360; and
- (iii) if “Actual/365” or “Actual/Actual (ISDA)” is specified in the Final Terms, the actual number of days in the Fixed Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Fixed Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Fixed Interest Period falling in a non-leap year divided by 365).

In these Terms and Conditions:

“Determination Period” means the period from and including a Determination Date to but excluding the next Determination Date;

“Fixed Interest Period” means the period from and including an Interest Payment Date (or the Interest Commencement Date) to but excluding the next (or first) Interest Payment Date; and

“sub-unit” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

## **5B. Interest on Floating Rate Instruments and Index Linked Interest Instruments**

**5B.1** *Interest Payment Dates:* Each Floating Rate Instrument and Index Linked Interest Instrument bears interest from and including the Interest Commencement Date and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) (each an “Interest Payment Date”) in each year specified in the Final Terms; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the Final Terms, each date (each an “Interest Payment Date”) which falls the number of months or other period specified as the Specified Period in the Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from and including an Interest Payment Date (or the Interest Commencement Date) to but excluding the next (or first) Interest Payment Date). For so long as any of the Floating Rate Instruments or Index Linked Interest Instruments is represented by a Global Instrument held on behalf of Clearstream, Luxembourg and/or Euroclear Bank, interest will be calculated on the aggregate outstanding nominal amount of the Instruments represented by such Global Instrument (or, if they are Partly Paid Instruments, the aggregate amount paid up). In respect of each definitive Floating Rate Instrument or Index Linked Interest Instrument, interest will be calculated on its outstanding nominal amount (or, if it is a Partly Paid Instrument, the amount paid up). Interest on Floating Rate Instruments or Index Linked Interest Instruments which are Book Entry Instruments will

be calculated on the full outstanding nominal amount of the Floating Rate Instruments or Index Linked Interest Instruments (or, if they are Partly Paid Instruments, the full amount paid up) and will be paid to the Interbolsa Participant for distribution by them to the accounts of entitled Instrumentholders in accordance with Interbolsa's usual rules and operating procedures.

If a Business Day Convention is specified in the Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 5B.1(i) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Terms and Conditions, "Business Day" means a day which is both:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the Final Terms; and
- (B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre) or (2) in relation to any sum payable in euro, a day on which Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System (the "TARGET System") is open.

**5B.2 Rate of Interest:** The Rate of Interest payable from time to time in respect of Floating Rate Instruments and Index Linked Interest Instruments will be determined in the manner specified in the Final Terms.

**5B.3 ISDA Determination for Floating Rate Instruments:** Where ISDA Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the Final Terms) the Margin (if any). For the purposes of this Condition 5B.3, "ISDA Rate" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Issue and Paying Agent under an interest rate swap transaction if the Issue and Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions (as amended and updated as at the Issue Date of the first Tranche of the Instruments, published by the International Swaps and Derivatives Association, Inc. (the "ISDA Definitions")) and under which:

- (1) the Floating Rate Option is as specified in the Final Terms;

- (2) the Designated Maturity is a period specified in the Final Terms; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (“LIBOR”) or on the Euro-zone inter-bank offered rate (“EURIBOR”) for a currency, the first day of that Interest Period or (ii) in any other case, as specified in the Final Terms.

For the purposes of this sub-paragraph (A), “Floating Rate”, “Calculation Agent”, “Floating Rate Option”, “Designated Maturity” and “Reset Date” have the meanings given to those terms in the ISDA Definitions.

**5B.4** *Screen Rate Determination for Floating Rate Instruments:* Where Screen Rate Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (i) the offered quotation; or
- (ii) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the Final Terms) the Margin (if any), all as determined by the Issue and Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Issue and Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (i) above, no such offered quotation appears or, in the case of (ii) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Instruments is specified in the Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Instruments will be determined as provided in the Final Terms.

**5B.5** *Minimum Rate of Interest and/or Maximum Rate of Interest:* If the Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of Conditions 5B.2, 5B.3 or 5B.4 above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of Conditions 5B.2, 5B.3 or 5B.4 is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

**5B.6** *Determination of Rate of Interest and calculation of Interest Amounts:* The Issue and Paying Agent, in the case of Floating Rate Instruments, and the Calculation Agent, in the case of Index Linked Interest Instruments, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Instruments, the Calculation Agent will notify the Issue and Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Issue and Paying Agent will calculate the amount of interest (the “Interest Amount”) payable on the Floating Rate Instruments or Index Linked Interest Instruments in respect of each Specified Denomination for the relevant Interest Period.

The Agent will calculate the amount of interest (“Interest Amount”) payable on the Floating Rate Instruments or Index Linked Interest Instruments for the relevant Interest Period by applying the Rate of Interest to:

- (A) in the case of Floating Rate Instruments or Index Linked Interest Instruments which are represented by a Global Instrument, the aggregate outstanding nominal amount of the Instruments represented by such Global Instrument (or, if they are Partly Paid Instruments, the full amount paid up); or
- (B) in the case of Floating Rate Instruments or Index Linked Interest Instruments in definitive form, the Calculation Amount;

and, in each case multiplying such sum by the applicable Day Count Fraction and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Instrument or an Index Linked Interest Instrument in definitive form comprises more than one Calculation Amount, the Interest Amount payable in respect of such Instrument shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

“Day Count Fraction” means, in respect of the calculation of an amount of interest for any Interest Period:

- (i) if “Actual/Actual” or “Actual/Actual (ISDA)” is specified in the Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified in the Final Terms, the actual number of days in the Interest Period divided by 365;
- (iii) if “Actual/365 (Sterling)” is specified in the Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “Actual/360” is specified in the Final Terms, the actual number of days in the Interest Period divided by 360;
- (v) if “30/360”, “360/360” or “Bond Basis” is specified in the Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D<sub>2</sub> will be 30;

- (vi) if “30E/360” or “Eurobond Basis” is specified in the Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D<sub>2</sub> will be 30; and

- (vii) if “30E/360 (ISDA)” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31 and D<sub>2</sub> will be 30.

**5B.7 Notification of Rate of Interest and Interest Amounts:** The Issue and Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee and any stock exchange or other relevant authority on which the relevant Floating Rate Instruments or Index Linked Interest Instruments are for the time being listed or by which they have been admitted to listing and notice thereof to be published in accordance with Condition 15 as soon as possible after their determination but in no event later than the fourth London

Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange or other relevant authority on which the relevant Floating Rate Instruments or Index Linked Interest Instruments are for the time being listed or by which they have been admitted to listing and to the Holders in accordance with Condition 15. For the purposes of this paragraph, the expression “London Business Day” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

**5B.8** *Determination or calculation by Trustee:* If for any reason at any time the Issue and Paying Agent or, as the case may be, the Calculation Agent defaults in its obligations to determine the Rate of Interest or the Issue and Paying Agent defaults in its obligation to calculate any Interest Amount in accordance with the provisions of Conditions 5B.3 or 5B.4 above or as otherwise specified in the Final Terms, as the case may be, and in each case, in accordance with paragraph (iv) above, the Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum or Maximum Rate of Interest specified in the Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Issue and Paying Agent or the Calculation Agent, as applicable.

**5B.9** *Certificates to be final:* All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5B, whether by the Issue and Paying Agent or, if applicable, the Calculation Agent or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Trustee, EDP (if the Issuer is EDP B.V.), the Issue and Paying Agent, the Calculation Agent (if applicable), the other Paying Agents and all Holders and (in the absence as aforesaid) no liability to the Issuer, EDP (if the Issuer is EDP B.V.) or the Holders shall attach to the Issue and Paying Agent or, if applicable, the Calculation Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

#### **5C. Interest on Dual Currency Instruments**

In the case of Dual Currency Instruments, if the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the Final Terms.

#### **5D. Interest on Partly Paid Instruments**

In the case of Partly Paid Instruments (other than Partly Paid Instruments which are Zero Coupon Instruments), interest will accrue as aforesaid on the paid-up nominal amount of such Instruments and otherwise as specified in the Final Terms.

#### **5E. Accrual of interest**

Each Instrument (or, in the case of the redemption of part only of a Instrument, that part only of such Instrument) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, or, in the case of a Book Entry Instrument, presentation of the relevant Certificate in respect thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue as provided in the Trust Deed.

### **6. Payments**

**6.1** *Method of payment:* Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency; and

- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8.

**6.2** *Presentation of Bearer Instruments, Receipts and Coupons:* Payments of principal in respect of Bearer Instruments will (subject as provided below) be made in the manner provided in Condition 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Bearer Instruments, and payments of interest in respect of Bearer Instruments will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of instalments of principal (if any) in respect of Bearer Instruments, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 6.1 above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Instrument in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Instrument to which it appertains. Receipts presented without the definitive Instrument to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Instrument becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Instruments in bearer form (other than Dual Currency Instruments, Index Linked Instruments or Long Maturity Instruments (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Instrument in bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Instrument, Dual Currency Instrument, Index Linked Interest Instrument or Long Maturity Instrument in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "Long Maturity Instrument" is a Fixed Rate Instrument (other than a Fixed Rate Instrument which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Instrument shall cease to be a Long Maturity Instrument on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Instrument.

Other than in respect of Book Entry Instruments, if the due date for redemption of any Instrument is not an Interest Payment Date, interest (if any) accrued in respect of such Instrument from and including the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant Bearer Instrument.

Payments in respect of the Book Entry Instruments will be made by transfer to the registered account of the holders maintained by or on behalf of it with a bank that processes payments in euro, details of which appear in the records of the relevant Interbolsa Participant at the close of business on the Payment Day (as defined in Condition 6.5 below) before the due date for payment of principal and/or interest.

**6.3** *U.S. Paying Agent:* Notwithstanding the foregoing provisions of Condition 6.2, if any amount of principal and/or interest in respect of Instruments is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Instruments will be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Instruments in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer or, if the Issuer is EDP B.V., EDP – Energias de Portugal, S.A.

**6.4** *Registered Instruments:* Payments of amounts (including accrued interest) due on the final redemption of Registered Instruments will be made against presentation and, save in the case of a partial redemption, surrender of the relevant Registered Instruments at the specified office of the Registrar.

Payments of amounts (whether principal, interest or otherwise) due in respect of Registered Instruments will be paid to the Holders thereof (or, in the case of joint Holders, the first-named) as appearing in the register kept by the Registrar as at opening of business (Luxembourg time) on the fifteenth Luxembourg business day (the “Record Date”) before the due date for such payment provided that the amounts due in respect of Registered Instruments under Condition 10 will be paid to the Holders thereof (or, in the case of joint Holders, the first-named) as appearing in such register as at opening of business (Luxembourg time) on the date on which such payment is made.

**6.5** *Payment Day:* If the date for payment of any amount in respect of any Instrument, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, “Payment Day” means any day which (subject to Condition 9) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London, any additional Financial Centre specified in the Final Terms and, if presentation is required for payment, in the relevant place of presentation, or, in the case of Book Entry Instruments in Portugal; and
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre) or (2) in relation to any sum payable in euro, a day on which the TARGET System is open.

**6.6** *Interpretation of principal and interest:* Any reference in these Terms and Conditions to principal in respect of the Instruments shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 8 or under any undertakings or covenants given in addition thereto or in substitution therefor pursuant to the Trust Deed;
- (ii) the Final Redemption Amount of the Instruments;

- (iii) the Early Redemption Amount of the Instruments;
- (iv) the Optional Redemption Amount(s) (if any) of the Instruments;
- (v) in relation to Instruments redeemable in instalments, the Instalment Amounts;
- (vi) in relation to Zero Coupon Instruments, the Amortised Face Amount (as defined in Condition 7.5); and
- (vii) any premium and any other amounts which may be payable by the Issuer under or in respect of the Instruments.

Any reference in these Terms and Conditions to interest in respect of the Instruments shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8 or under any undertakings or covenants given in addition thereto or in substitution thereof pursuant to the Trust Deed.

## **7. Redemption and Purchase**

**7.1** *Redemption at maturity:* Unless previously redeemed or purchased and cancelled as specified below, each Instrument will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the Final Terms in the relevant Specified Currency on the Maturity Date.

**7.2** *Redemption for tax reasons:* The Instruments may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Instrument is neither a Floating Rate Instrument nor an Index Linked Interest Instrument) or on any Interest Payment Date (if this Instrument is either a Floating Rate Instrument or an Index Linked Interest Instrument), on giving not less than 30 nor more than 60 days' notice to the Trustee, the Issue and Paying Agent and, in accordance with Condition 15, the Holders (which notice shall be irrevocable), if the Issuer satisfies the Trustee immediately prior to the giving of such notice that:

- (i) on the occasion of the next payment due under the Instruments, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the relevant Tax Jurisdiction (as defined in Condition 8) or any political subdivision of, or any authority in, or of, the relevant Tax Jurisdiction having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Instruments; and
- (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Instruments then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee a certificate signed by two Directors of EDP stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment and the Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above in which event they shall be conclusive and binding on the Holders.

Instruments redeemed pursuant to this Condition 7.2 will be redeemed at their Early Redemption Amount referred to in Condition 7.5 below together (if appropriate) with interest accrued to but excluding the date of redemption.

**7.3** *Redemption at the option of the Issuer (Issuer Call):* If Issuer Call is specified in the Final Terms, the Issuer may, having given:

- (i) not less than 15 nor more than 30 days' notice (or such other period of notice as may be specified in the Final Terms) to the Holders in accordance with Condition 15; and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Issue and Paying Agent and the Trustee;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Instruments then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the Final Terms together, if appropriate, with interest accrued to but excluding the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount or not more than the Higher Redemption Amount, in each case as may be specified in the Final Terms. In the case of a partial redemption of Instruments, the Instruments to be redeemed ("Redeemed Instruments") will be selected individually by lot not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "Selection Date") in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and/or Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion). A list of the serial numbers of such Redeemed Instruments will be published in accordance with Condition 15 not less than 15 days prior to the date fixed for redemption.

**7.4** *Redemption at the option of the Holders (Investor Put):* If Investor Put is specified in the Final Terms, upon the holder of any Instrument giving to the Issuer in accordance with Condition 15 not less than 15 nor more than 30 days' notice (which notice shall be irrevocable) the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the Final Terms, in whole (but not in part), such Instrument on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to but excluding the Optional Redemption Date. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Final Terms.

To exercise the right to require redemption of this Instrument the holder of this Instrument must deliver (i) (in the case of Instruments in definitive form) to the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or (ii) (in all other cases) a notice to the Paying Agent or Transfer Agent or Registrar (as the case may be) in accordance with the standard procedures of Clearstream, Luxembourg, Euroclear Bank and/or Interbolsa or any common depository or custodian for them stating the principal amount of the Instruments in respect of which such option is exercised (a "Put Notice") in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition together in the case of Bearer Instruments with the Instruments. No deposit of Instruments will be required in respect of Book Entry Instruments.

**7.5** *Early Redemption Amounts:* For the purpose of Condition 7.2 above and Condition 10, each Instrument will be redeemed at the Early Redemption Amount calculated as follows:

- (i) at the amount specified in, or determined in the manner specified in, the Final Terms or, if no such amount or manner is so specified in the Final Terms, at its nominal amount; or
- (ii) in the case of a Zero Coupon Instrument, at an amount (the "Amortised Face Amount") equal to the sum of the Reference Price and the product of the Accrual Yield (compounded annually) being applied to the Reference Price from and including the Issue Date of the first Tranche of the Instruments to but excluding the date fixed for redemption or (as the case may be) the date upon which such Instrument becomes due and repayable.

Where such calculation is to be made for a period which is not a whole number of years, it shall be made on the basis of a 360-day year consisting of 12 months of 30 days each or on such other calculation basis as may be specified in the Final Terms.

**7.6 Instalments:** Instalment Instruments will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 7.5.

**7.7 Partly Paid Instruments:** Partly Paid Instruments will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the Final Terms.

**7.8 Purchases:** EDP or any subsidiary of EDP may at any time purchase Instruments (provided that, in the case of Bearer Instruments, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Instruments may be held, reissued, resold or, at the option of EDP, surrendered to any Paying Agent for cancellation.

**7.9 Cancellation:** All Instruments which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption (or in accordance with Interbolsa regulations in the case of Book Entry Instruments)). All Instruments so cancelled and Instruments purchased and cancelled pursuant to Condition 7.8 above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Issue and Paying Agent (save in the case of Book Entry Instruments) and cannot be reissued or resold.

**7.10 Late payment on Zero Coupon Instruments:** If the amount payable in respect of any Zero Coupon Instrument upon redemption of such Zero Coupon Instrument pursuant to Condition 7.1, 7.2, 7.3 or 7.4 above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Instrument shall be the amount calculated as provided in Condition 7.5(ii) as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Instrument becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Instrument have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Instrument has been received by the Issue and Paying Agent or the Trustee and notice to that effect has been given to the Holders in accordance with Condition 15.

## **8. Taxation**

All payments of principal and interest in respect of the Instruments, Receipts and Coupons by or on behalf of the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the relevant Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Instruments, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Instruments, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Instrument, Receipt or Coupon:

- (i) presented for payment by or on behalf of a Beneficial Owner who is liable for such taxes or duties in respect of such Instrument, Receipt or Coupon by reason of his having some connection with the relevant Tax Jurisdiction other than the mere holding of such Instrument, Receipt or Coupon;
- (ii) presented for payment in the case of a Bearer Instrument, in the relevant Tax Jurisdiction;
- (iii) presented for payment in the case of Bearer Instruments more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 6);
- (iv) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive;

- (v) presented for payment by or on behalf of a Beneficial Owner who would have been able to avoid such withholding or deduction by presenting the relevant Instrument, Receipt or Coupon to another Paying Agent in a Member State of the European Union;
- (vi) presented for payment by or on behalf of a Beneficial Owner of Instruments, Receipts or Coupons who would not be liable for or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority;
- (vii) presented for payment by or on behalf of a Beneficial Owner of Instruments, Receipts or Coupons particularly in respect of whom the information (which may include certificates or statements) required in order to comply with the special tax regime approved by Decree-Law 193/2005 of 7 November, and any implementing legislation, is not received prior to the Relevant Date;
- (viii) presented for payment by or on behalf of a Beneficial Owner, Receipts or Coupons resident for tax purposes in the Tax Jurisdiction, or a resident in a country, territory or region subject to clearly a more favourable tax regime included in the list approved by Order 150/2004, of 13 February 2004 (*Portaria do Ministro das Finanças e da Administração Pública n. 150/2004*) as amended from time to time, issued by the Portuguese Minister of Finance and Public Administration, with the exception of central banks and governmental agencies of those blacklisted jurisdictions, or a non-resident legal entity held, directly or indirectly, in more than 20 per cent. by Portuguese residents; or
- (ix) presented for payment by or on behalf of (i) a Portuguese resident legal entity subject to Portuguese corporation tax (with the exception of entities that benefit from an exemption of Portuguese withholding tax or from Portuguese income tax exemptions), or (ii) a non resident legal person with a permanent establishment in Portugal to which the income or gains obtained from the Instruments, Receipts or Coupons are attributable.

As used in these Terms and Conditions:

- (i) “Tax Jurisdiction” means in the case of EDP, the Portuguese Republic or any political subdivision or any authority thereof or therein having power to tax and, in the case of EDP B.V., The Netherlands or any political subdivision or any authority thereof or therein having power to tax or in either case any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax in which EDP or, as the case may be, EDP B.V. becomes tax resident;
- (ii) the “Relevant Date” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Issue and Paying Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Holders in accordance with Condition 15; and
- (iii) “Beneficial Owner” means the holder of the Instruments who is the effective beneficiary of the income attributable thereto.

## 9. Prescription

The Instruments (whether in bearer or registered form), Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6 or any Talon which would be void pursuant to Condition 6.

## 10. Events of Default

If any one or more of the following events (each an “Event of Default”) shall occur and is continuing:

- (i) the Issuer fails to pay any amount of principal or interest due in respect of the Instruments or any of them and the default continues for a period of seven days in the case of principal and 14 days in the case of interest; or
- (ii) the Issuer fails to perform or observe any of its other obligations under the Trust Deed or these Terms and Conditions or, if the Issuer is EDP B.V., EDP fails to perform or observe any of its obligations under the Trust Deed or these Terms and Conditions or (in the case of Book Entry Instruments) the Interbolsa Instrument and, save for in the case of Book Entry Instruments, (A) such failure is, in the opinion of the Trustee, incapable of remedy or in respect of which, in the opinion of the Trustee, remedial action satisfactory to the Trustee cannot be taken or (B) such failure is, in the opinion of the Trustee capable of remedy or in respect of which, in the opinion of the Trustee, such remedial action can be taken and the failure continues for the period of 30 days (or such longer period as the Trustee may permit) after the Trustee has given written notice to the Issuer requiring the same to be remedied; or
- (iii) any other Indebtedness of EDP B.V. (if EDP B.V. is the Issuer) or EDP or any Indebtedness of any Material Subsidiary becomes due and payable prior to the stated maturity thereof as a result of a default thereunder or any such Indebtedness is not paid at the maturity thereof or any guarantee or indemnity in respect of Indebtedness or performance given by any such company is not honoured when due and called upon or any security interest, present or future, over the assets of any such company becomes enforceable provided that no such event in relation to such Indebtedness or any guarantee or indemnity in respect of such Indebtedness shall constitute an Event of Default unless the relative Indebtedness either alone or when aggregated with other Indebtedness relative to all (if any) other such events which shall have occurred shall amount to at least US\$50,000,000 (or its equivalent in any other currency) and provided further that, for the purposes of this Condition 10(iii), neither EDP B.V. nor EDP nor any Material Subsidiary shall be deemed to be in default with respect to such Indebtedness, guarantee or security interest until expiration of the applicable grace or remedy period, if any, or if the Trustee is satisfied that it shall be contesting in good faith by appropriate means its liability to make payment thereunder; or
- (iv) any steps are taken with a view to the liquidation or dissolution of EDP B.V. (if EDP B.V. is the Issuer), EDP or any Material Subsidiary, or EDP B.V. (if EDP B.V. is the Issuer), EDP or any Material Subsidiary becomes insolvent or admits in writing its inability to pay its debts as and when the same fall due, or a receiver, liquidator or similar officer shall be appointed over all or any part of EDP B.V.'s (if EDP B.V. is the Issuer), EDP's or any Material Subsidiary's assets or an application shall be made for a moratorium or an arrangement with creditors of EDP B.V. (if EDP B.V. is the Issuer), EDP or any Material Subsidiary or proceedings shall be commenced in relation to EDP B.V. (if EDP B.V. is the Issuer), EDP or any Material Subsidiary under any legal reconstruction, readjustment of debts, dissolution or liquidation law or regulation, or a distress shall be levied or sued out upon all or any part of EDP B.V.'s (if EDP B.V. is the Issuer), EDP's or any Material Subsidiary's assets and shall remain undischarged for (60) days, or anything analogous to the foregoing shall occur under the laws of any applicable jurisdiction provided that, save in the case of Book Entry Instruments, no such event shall constitute an Event of Default if the Trustee is satisfied that it is being contested in good faith by appropriate means by EDP B.V. (if EDP B.V. is the Issuer), EDP or the relevant Material Subsidiary, as the case may be, and EDP or such Material Subsidiary or EDP B.V., as the case may be, has been advised by recognised independent legal advisers of good repute that it is reasonable to do so; or
- (v) save for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution of the Holders, EDP B.V. (if EDP B.V. is the Issuer), EDP or any Material Subsidiary or EDP and the Material Subsidiaries (which for this purpose shall include EDP B.V. whether or not it is a Material Subsidiary at the relevant time) taken as a whole cease or threaten to cease to carry on the whole or a major part of the business conducted by it or

them at the date on which agreement is reached to issue the first Tranche of the Instruments; or

- (vi) any authorisation, approval, consent, license, decree, registration, publication, notarisation or other requirement of any governmental or public body or authority necessary to enable or permit EDP B.V. or EDP to comply with its obligations under the Instruments, the Trust Deed or the Keep Well Agreement or, if required for the validity or enforceability of any such obligations, is revoked, withdrawn or withheld or otherwise fails to remain in full force and effect or any law, decree or directive of any competent authority of or in The Netherlands or Portugal is enacted or issued which materially impairs the ability or right of EDP B.V. or EDP to perform such obligations; or
- (vii) EDP shall cease to own directly or indirectly more than 50 per cent. of the issued share capital or voting rights attached thereto or similar right of ownership in any Material Subsidiary or 100 per cent. of the issued share capital or voting rights attached thereto or similar right of ownership in EDP B.V. (if EDP B.V. is the Issuer) or EDP shall cease to have direct or indirect control of any Material Subsidiary or EDP B.V.; or
- (viii) the Keep Well Agreement is terminated or any provision of the Keep Well Agreement is amended or waived in circumstances where such amendment or waiver would have, in the opinion of the Trustee, an adverse effect on the interests of the Holders or is not enforced in a timely manner by EDP B.V. or is breached by EDP provided that in the case of such non-enforcement or breach this has, in the opinion of the Trustee, an adverse effect on the interests of the Holders,

then,

- a) in respect of Instruments other than Book Entry Instruments, the Trustee at its discretion may, and if so requested in writing by the Holders of at least one-quarter in nominal amount of the Instruments then outstanding or if so directed by an Extraordinary Resolution of the Holders of the Instruments shall (subject in each case to being indemnified to its satisfaction), given written notice to the Issuer that the Instruments are, and they shall accordingly thereupon immediately become, due and repayable at the Early Redemption Amount (as described in Condition 7.5), together with accrued interest (if any) as provided in the Trust Deed provided that, in the case of any Event of Default other than those described in paragraphs (i), (vi) and (vii) above, the Trustee shall have certified to the Issuer that, in its opinion, such Event of Default is materially prejudicial to the interests of the Holders; and
- b) in respect of Book Entry Instruments, any Book Entry Instrumentholder may give notice to the relevant Issuer and to the Portuguese Paying Agent at their respective specified offices, effective upon the date of receipt thereof by the Portuguese Paying Agent, that the Book Entry Instruments held by such Book Entry Instrumentholders are, and they shall accordingly thereby forthwith become, immediately due and repayable at their Early Redemption Amount (as described in Condition 7.5 together with accrued interest (as provided in the Interbolsa Instrument)).

In these Terms and Conditions:

“Group” means EDP and its Subsidiaries;

“Indebtedness” means, with respect to any person, any indebtedness or obligation (whether present or future, actual or contingent) created, issued, guaranteed, incurred or assumed by such person for money borrowed or raised;

“Material Subsidiary” means a Subsidiary:

- (a) whose operations include the generation and/or distribution of electricity in Portugal; and
- (b) (i) at any time whose total assets, as calculated from the then latest annual financial statements, audited if prepared, of that Subsidiary (consolidated in the case of a

Subsidiary which itself has subsidiaries) represent not less than 5 per cent. (5%) of the total assets of the Group (as shown in the latest audited consolidated accounts of the Group); or

- (ii) at any time whose revenues, as calculated from the then latest annual financial statements, audited if prepared, of that Subsidiary (consolidated in the case of a Subsidiary which itself has subsidiaries) represent not less than 5 per cent. (5%) of the consolidated revenues of the Group (as shown in the latest audited consolidated accounts of the Group).

A report by the directors of EDP that in their opinion, a Subsidiary is or is not, was or was not at any particular time a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties. Such report may, if requested, be accompanied by a report from the Auditors (as defined in the Trust Deed) addressed to the directors of EDP as to the proper extraction of figures used by the directors of EDP in determining a Material Subsidiary and as to the mathematical accuracy of the calculations; and

“Subsidiary” means an entity from time to time of which EDP (a) has the right to appoint the majority of the members of the board of directors or similar board or (b) owns directly or indirectly more than 50 per cent. (50%) of the share capital or similar right of ownership.

## **11. Enforcement**

In the case of Instruments other than Book Entry Instruments, the Trustee may, at its discretion and without further notice, take such proceedings against the Issuer as it may think fit to enforce the obligations of the Issuer under the Trust Deed and the Instruments and any relative Receipts or Coupons or the obligations of EDP under the Keep Well Agreement, but it shall not be bound to take any such proceedings or any other action unless (a) it shall have been so directed by an Extraordinary Resolution of the Holders or so requested in writing by the Holders of at least one-quarter in nominal amount of the Instruments outstanding and (b) it shall have been indemnified to its satisfaction. In the case of Book Entry Instruments, the Trustee may at any time, at its discretion and without notice, take such proceedings and/or other action as it may think fit against or in relation to the relevant Issuer to enforce the obligations of the relevant Issuer in respect of the covenants granted to the Trustee by the relevant Issuer under the Conditions or the Trust Deed, however the Trustee shall in no circumstances be bound to do so. No Holder, save for a Book Entry Instrumentholder, shall be entitled to proceed directly against the Issuer or to take proceedings to enforce the Keep Well Agreement unless the Trustee, having become bound so to do, fails to do so within a reasonable period and such failure is continuing, provided that in the case of Book Entry Instruments, the Trustee may not but the holders thereof may at any time take such proceedings against the relevant Issuer as they may think fit to enforce the provisions of the Book Entry Instruments and/or the Interbolsa Instrument.

## **12. Replacement of Instruments, Receipts, Coupons and Talons**

Should any Instrument (other than a Book Entry Instrument), Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of any Paying Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Instruments, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

## **13. Paying Agents**

The names of the initial Paying Agents and their initial specified offices are set out below.

The Issuer is entitled, with the prior written approval of the Trustee, to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (a) there will at all times be an Issuer and Paying Agent and, in respect of Registered Instruments, a Registrar;

- (b) so long as the Instruments are listed, traded and/or quoted by or on any listing authority, stock exchange and/or quotation system, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant listing authority, stock exchange and/or quotation system;
- (c) there will at all times be a paying agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and
- (d) there will at all times be a Paying Agent in Portugal capable of making payment in respect of the Book Entry Instruments as contemplated by these terms and conditions of the Instruments, the Agency Agreement and applicable Portuguese law and regulation.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6. Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Holders in accordance with Condition 15.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and, in certain limited circumstances, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Holders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

#### **14. Exchange of Talons**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Instrument to which it appertains) a further Talon, subject to the provisions of Condition 9.

#### **15. Notices**

**15.1 Bearer Instruments:** All notices regarding the Bearer Instruments will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in London. It is expected that such publication will be made in the *Financial Times* in London. Any such notice will be deemed to have been given on the date of the first publication.

**15.2 Notices to Holders of Registered Instruments:** Notices to Holders of Registered Instruments will be deemed to be validly given if sent by first class mail (or equivalent) or (if posted to an overseas address) by air mail to them (or, in the case of joint Holders, to the first-named in the register kept by the Registrar) at their respective addresses as recorded in the register kept by the Registrar, and will be deemed to have been validly given on the fourth weekday after the date of such mailing or, if posted from another country, on the fifth such day.

**15.3 Book Entry Instruments:** The Issuer shall comply with Portuguese law in respect of notices relating to Book Entry Instruments.

**15.4 General:** The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any listing authority, stock exchange and/or quotation system on which the Instruments are for the time being listed, traded and/or quoted.

**15.5 Publication not practicable:** If publication as provided above is not practicable, notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee shall approve.

**15.6 Notices from Holders:** Notices to be given by any Holder shall be in writing and given by lodging the same, together with the relative Instrument or Instruments, with the Issuer and Paying Agent.

## **16. Meetings of Holders, Modification, Waiver and Substitution**

The Trust Deed and, in relation to Book Entry Instruments only, the Interbolsa Instrument contain provisions for convening meetings of the Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Instruments, the Receipts, the Coupons or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee or by Holders holding not less than 10 per cent. in nominal amount of the Instruments for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing more than 50 per cent. in nominal amount of the Instruments for the time being outstanding, or at any adjourned meeting one or more persons being or representing Holders whatever the nominal amount of the Instruments so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Instruments, the Receipts, the Coupons or the Trust Deed (including modifying the date of maturity of the Instruments or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Instruments or altering the currency of payment of the Instruments, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Instruments for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Instruments for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

The Trustee may agree, without the consent of the Holders, to:

- (a) any modification of the Instruments, the Receipts, the Coupons or the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Holders; or
- (b) any modification of the Instruments, the Receipts, the Coupons or the Trust Deed which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law.

The Trustee may also, without any consent as aforesaid, determine that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such which, in any such case, is not in the opinion of the Trustee, materially prejudicial to the interests of the Holders.

Any such modification, waiver, authorisation or determination shall be binding on the Holders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Holders in accordance with Condition 15 as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities or discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Holders as a class but shall not have regard to any interests arising from circumstances particular to individual Holders (whatever their number) and, in particular, but without limitation, shall not have regard to the consequences of such exercise for individual Holders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Holder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Holders except to the extent already provided for in Condition 8 and/or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

The Trustee may, without the consent of the Holders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Instruments, the Receipts, the Coupons and the Trust Deed of another company, being a Subsidiary of the Issuer, subject to (a) the Instruments being unconditionally and irrevocably guaranteed by the Issuer or having the benefit of a Keep Well Agreement by EDP on the same basis as that on which they had such benefit immediately prior to the substitution, or the substitute Issuer is EDP, (b) the Trustee being satisfied that the interests of the Holders will not be materially prejudiced by the substitution and (c) certain other conditions set out in the Trust Deed being complied with.

## **17. Further Issues**

The Issuer shall be at liberty from time to time without the consent of the Holders to create and issue further Instruments having terms and conditions the same as the Instruments or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Instruments. The Trust Deed and, in relation to Book Entry Instruments only, the Interbolsa Instrument contain provisions for convening a single meeting of the Holders and the holders of instruments of other series in certain circumstances where the Trustee so decides.

## **18. Indemnification of Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from any obligation to take proceedings to enforce repayment unless indemnified to its satisfaction. The Trustee may enter into business transactions with the Issuer or any person or body corporate associated with the Issuer without accounting for any profit made or benefit received.

## **19. Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of this Instrument under the Contracts (Rights of Third Parties) Act 1999.

## **20. Governing Law and Submission to Jurisdiction**

**20.1** *Governing law:* The Trust Deed, the Interbolsa Instrument, the Agency Agreement, the Keep Well Agreement, the Instruments, the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law save that, with respect to Book Entry Instruments only, the form (*representação formal*) and transfer of the Instruments, creation of security over the Instruments and the Interbolsa procedures for the exercise of rights under the Book Entry Instruments are governed by, and shall be construed in accordance with, Portuguese law.

**20.2** *Submission to jurisdiction:* Each of EDP B.V. and EDP has in the Trust Deed irrevocably and unconditionally agreed, for the exclusive benefit of the Trustee and the Holders, that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Instruments, the Receipts and/or the Coupons and that accordingly any suit, action or proceedings (together referred to as “Proceedings”) arising out of or in connection with the Instruments, the Receipts and the Coupons may be brought in such courts.

Each of EDP B.V. and EDP has in the Trust Deed irrevocably and unconditionally waived any objection which it may have now or hereafter to the laying of the venue of any such Proceedings in any such court and any claim that any such Proceedings have been brought in an inconvenient forum and hereby further irrevocably agrees that a judgment in any such Proceedings brought in the English courts shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.

Nothing contained in this Condition shall limit any right to take Proceedings against EDP B.V. or EDP in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

**20.3** *Appointment of Process Agent:* Each of EDP B.V. and EDP has in the Trust Deed appointed The Law Debenture Corporate Services Limited at its registered office for the time being (being at 10 January 2006 at Fifth Floor, 100 Wood Street, London EC2V 7EX) as its agent for service of process, and undertaken that, in the event of Law Debenture Corporate Services Limited ceasing so to act, it will appoint another person as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

**20.4** *Other documents:* Each of EDP and EDP B.V. has in the Agency Agreement and the Keep Well Agreement submitted to the jurisdiction of the English courts and appointed an agent for service of process in terms substantially similar to those set out above.

## **PROVISIONS RELATING TO THE INSTRUMENTS (OTHER THAN BOOK ENTRY INSTRUMENTS) WHILE IN GLOBAL FORM**

### **Form of Instruments**

#### **(A) *Relationship of Accountholders with Clearing Systems***

Each of the persons shown in the records of Euroclear Bank, Clearstream, Luxembourg or any other clearing system as the holder of an Instrument represented by a Global Instrument (which expression includes a Temporary Global Instrument and a Permanent Global Instrument) must look solely to Euroclear Bank, Clearstream, Luxembourg or such other clearing system (as the case may be) for such person's share of each payment made by the Issuer to the bearer of such Global Instrument (or the registered holder of the Global Registered Instrument, as the case may be), and in relation to all other rights arising under the Global Instruments, subject to and in accordance with the respective rules and procedures of Euroclear Bank, Clearstream, Luxembourg or such clearing system (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Instruments for so long as the Instruments are represented by such Global Instrument or Global Registered Instrument and such obligations of the Issuer will be discharged by payment to the bearer of such Global Instrument (or the registered holder of the Global Registered Instrument, as the case may be), in respect of each amount so paid. References in these provisions relating to the Instruments in global form to "holder" or "accountholder" are to those persons shown in the records of the relevant clearing system as a holder of an Instrument.

#### **(B) *Form and Exchange – Bearer Global Instruments***

- (1) TEFRA D or TEFRA C: The Final Terms shall specify whether U.S. Treasury Regulation §1.163-5(c)(2)(i)(D) (the "TEFRA D Rules") or U.S. Treasury Regulation §1.163-5(c)(2)(i)(C) (the "TEFRA C Rules") shall apply. Each Tranche of Bearer Instruments is represented upon issue by a temporary global Instrument (a "Temporary Global Instrument"), unless the Final Terms specifies otherwise and the TEFRA C Rules apply.

Where the Final Terms applicable to a Tranche of Bearer Instruments specifies that the TEFRA C Rules apply, such Tranche is (unless otherwise specified in the Final Terms) represented upon issue by a Permanent Global Instrument.

The Global Instruments will:

- (i) if the Global Instruments are intended to be issued in new global note ("NGN") form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper for Euroclear Bank and Clearstream, Luxembourg; and
- (ii) if the Global Instruments are not intended to be issued in NGN Form, be delivered on or prior to the original issue date of the Tranche to a common depository for, Euroclear Bank and Clearstream, Luxembourg.

Interests in a Temporary Global Instrument may be exchanged for:

- (i) interests in a permanent global Instrument (a "Permanent Global Instrument"); or
- (ii) if so specified in the Final Terms, definitive Instruments in bearer form ("Definitive Instruments") and/or (if so specified in the Final Terms) Registered Instruments.

Exchanges of interests in a Temporary Global Instrument for Definitive Instruments or, as the case may be, a Permanent Global Instrument will be made only on or after the Exchange Date (as specified in the Final Terms) and (unless the Final Terms specifies that the TEFRA C Rules are applicable to the Instruments) provided certification as to the beneficial ownership thereof as required by U.S. Treasury regulations (in substantially the form set out in the Trust Deed or in such other form as is customarily issued in such circumstances by the relevant clearing system) has been received. An exchange for

Registered Instruments will be made at any time or from such date as may be specified in the Final Terms, in each case, without any requirement for certification.

- (2) *Limitation on entitlement under a Temporary Global Instrument after Exchange Date:* Holders of interests in any Temporary Global Instrument shall not (unless, upon due presentation of such Temporary Global Instrument for exchange (in whole but not in part only) for a Permanent Global Instrument or for delivery of Definitive Instruments and/or Registered Instruments, such exchange or delivery is improperly withheld or refused and such withholding or refusal is continuing at the relevant payment date) be entitled to receive any payment in respect of the Instruments represented by such Temporary Global Instrument which falls due on or after the Exchange Date or be entitled to exercise any option on a date after the Exchange Date.
- (3) *Certification of non-U.S. beneficial ownership:* Unless the Pricing Supplement specifies that the TEFRA C Rules are applicable to the Instruments and subject to paragraph (2) above, if any date on which a payment of interest is due on the Instruments of a Tranche occurs whilst any of the Instruments of that Tranche are represented by a Temporary Global Instrument, the related interest payment will be made on the Temporary Global Instrument only to the extent that certification as to the beneficial ownership thereof as required by U.S. Treasury regulations (in substantially the form set out in the Trust Deed or in such other form as is customarily issued in such circumstances by the relevant clearing system) has been received by Euroclear Bank or Clearstream, Luxembourg, or any other relevant clearing system which may be specified in the Final Terms. Payments of amounts due in respect of a Permanent Global Instrument or (subject to paragraph (2) above) a Temporary Global Instrument (if the Final Terms specifies that the TEFRA C Rules are applicable to the Instruments) will be made through Euroclear Bank or Clearstream, Luxembourg or any other relevant clearing system without any requirement for certification.
- (4) *Exchange for Definitive Instruments:* Interests in a Permanent Global Instrument will be exchanged (subject to the period allowed for delivery as set out in (i) below), in whole but not in part only and at the request of the Holder of such Global Instrument, for Definitive Instruments and/or (if so specified in the Final Terms) Registered Instruments, (a) if Euroclear Bank or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system satisfactory to the Trustee is available, or (b) an Event of Default (as defined in Condition 10) occurs or (c) on 60 days' notice given at any time on the request of the bearer, if so specified in the Final Terms. The circumstances described in (a) and (b) are each herein referred to as an "Exchange Event". Whenever a Permanent Global Instrument is to be exchanged for Definitive Instruments and/or Registered Instruments, the Issuer shall procure the prompt delivery of such Definitive Instruments and/or Registered Instruments, duly authenticated and where and to the extent applicable, with Coupons and Talons attached (each as defined in Condition 1.2), in an aggregate nominal amount equal to the nominal amount of such Permanent Global Instrument to the Holder of the Permanent Global Instrument against its surrender at the specified office of the Issue and Paying Agent within 30 days of the Holder requesting such exchange.

**(C) Form of Exchange – Global Registered Instruments**

- (1) *Global Registered Instrument:* Registered Instruments held in Euroclear Bank and/or Clearstream, Luxembourg (or other clearing system) will be represented by a Global Registered Instrument which will be registered in the name of a nominee for, and deposited with, a common depositary for Euroclear Bank and Clearstream, Luxembourg (or such other relevant clearing system).
- (2) *Exchange:* The Global Registered Instrument will become exchangeable in whole, but not in part, for individual Registered Instruments if (a) Euroclear Bank or Clearstream,

Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or have in fact done so and, in any such case no successor clearing system satisfactory to the Trustee is available, (b) an Event of Default occurs, or (c) on 60 days' notice given at any time at the request of the registered Holder, if so specified in the Final Terms. The circumstances described in (a) and (b) are each herein referred to as an "Exchange Event".

Whenever the Global Registered Instrument is to be exchanged for Registered Instruments, such Registered Instruments will be issued in an aggregate nominal amount equal to the nominal amount of the Global Registered Instrument within five business days of the delivery, by or on behalf of the registered Holder of the Global Registered Instrument, Euroclear Bank and/or Clearstream, Luxembourg, to the Registrar or the Transfer Agent (as the case may be) of such information as is required to complete and deliver such Registered Instruments (including, without limitation, the names and addresses of the persons in whose names the Registered Instruments are to be registered and the nominal amount of each such person's holding) against the surrender of the Global Registered Instrument at the specified office of the Registrar or the Transfer Agent (as the case may be). Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Instruments scheduled thereto and, in particular, shall be effected without charge to any Holder, but against such indemnity as the Registrar or the Transfer Agent (as the case may be) may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

**(D) Amendment to Conditions**

The Temporary Global Instruments, Permanent Global Instruments and Global Registered Instruments contain provisions that apply to the instruments that they represent, some of which modify the effect of the Terms and Conditions of the Instruments set out in this Prospectus. The following is a summary of certain of those provisions:

- (1) *Meetings:* The holder of a Permanent Global Instrument or of the Instruments represented by a Global Registered Instrument shall (unless such Permanent Global Instrument or Global Registered Instrument represents only one Instrument) be treated as having one vote in respect of each minimum Specified Denomination of Instruments for which such Global Instrument may be exchanged.
- (2) *Cancellation:* Cancellation of any Instrument represented by a Permanent Global Instrument or Global Registered Instrument that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant Permanent Global Instrument or Global Registered Instrument.
- (3) *Purchase:* Instruments represented by a Permanent Global Instrument or Global Registered Instrument may only be purchased by the Issuer or any of its subsidiaries if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.
- (4) *Issuer's Options:* Any option of the Issuer provided for in the Conditions of the Instruments while such Instruments are represented by a Permanent Global Instrument or a Global Registered Instrument shall be exercised by the Issuer giving notice to the holders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Instruments drawn in the case of a partial exercise of an option and accordingly no drawing of Instruments shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Instruments of any Series, the rights of accountholders with a clearing system in respect of the Instruments will be governed by the standard procedures of Euroclear Bank, Clearstream, Luxembourg or any other clearing system (as the case may be).

- (5) *Holders' Options:* Any option of the holders provided for in the Conditions of any Instruments while such instruments are represented by a Permanent Global Instrument or a Global Registered Instrument may be exercised by the Holder of such Permanent Global Instrument or Global Registered Instrument, giving notice to the Issue and Paying Agent within the time limits relating to the deposit of Instruments with a Paying Agent or the Registrar, in the case of a Global Registered Instrument substantially in the form of the notice available from any Paying Agent (or the Registrar, in the case of a Global Registered Instrument), except that the notice shall not be required to contain the serial numbers of the Instruments in respect of which the option has been exercised, and stating the nominal amount of Instruments in respect of which the option is exercised and at the same time presenting for notation the Permanent Global Instrument or the Global Registered Instrument to the Issue and Paying Agent, or to a Paying Agent acting on behalf of the Issue and Paying Agent, or the Registrar, in the case of a Global Registered Instrument.
- (6) *Notices:* So long as any Instruments are represented by a Permanent Global Instrument or Global Registered Instrument and such Permanent Global Instrument or Global Registered Instrument is held on behalf of a clearing system, (i) notices to the Holders of Instruments of that Series may be given by delivery of the relevant notice to the clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions and any such notice shall be deemed to have been given to the Holders on the fourth weekday after the date on which it is given to the clearing system and (ii) notices to be given by any Holder may be given to the Issue and Paying Agent through Euroclear Bank and/or Clearstream, Luxembourg, as the case may be, in such manner as the Issue and Paying Agent and Euroclear Bank and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

**(E) *Partly Paid Instruments***

While any Partly Paid Instalments due from the holder of Partly Paid Instruments are overdue, no interest in a Temporary Global Instruments or Registered Global Instrument representing such Instruments may be exchanged for an interest in a Permanent Global Instrument or for Definitive Instruments or a Registered Instrument (as the case may be). If any holder fails to pay any instalment due on any Partly Paid Instruments within the time specified, the Issuer may forfeit such Instruments and shall have no further obligation to such holder in respect of them.

## **BOOK ENTRY INSTRUMENTS HELD THROUGH INTERBOLSA**

### **General**

Interbolsa holds securities through a centralised system (“*sistema centralizado*”) composed of interconnected securities accounts, through which such securities (and inherent rights) are held and transferred, and which allows Interbolsa to control at all times the amount of securities so held and transferred. Issuers of securities, financial intermediaries, the Bank of Portugal and Interbolsa, as the controlling entity, all participate in such centralised system.

The centralised securities system of Interbolsa provides for all procedures required for the exercise of ownership rights inherent to the Book Entry Instruments held through Interbolsa.

In relation to each issue of securities, Interbolsa’s centralised system comprises, *inter alia*, (i) the issue account, opened by the relevant issuer in the centralised system and which reflects the full amount of issued securities; and (ii) the *control accounts* opened by each of the financial intermediaries which participate in Interbolsa’s centralised system, and which reflect the securities held by such participant on behalf of its consumers in accordance with its individual securities accounts.

Book Entry Instruments held through Interbolsa will be attributed an International Securities Identification Number (“ISIN” code) through the codification system of Interbolsa. These Book Entry Instruments will be accepted and registered with Central de Valores Mobiliários (“CVM”), the centralised securities system managed and operated by Interbolsa and settled by Interbolsa’s settlement system.

### **Form of the Book Entry Instruments held through Interbolsa**

The Book Entry Instruments of each Series will be in book entry form in either registered (“*nominativas*”) or bearer (“*ao portador*”) form and title to the Book Entry Instruments will be evidenced by book entries in accordance with the provisions of the Portuguese Securities Code and the applicable Comissão do Mercado de Valores Mobiliários (“CMVM”) and Interbolsa regulations. No physical document of title will be issued in respect of Book Entry Instruments.

The Book Entry Instruments of each Series will be registered in the relevant issue account opened by the relevant Issuer with Interbolsa and will be held in control accounts by each Interbolsa Participant (as defined below) on behalf of the holders of the Book Entry Instruments. Such control accounts reflect at all times the aggregate of Book Entry Instruments held in the individual securities accounts opened by the holders of the Book Entry Instruments with each of the Interbolsa Participants. The expression “Interbolsa Participant” means any authorised financial intermediary entitled to hold control accounts with Interbolsa on behalf of their customers and includes any depositary banks appointed by Euroclear Bank and Clearstream, Luxembourg for the purpose of holding accounts on behalf of Euroclear Bank and Clearstream, Luxembourg.

Each person shown in the records of an Interbolsa Participant as having an interest in Book Entry Instruments shall be treated as the holder of the principal amount of the Book Entry Instruments recorded therein.

### **Payment of principal and interest in respect of Book Entry Instruments held through Interbolsa**

Whilst the Book Entry Instruments are held through Interbolsa, payment of principal and interest in respect of the Book Entry Instruments will be (i) credited, according to the procedures and regulations of Interbolsa, by the relevant Paying Agent (acting on behalf of the Issuer) to the payment current accounts held in the payment system of the Bank of Portugal by the Interbolsa Participants whose control accounts with Interbolsa are credited with such Book Entry Instruments and thereafter (ii) credited by such Interbolsa Participants from the aforementioned payment current accounts to the accounts of the owners of those Book Entry Instruments or through Euroclear Bank and Clearstream, Luxembourg to the accounts with Euroclear Bank and Clearstream, Luxembourg of the beneficial owners of those Book Entry Instruments, in accordance with the rules and procedures of Interbolsa, Euroclear Bank or Clearstream, Luxembourg, as the case may be.

**Transfer of Book Entry Instruments held through Interbolsa**

Book Entry Instruments held through Interbolsa may, subject to compliance with all applicable rules, restrictions and requirements of Interbolsa and Portuguese law, be transferred to a person who wishes to hold such Book Entry Instruments. No owner of Book Entry Instruments will be able to transfer such Book Entry Instruments, except in accordance with Portuguese law and the applicable procedures established by the CMVM and Interbolsa.

## **USE OF PROCEEDS**

The net proceeds from each issue of Instruments will be applied by EDP for its general corporate purposes. The proceeds of Instruments issued by EDP B.V. will be on-lent to, or invested in, EDP Group companies.

## RELATIONSHIP OF EDP B.V. WITH EDP

*EDP has entered into a Keep Well Agreement dated 14 March 2001 with EDP B.V. (the “Keep Well Agreement”) governed by English law. The following is the text of the Keep Well Agreement:*

### **“KEEP WELL AGREEMENT**

This Keep Well Agreement is made on 14 March 2001 by and between:

- (1) EDP – ELECTRICIDADE DE PORTUGAL, S.A. (“EDP”); and
- (2) EDP FINANCE B.V. (“EDP B.V.”).

WHEREAS:

- (A) EDP B.V. is a direct wholly-owned subsidiary of EDP;
- (B) Bankers Trustee Company Limited (the “Trustee”, which expression shall wherever the context so admits include any successor as trustee for holders of the Instruments as defined below), EDP and EDP B.V. (each an “Issuer” and together the “Issuers”) have entered into a trust deed dated 14 March 2001 (the “Trust Deed”) relating to the €5,000,000,000 Programme for the Issuance of Debt Instruments (the “Programme”);
- (C) The Issuers may issue Instruments after the date hereof pursuant to the Programme (the “Instruments”, which expression as used herein shall include Instruments whether in global or definitive form and any receipts, coupons or talons appertaining to such Instruments) which will be constituted by the Trust Deed as modified and/or supplemented and/or restated from time to time;
- (D) EDP B.V. may also hereafter assume from time to time obligations under swap agreements which will be related to the Instruments issued by EDP B.V. (any obligation of EDP B.V. in respect of each swap agreement entered into by EDP B.V. and any Instrument issued by EDP B.V. under the Programme being herein referred to as a “Debt Obligation” and the obligations together being herein referred to as “Debt Obligations”); and
- (E) EDP B.V. entered into the Programme as Issuer for its own benefit and also for the benefit of EDP.

NOW, THEREFORE, EDP and EDP B.V. hereby covenant and agree as follows:

1. In consideration of the sum of £1 paid by EDP B.V. to EDP (receipt of which EDP hereby acknowledges), EDP shall own, directly or indirectly, all of the issued and outstanding share capital of EDP B.V. and will control the composition of the board of directors of EDP B.V. so long as any Debt Obligation is outstanding and shall not pledge, grant a security interest in, encumber or alienate any of such share capital.
2. For so long as EDP B.V. has outstanding Instruments under the Programme, EDP shall, with effect on and from the date of this Agreement, cause EDP B.V. to maintain a Tangible Net Worth (as hereinafter defined), as determined in accordance with generally accepted accounting principles in The Netherlands applied on a consistent basis as shown on EDP B.V.’s most recent audited balance sheet (commencing with EDP B.V.’s audited balance sheet at 31 December 2001), of at least one euro.

“Tangible Net Worth” shall mean the total assets of EDP B.V. less the sum of intangible assets and total liabilities of EDP B.V. A certificate of the auditors of EDP B.V. as to the amount of Tangible Net Worth shall, in the absence of manifest error, be final and conclusive.

3. For so long as EDP B.V. has outstanding Instruments under the Programme, if EDP B.V. at any time shall have insufficient funds or other liquid assets to meet its payment obligations (including in respect of any Debt Obligations) or to repay borrowings then maturing or subsequently to mature, upon receipt of notice from EDP B.V. to such effect, EDP shall make, or have made, available to EDP B.V., before the due date of such payment obligations or borrowings, funds sufficient to enable EDP B.V. to meet such payment obligations or to repay such borrowings, as

the case may be, in full as they fall due. EDP B.V. shall use the funds made available to it by EDP hereunder solely for the fulfilment of its payment obligations and the repayment at maturity of its borrowings.

4. Any and all funds from time to time provided by EDP to EDP B.V. pursuant to Clause 3 above shall, at the option of EDP, be either (1) by way of subscription for and payment of share capital (other than redeemable share capital) of EDP B.V., or (2) by way of subordinated loan, that is to say, a loan which, and interest on which, is not permitted to be, and is not capable of being, repaid or paid unless all other debt of EDP B.V. has been fully satisfied and is subordinated on a winding-up of EDP B.V. to all of the unsecured and unpreferred creditors of EDP B.V. other than EDP.
5. EDP warrants and agrees that its payment obligations which may arise hereunder constitute unsecured and unsubordinated obligations of EDP and rank *pari passu* with all other unsecured and unsubordinated obligations of EDP other than those obligations which are preferred by law.
6. This Agreement is not, and nothing herein contained and nothing done by EDP pursuant hereto shall be deemed to constitute, a guarantee, direct or indirect, by EDP of any Debt Obligation or any other debt of EDP B.V. (or of any subsidiary of EDP B.V.) or of any instrument issued by EDP B.V. or of any subsidiary of EDP B.V.
7. If EDP B.V. shall be in liquidation, administration or receivership or other analogous proceedings (including if EDP B.V. is declared bankrupt (“*faillissement*”) or is granted a moratorium of payment (“*surséance van betaling*”) or enters into winding-up proceedings (“*ontbinding*”)) and EDP shall be in default of its obligations hereunder, EDP shall be liable to EDP B.V. by way of liquidated damages for such default in an amount equal to the sum that EDP would have paid had it performed in full all of its obligations hereunder, and EDP B.V. and any liquidator, administrator or receiver of EDP B.V. or other analogous officer or official shall be entitled to claim accordingly.
8. This Agreement may be modified, amended or terminated only by the written agreement of EDP and EDP B.V. provided, however, that no such modification, amendment or termination shall be made which may have any adverse effect upon the holders of the Instruments issued by EDP B.V. or the holders of any other Debt Obligation taken as a whole while any such Instrument or Debt Obligation is outstanding.
9. EDP and EDP B.V. each hereby covenant and agree as follows:
  - (i) it will not consent, either orally or in writing, to any modification, amendment or termination of this Agreement which may have any adverse effect upon the holders of the Instruments issued by EDP B.V. or the holders of any other Debt Obligation taken as a whole while any Instrument or other Debt Obligation remains outstanding;
  - (ii) it will give written notice to the Trustee on behalf of the holders of Instruments issued by EDP B.V. and to the holders of any other Debt Obligation at least 30 days prior to any proposed modification, amendment or termination of this Agreement;
  - (iii) it will fully and promptly perform its obligations and exercise its rights under this Agreement and, in the case of EDP B.V., (without limitation to the foregoing) exercise its right to enforce performance of the terms of this Agreement by EDP; and
  - (iv) it will consent to the giving of an order of specific performance or similar relief by any court of competent jurisdiction in the event that any action is brought in respect of this Agreement.
10.
  - (i) This Agreement shall take effect for the benefit of the Trustee on behalf of the holders of Instruments issued by EDP B.V. and the holder of any other Debt Obligation. Apart from the parties to this Agreement and the Trustee, no other person, firm, company or association (unincorporated or incorporated) shall be entitled to any benefit under this Agreement whatsoever.
  - (ii) This Agreement shall be deposited with and held by the Trustee for so long as the Trust Deed is in force and, if thereafter, any other Debt Obligation remains outstanding it will be

deposited with and held by a reputable financial institution on behalf of the holder(s) of such other Debt Obligation. Both parties hereby acknowledge the right of the holder of any Instrument issued by EDP B.V. and any other Debt Obligation to obtain from either party a copy of this Agreement.

- (iii) The term “holder” herein has the same meaning in relation to each Instrument as the term “Holder” in the Terms and Conditions of such Instrument.
11. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument.
  12. Each of EDP and EDP B.V. hereby irrevocably agrees that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with this Agreement and that accordingly any suit, action or proceedings (together “Proceedings”) arising out of or in connection with this Agreement may be brought in such courts. Each of EDP and EDP B.V. hereby irrevocably waives any objection which it may have to the laying of the venue of any Proceedings in any such courts and any claim that any such Proceedings have been brought in an inconvenient forum and hereby further irrevocably agree that a judgment in any Proceedings brought in the English courts shall be conclusive and binding upon EDP and EDP B.V. and may be enforced in the courts of any other jurisdiction. Nothing contained herein shall limit any right to take Proceedings against EDP or EDP B.V. in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not. Each of EDP and EDP B.V. hereby appoints The Law Debenture Trust Corporation p.l.c. at its registered office for the time being (being at the date hereof at Fifth Floor, 100 Wood Street, London EC2V 7EX) as its agent for service of process and agrees that, in the event of The Law Debenture Trust Corporation p.l.c. ceasing so to act, it will appoint another person as its agent for service of process in England in respect of any Proceedings.
  13. This Agreement shall be governed by, and construed in accordance with, the laws of England.”

**Note:**

**The Keep Well Agreement is not, and should not be regarded as equivalent to, a guarantee by EDP of any payment in respect of the Instruments. However, following an Event of Default, the Trustee will be entitled, on behalf of the Holders, to enforce EDP B.V.’s rights under the Keep Well Agreement against EDP in accordance with the terms of the Trust Deed. Enforcement in the English courts will be subject, among other things, to the powers of such courts to stay proceedings and other principles of law and equity of general application.**

## EDP GROUP

### 1. OVERVIEW

EDP – Energias de Portugal, S.A. (formerly known as EDP – Electricidade de Portugal, S.A.) (“EDP”) is a listed company (*sociedade aberta*), whose ordinary shares are publicly traded in the “Eurolist by Euronext Lisbon, Mercado de Cotações Oficiais”. EDP is established in Portugal, organised under the laws of Portugal and registered with the Commercial Registry Office of Lisbon, under no. 500.697.256. Its registered head office is located at Praça Marquês de Pombal, no. 12, 1250-162 Lisbon, Portugal, and its telephone number is +351 210012500.

EDP was initially incorporated as a public enterprise (*empresa pública*) in 1976 pursuant to Decree-Law no. 502/76, of 30 June 1976, as a result of the nationalisation and merger of the principal Portuguese companies in the electricity sector in mainland Portugal. Subsequently, EDP was transformed into a limited liability company (*sociedade anónima*) pursuant to Decree-Law no. 7/91, of 8 January, and Decree-Law no. 78-A/97, of 7 April.

As a result of the privatisation of EDP’s share capital, which has already involved six phases – the first of which took place in 1997 and the most recent of which was concluded in December 2005 – the most significant shareholdings in EDP’s share capital (i.e. shareholdings equal to or higher than 2 per cent.) are, as at 31 July, 2007, the following: the Portuguese Republic, through Parpública – Participações Públicas (SGPS), S.A., owns (indirectly) 20.49 per cent., Caixa Geral de Depósitos, S.A., a state-owned bank, owns 4.9 per cent., Iberdrola – Participações, SGPS, S.A. owns 9.5 per cent., Banco Comercial Português, S.A. (“BCP”) owns a stake of 2.07 per cent. and BCP Group Pension Fund a stake of 2.98 per cent., Caja de Ahorros de Asturias owns 5.53 per cent., Banco Espírito Santo, S.A. owns 2.86 per cent., Pictet Asset Management owns 2.86 per cent., Sonatrach owns 2.035 per cent. and José de Mello – Sociedade Gestora de Participações Sociais, S.A. owns 2.01 per cent.

EDP is a vertically integrated electric utility company, the largest generator, distributor and supplier of electricity in Portugal and the third largest utility operator in the Iberian market, holding significant electricity and gas operations in Spain, as well as an important position in the renewable energy generation market in the Iberian Peninsula, France, Belgium and, since 2 July, 2007, in the United States of America.

Historically, electricity has been EDP’s core business in Portugal. For geographical and regulatory reasons, the regional electricity market of the Iberian Peninsula is EDP’s natural market and EDP has elected it as its core market for its main energy business. As at the date of this Prospectus, EDP’s four principal subsidiaries are its electric generation company in Portugal, EDP – Gestão da Produção de Energia, S.A. (formerly known as CPPE – Companhia Portuguesa de Produção de Electricidade, S.A.) (“EDP Produção”), its distribution company for Portugal, EDP Distribuição – Energia, S.A. (“EDP Distribuição”), and its supply companies EDP Serviço Universal, S.A. and EDP Comercial, S.A. In Spain, EDP’s main subsidiary (96.86 per cent. owned by EDP) is HC Energias, S.A. (“Hidrocantábrico”), which is the company that operates conventional electricity generation plants and distributes and supplies electricity and gas, mainly in the Asturias and Basque regions of Spain.

EDP is also very active in the renewable energy generation market owning 98.68 per cent. of the share capital of NEO – Novas Energias, S.A., the holding company located in Spain with controlling interests in companies that develop and operate wind farms in Portugal, Spain, France, Belgium and Italy. The development and operation of wind farms in the United States of America is conducted through their subsidiary Horizon Wind Energy LLC (“Horizon”), which was acquired on 2 July, 2007.

EDP also holds significant interests in the gas market both in Portugal and Spain. In Portugal, EDP holds 71.97 per cent. of Portgás – Sociedade de Produção e Distribuição de Gás, S.A. (“Portgás”), the natural gas distribution company for the northern region of Portugal, and 19.83 per cent. of Setgás – Sociedade de Produção e Distribuição de Gás, S.A. (“Setgás”), the natural gas distribution company for the Setúbal region. In Spain, EDP holds indirectly (through Hidrocantábrico) 63.51 per cent. of Naturgas Energia (“Naturgas”), formerly called Naturcorp Multiservicios S.A.U., the second largest gas transmission and distribution company in the Spanish market.

EDP is also present in Brazil, focusing on the electricity generation and distribution businesses. EDP is the main shareholder of EDP – Energias do Brasil, S.A. (“EDP Brasil”), a company listed on the BOVESPA stock market in São Paulo, Brazil, since 2005. EDP Brasil is a holding company for the majority of EDP’s investments in the Brazilian electricity industry, namely Empresa Bandeirante de Energias, S.A. (“Bandeirante”), Espírito Santo Centrais Eléctricas (“Escelsa”), Empresa Energética do Mato Grosso do Sul, S.A. (“Enersul”), Energest S.A. (“Energest”), Enertrade – Comercializadora de Energia S.A. (“Enertrade”), EDP Lajeado Energia S.A. (“EDP Lajeado”) and Enerpeixe S.A. (“Enerpeixe”).

## **2. ENERGY: MARKETS AND REGULATION**

### **2.1. IBERIAN MARKET**

#### **Overview**

Since 1998, the governments of Portugal and Spain have shared the common view of creating a single, integrated and competitive electricity market for Portugal and Spain, known as MIBEL, within the wider context of the European single electricity market, which is provided for in EU Directives.

On 29 July, 1998 the governments of Portugal and Spain negotiated an agreement on cooperation in the electricity sector with a view to creating an internal energy market. This initial agreement was further developed on 14 November, 2001, through the protocol setting out the conditions for the creation of the MIBEL (the “MIBEL Agreements”). The XIX Luso-Spanish Summit, which took place on 8 November 2003 in Figueira da Foz, defined a tentative calendar for the creation of the MIBEL.

Agreement on the principles underlying the creation of the MIBEL was reached on 20 January, 2004 in Lisbon and a council of regulators was created. The Santiago de Compostela Summit of October 2004 reviewed the MIBEL Agreements in order to increase the powers of the council of regulators. In particular, the council gained the authority to coordinate and supervise the development of MIBEL, create a single market operator and oversee the harmonisation of tariffs across the two markets. At the XXI Luso-Spanish Summit in Évora in November 2005, the governments of Portugal and Spain reaffirmed their commitment to the construction of the MIBEL.

Both countries agreed, among other things, to continue strengthening collaboration through new interconnections in the South, between Algarve and Andalucía, and in the North, at the International North-West axis up until 2011. Two such interconnections were put into operation in 2004, the Alqueva-Balboa 400 kV circuit and a second 400 kV circuit in Alto-Cartelle-Lindoso. Additionally, a new 400 kV circuit on the Douro Internacional-Aldeadavila circuit is scheduled for completion in 2008.

An adequate level of interconnection capacity between the systems of the different Member States is regarded as an essential requirement for the completion of the internal energy market. To meet this objective, the European Council convened at the Barcelona Summit in March 2002 defined as a goal, in accordance with a proposal of the European Commission of December 2001 concerning European energy infrastructure, that Member States are required to connect at least 10 per cent. of their installed generation capacity with other energy European energy markets by 2005. Portugal has already fulfilled this goal.

Under the MIBEL Agreements, MIBEL operates with an electricity spot market, which includes daily and intra-daily markets and is initially to be managed by *Operador del Mercado Ibérico de Energía – Polo Español, S.A.* (“OMEL”), and an electricity forward market, which is initially to be managed by *Operador do Mercado Ibérico de Energia – Pólo Português, S.A.* (“OMIP”). In addition, electricity transactions may also be negotiated by means of bilateral contracts with terms of one year or more. The MIBEL Agreements also clarify that the existence of two market operators, OMEL and OMIP, is temporary and that the two operators will eventually be merged into a single market operator – the Iberian Market Operator (“OMI”). On 8 March 2007, the governments of Portugal and Spain amended the MIBEL Agreements to allow each of OMEL and OMIP to hold up to 10 per cent. of OMI’s share capital.

MIBEL’s purpose under the MIBEL agreements is to become the common electricity trading space of Portugal and Spain, comprised of the “organised and non-organised” (i.e. purchase and sale via bilateral agreements) markets in which transactions or electricity agreements are entered into and

financial instruments relating to that same energy are traded. The creation of an Iberian Electricity Market requires the acknowledgement of a single market by both countries, in which all agents will have equal rights and obligations, and be required to comply with the principles of transparency, free competition, objectivity and liquidity.

The Iberian electricity forward market managed by OMIP began operations on 3 July 2006 and since 1 July 2007, electricity operators in Portugal and Spain have started to use a common spot energy trading platform, managed by OMEL, with the purpose of creating a fully integrated electricity market for the Iberian Peninsula. The MIBEL spot market currently operates in a market split system pursuant to which electricity market price is defined for each country on the basis of the offer and demand for each region and the interconnection capacity available between both regions. It is expected that as interconnections between Portugal and Spain are further reinforced, the MIBEL spot market shall evolve to form a single market system.

On 1 July 2007, EDP started to sell its conventional electricity generated in Portugal through the spot market managed by OMEL as a result of the early termination of its Power Purchase Agreements (“PPAs”), as further detailed below.

During 2006, total generation in the Iberian electricity market amounted to approximately 241.7 TWh under the “ordinary” or conventional regime (i.e. excluding generation under the “special” regime), of which EDP, through its operations in Portugal and Spain, was responsible for approximately 40.5 TWh.

## **2.1.1. PORTUGAL**

### **2.1.1.1. Overview of the national electricity system**

The electricity industry in Portugal has been through significant changes during the last few years. Until 1999, the generation, transmission, distribution and supply components of the electricity industry in Portugal were united under the EDP Group. Since 2000, the electricity industry in Portugal has been partially deregulated, which has resulted in the division of these four components among different companies. Following the reorganisation of the electricity market by legislation approved in 1995 (the “Old Electricity Framework”), a public sector (the “Sistema Eléctrico de Serviço Público” or “SEP”) and a market sector (the “Sistema Eléctrico Não Vinculado” or “SENV”) were developed, referred to as the “binding” and “non-binding” sectors, respectively. In the SEP, public power generators sold energy to a single buyer – REN Rede Eléctrica Nacional, S.A. (“REN Rede Eléctrica”), a subsidiary of REN – Redes Energéticas Nacionais, SGPS, S.A. (“REN”), formerly known as REN – Rede Eléctrica Nacional, S.A. – pursuant to long-term purchase agreements (“PPAs”) and clients purchased energy pursuant to regulated tariffs. In the SENV, the non-binding sector, private power generators sold energy in the bulk power markets through bilateral contracts, and supply companies competed for eligible consumers. The transmission and distribution networks were available to all power generators and supply companies on a regulated basis. Ultimately, customers would decide whether to purchase electricity in the binding or non-binding sectors, although until 2004, the non-binding sector was only available to higher voltage corporate customers.

Following implementation of the new electricity framework pursuant to Decree-Law no. 29/2006 of 15 February and Decree-Law no. 172/2006 of 23 August (the “New Electricity Framework”), the binding and non-binding sectors of the national electricity system were replaced by a single market system, and the generation and supply of electricity and management of the organised electricity markets are now fully open to competition, subject to obtaining the requisite licences and approvals. The transmission and distribution components of the electricity industry continue to be provided through the award of public concessions.

### **2.1.1.2. The current national electricity system**

Under the New Electricity Framework, the national electricity system (the “National Electricity System” or “SEN”) can be divided into six major functions: generation, transmission, distribution, supply, operation of the electricity market and logistics operations for switching electricity suppliers. Each of these functions must be operated independently from the others, from a legal, organisational and decision-making standpoint, subject to certain exceptions.

The electricity sector activities are required to be developed in accordance with the principles of rationality and efficiency in the use of resources throughout the entire value chain (i.e., from the generation to the consumption of electricity) and in accordance with the principles of competition and environmental sustainability, with the purpose of increasing competition and efficiency in the National Electricity System, without prejudicing public service obligations.

### **2.1.1.3. Electricity generation**

#### **a) Conventional and renewable**

Electricity generation under the New Electricity Framework is now subject to licensing and is carried out in a competitive environment. Electricity generation is divided into two regimes: the ordinary regime and the special regime. The special regime relates to the generation of electricity from endogenous and other renewable sources, except large hydro-power plants, and benefits from incentives. The ordinary regime covers the generation of electricity from all other sources, including large hydro-power plants.

The principle of centralised planning of generation plants has been abandoned in the New Electricity Framework; the initiative for construction and operation of new plants lies with market participants. The Portuguese State will only intervene in order to supplement private initiatives, cover market failures and ensure electricity supply.

Decree-Law no. 172/2006 of 23 August 2006 provides that, until termination of all the PPAs entered into in accordance with Decree-Law no. 183/95 of 27 June 2006 (which has been revoked), generators that had entered into these PPAs were entitled to sell the electricity generated to the concessionaire entity of the National Transmission Network. This entity, in turn, was required to sell the electricity to the supplier of last recourse or, whenever justifiable, to an organised electricity market.

Pursuant to Decree-Law no. 226-A/2007 of 31 May, a regime was approved to provide for the regularisation of the water concessions required for the operation of the electricity generators. According to such regime, EDP Produção shall pay an amount of €759 million (subject to deduction of the net present value of the applicable hydro charges) with the purpose of ensuring the financial and economic balance of the hydro-generation facilities located in Portugal according to market conditions, for the period following the term established under the PPAs, as established under Dispatch no. 16 982/2007 from the Minister of Environment, Territory Organization and Regional Development and the Minister of Economy and Innovation. On 15 June 2007, EDP Produção executed with REN Rede Eléctrica an agreement for the future transfer of the concession contracts for the use of the water concessions, which should be signed by the Portuguese Government and REN Rede Eléctrica within the next two years. Upon this transfer, EDP Produção shall pay the 759 million referred to above. With the transfer of the above hydro concessions, EDP Produção is assured the right to operate under market conditions 26 hydro plants with a 4.095 MW installed capacity after the termination dates that were previously provided in their respective PPAs for a period until on average 2047.

Special regime generation is primarily governed by Decree-Law no. 189/88 of 18 May and amendments thereto (including Decree-Law no. 312/2001 of 10 December) (together, “Decree-Law 189/88”). However, the special regime is also affected by Decree-Law no. 29/2006 of 15 February, and Decree-Law no. 172/2006 of 23 August, insofar as these relate to the National Electricity System. The statutory and regulatory regime applicable to the generation of electricity through renewable sources differs from that applicable to the generation of electricity from other non-renewable sources in relation to licenses and tariffs.

Decree-Law 189/88 sets out a specific licensing regime applicable to power plants using renewable energy sources. The licensing process begins with a request to the Direcção Geral de Energia e Geologia (“DGEG”) to assess the capacity of the grid to receive the electricity generated at a determined grid interconnection point. If capacity exists, a grid interconnection point is allocated to the requesting party. The requesting party must then obtain an establishment licence from DGEG before beginning construction of the power plant and, once construction is completed, the requesting party must also obtain an operation licence.

The DGEG licensing process is run in parallel with a local licensing process administered by the local authorities of the place where the power plant is to be located. In particular, the requesting party must obtain construction and utilisation licences for the power plant. In some instances, an environmental impact evaluation must be carried out and the competent authority must issue a favourable environmental impact declaration as a condition precedent for the issuance of the establishment licence.

Decree-Law 189/88 sets out a specific formula for the tariffs to be paid to generators for the electricity generated by power plants using renewable energy. The formula was amended by Decree-Law no. 33-A/2005 of 16 February.

Additionally, until 31 December 2006, Decree-Law no. 312/2001 of 10 December established the obligation of certain entities, in particular the concessionaire entity of the national transmission network, to purchase electricity generated by power plants using renewable energy sources. Since 1 January 2007, this obligation has been transferred to the supplier of last recourse for the National Electricity System, pursuant to article 55 of Decree-Law no. 172/2006 of 15 February.

#### **b) Early termination of the PPAs**

Under the Old Electricity Framework, electricity generated by EDP Produção's power plants and other power plants in the SEP was sold under PPAs to REN Rede Eléctrica (acting as single buyer), allowing these power plants to achieve a return on assets of 8.5 per cent. in real terms pre-tax. The price of electricity provided for in each PPA consisted of the capacity and energy charges, together with other costs associated with the generation of electricity, such as self-generation and generation facilities' operation and maintenance (O&M). The capacity and energy charges were passed through to the final tariff paid by customers in the Public Electricity System.

Pursuant to Law no. 52/2004 of 29 October, the terms and conditions of the early termination were subsequently set out in Decree-Law no. 240/2004 of 27 December, which provides for changing the single buyer status of REN Rede Eléctrica and defines compensatory measures for the respective contracting parties through the pass-through of charges to all electric energy consumers as permanent components of the UGS tariff.

The framework for the early termination of the PPAs was revised by Decree-Law no. 199/2007 of 18 May, which changed the market reference price for the calculation of the compensation payable to the generators (increasing it from €36/MWh to €50/MWh) and revised the fuel prices used in the determination of such compensation so as to adjust the values set out in Decree-Law no. 240/2004 of 27 December to be in line with the newly increased market price.

Following the verification of the conditions precedent to which the early termination of the PPAs was subject in accordance with Decree-Law no. 240/2004 of 27 December, and the PPA's Termination Agreements entered into between EDP Produção and REN Rede Eléctrica on 27 January 2005, the PPAs to which EDP Produção was a party to were terminated early, on 1 July 2007.

The amount of the initial global gross compensation due to EDP Produção as a result of the early termination of the PPAs is of €833,467,159.00, calculated as of 1 July 2007 on the basis of the values set forth in Decree-Law no. 240/2004 of 27 December, as revised by Decree-Law no. 199/2007 of 18 May, and updated at a rate equal to the yield rate of Portuguese public debt with a maturity date of 16 June 2014, accrued from a 0.25 per cent. spread (i.e. a total rate of 4.85 per cent.), and assuming an inflation rate of 2 per cent. per year.

The amount of compensation is capped at a set maximum for each generator and subject to an annual review during the first ten years during which such compensation amounts are paid out, along with a final review at the end of such period. The purpose of these adjustments is to ensure parity between the revenues expected in a market regime based on their initial compensation value and the revenues effectively obtained in the market.

The initial global gross compensation due to EDP Produção is reflected in electricity tariffs applicable to all consumers in Portugal, which are a separate component of the Global Use of System Tariff ("UGS Tariff"), designated as "Parcela Fixa" ("Fixed Charge"), and should be recovered by EDP Produção or its assignees over a period of 20 years. The adjustments to the initial global gross

compensation are also reflected in electricity tariffs and if these adjustments are to the benefit of EDP Produção, they shall be applicable to all consumers in Portugal as a separate component of the UGS Tariff, designated as “Parcela de Acerto” (“Variable Charge”).

#### **2.1.1.4. Electricity transmission**

Electricity transmission activities are carried out through the national transmission grid, through an exclusive concession granted by the Portuguese State. This exclusive concession was awarded to REN Rede Eléctrica by article 69 of Decree-Law no. 29/2006 of 15 February, following the concession already awarded to REN Rede Eléctrica by article 64 of Decree-Law no. 182/95 of 27 July.

Under the concession, REN Rede Eléctrica is responsible for the planning, implementation and operation of the national transmission grid and related infrastructure, as well as all of the relevant interconnections and other facilities necessary to operate the national transmission grid. The concession also provides that REN Rede Eléctrica, as technical global manager of the national electricity system, must carry out the coordination of the national electricity system infrastructure, with a view to ensuring the integrated and efficient operation of the system as well as the continuity and security of the supply.

The activities of the transmission system operator (or the concessionaire for the electricity transmission grid) must be independent, in both a legal and proprietary sense, from the other activities in the electricity sector. The minimum criteria for ensuring this independence are set out in the New Electricity Framework and include restrictions on the shareholding of the transmission system operator's share capital. No person or entity may directly or indirectly hold more than 10 per cent. of the share capital of the concessionaire. In the case of entities operating in the electricity sector, this limit is reduced to 5 per cent. The limitations are not applicable to the Portuguese State and to entities controlled by the Portuguese State, or to the concessionaire and entities controlled by it.

EDP holds 5 per cent. of the share capital of REN, the holding company controlling the sole transmitter of electricity in mainland Portugal (i.e. REN Rede Eléctrica), as well as the concessionaire entities of regulated assets in the gas market in Portugal (REN-Gasodutos, S.A., REN Armazenagem, S.A. and REN Atlântico, S.A.).

#### **2.1.1.5. Electricity distribution**

Electricity distribution under the New Electricity Framework occurs through the national distribution grid, consisting of the medium and high voltage network, and through the low voltage distribution grids.

Until 31 December 2006, electricity distribution included the supply of electricity to regulated consumers. The local electricity distribution function in mainland Portugal was carried out almost exclusively by EDP Distribuição – Energia, S.A. (“EDP Distribuição”). Through 14 network distribution areas, as well as seven commercial areas directed at serving customers supplied under the Public Electricity System, EDP distributed electricity to approximately 5.9 million consumers in 2006, amounting to 45,414 GWh, of which 7,161 GWh was distributed under the liberalised system.

The national distribution grid is operated through an exclusive concession granted by the Portuguese State. This exclusive concession was awarded to our subsidiary EDP Distribuição by article 70 of Decree-Law no. 29/2006 of 15 February, as a result of the conversion of the former licence held by EDP Distribuição under the Old Electricity Framework into a concession agreement. The terms of the concession are set out in Decree-Law no. 172/2006 of 23 August.

The low voltage distribution grids continue to be operated under concession agreements to be entered into after a public tender administered by the relevant municipalities. The existing concession agreements will be maintained, but amended to comply with the new regime as provided for in Decree-Law no. 172/2006 of 23 August.

Entities carrying out electricity distribution activities are required to be independent, in a legal, organisational and decision-making sense, from those entities carrying out activities unrelated to the distribution of electricity. However, according to EU law, operators of distribution grids supplying fewer than 100,000 clients are not subject to this obligation to maintain independence if they are not vertically integrated as a company or group.

On a revenue basis, EDP Distribuição's electricity sales in mainland Portugal grew from €3,011 million in 2000 to €4,289 million in 2006. The most significant increase in sales has been to low-voltage customers (typically residential and service sector), to whom sales increased from €2,080 million in 2000 to €2,572 million in 2006. Recent growth in revenue from electricity sales was mainly due to expansion in consumption and average tariff increases set by the regulator of 2.3 per cent. in 2005 and 5.1 per cent. in 2006.

#### **2.1.1.6. Electricity supply**

Electricity supply under the New Electricity Framework is open to competition, subject only to a licensing regime. Suppliers may openly buy and sell electricity. For this purpose, they have the right of access to the national transmission and distribution grids upon payment of the access charges set by Entidade Reguladora do Sistema Eléctrico ("ERSE"). Under market conditions, consumers are free to choose their supplier without any additional fees for switching suppliers. The government plans to create a new entity, whose activity will be regulated by ERSE and oversee the logistical operations relating to switching suppliers.

Under the New Electricity Framework, public service obligations are provided for and involve the guarantee of the quality and continuity of supply, protection with respect to prices and access charges, and access to simple and understandable information.

EDP's licensed supplier of electricity for the liberalised market is its subsidiary EDP Comercial.

The New Electricity Framework also establishes the supplier of last recourse, as provided for in EU law, subject to licensing and regulation by ERSE. The last recourse supplier is responsible for the purchase of all electricity generated by special regime generators, an obligation which until 1 January 2007 was carried out by REN Rede Eléctrica, and for the supply of electricity to customers that purchase electricity under tariffs or regulated customers and is subject to universal service obligations. This role is temporary and is expected to exist only until the liberalised market is fully competitive, as provided for in EU Directive 2003/54/CE.

This new role is currently being undertaken by an independent entity, EDP – Serviço Universal, S.A., established for this purpose by EDP's subsidiary EDP Distribuição, and by the local low-voltage distribution concessionaires and shall continue until the liberalised market is fully efficient and the respective concession contracts have expired.

Pursuant to the amendments introduced by Decree-Law 264/2007 of 24 July, the last recourse supplier is further required to buy forward energy, in the quantities and at auctions defined by the DGEG, in the market managed by OMIP and OMIClear, for OMIP listed annual, quarterly and monthly electricity futures contracts, at base-load and with physical delivery. The purchases are recognised for the purpose of regulated costs whenever they reach maturity.

The last recourse supplier should manage the different forms of contracting in order to acquire energy at the lowest possible cost. All unneeded surplus electricity acquired by the last recourse supplier should be resold on the organised market.

Electricity supply activities, as in the case of electricity transmission and distribution activities, are required to be legally separated from all other activities in the electricity sector.

#### **2.1.1.7. Operation of the electricity markets**

The operation of organised markets for electricity is subject to authorisation being jointly granted by the Minister of Finance and by the Energy Minister. The entity managing the organised market is also subject to authorisation being granted by the Energy Minister and, whenever required by law, by the Minister of Finance. Organised electricity markets should be integrated into organised electricity markets established between the Portuguese State and other EU Member States. Generators operating under the ordinary regime and suppliers, among others, can become market members.

The organised market corresponds to a system with different methods of contracting which allow the supply of and demand for electricity to balance out and encompass the forward, daily and intra-daily markets. The Portuguese operator OMIP – Operador do Mercado Ibérico de Energia (pólo Português),

S.A. and OMIClear are entities responsible for the functioning of the MIBEL forward market. Specifically, this covers transactions of bulk energy to be delivered on the day following the contracting date, settled either by physical delivery or by differences.

The daily markets (which comprise bulk energy transactions that must be delivered on the day following the contracting date and physically settled) and the intra-daily markets (comprising transactions which must be physically settled) are guaranteed by OMEL. In order to allow the physical delivery of electricity positions held on the forward market and to allow the exchange of information between markets, an interconnection agreement between OMIP and OMEL was signed in April 2006.

The non-organised markets are subject to bilateral contracts between the entities of MIBEL, settled either by physical delivery or by differences, and approval by the ERSE in Portugal.

#### **2.1.1.8. Logistics for switching suppliers**

Under market conditions, consumers are free to choose their electricity supplier and are exempt from any payment when they switch suppliers. In order to manage the process of switching suppliers, the creation of a Logistics Operator for Switching Suppliers (“OLMC”) is anticipated. The organisational and decision-making structures of this entity must be independent. Legislation applicable to this activity has yet to be developed.

Transmission, distribution and last-recourse supply, as well as logistics operations for switching supplier and management of organised markets, are therefore subject to ERSE regulation.

#### **2.1.1.9. Electricity tariffs**

The prices EDP charges for electricity are subject to extensive regulation. Until 1998, the Portuguese Government, through the Department for Trade and Competition (“DGCC”) and the Department of Energy (“DGE”, currently “DGEG”), was responsible for the development, execution and evaluation of energy sector policy, notably by presenting proposals for necessary legislation and regulation. In February 1997, ERSE<sup>1</sup>, an autonomous public entity, was appointed as the regulator. ERSE sets tariffs for the clients remaining in the regulated market and access charges for the consumers in the liberalised market. Final customer tariffs are differentiated by voltage level, tariff option and period of electricity consumption, and access charges are differentiated by voltage level and period of electricity consumption. These tariffs, when set, are uniform throughout Portugal within each level of voltage, subject to specified exceptions based on volume.

Currently, the overall electricity tariff comprises charges for generation, transmission, distribution, and commercialisation. Prior to 1999, the regulation of tariffs was based on annual negotiations between EDP and the Government. In December 1998, ERSE implemented a new tariff regulatory code to be applied in mainland Portugal, establishing a three-year periodic definition of regulatory parameters for tariffs and a methodology for setting tariffs.

During the first regulatory period (1999 to 2001) and the second regulatory period (2002 to 2004), prices were set annually according to a series of formulas that were based primarily upon what was deemed to be an appropriate return on assets in transmission, on distribution (as fixed by a price cap) and on assets and agreed costs in commercialisation (i.e. the activity of supply measurement and billing of energy sales to final customers).

Based upon such methodology, in the second regulatory period (2002-2004), ERSE applied a four-rate tariff structure based on the time of day of electricity usage by medium-, high- and very high-voltage consumers. ERSE introduced some changes, mainly in the distribution business – splitting the regulation of the distribution wires, wire commercialisation and regulated commercialisation. ERSE also introduced some adjustments to the structure of the tariffs, both for the published tariffs applicable to final customers and access tariffs paid by market agents, with the intention of introducing more transparency to the system and reducing cross-subsidies between customers. In light of the expected revision of the legal framework of the Portuguese electricity system, the termination of the PPAs and the commencement of

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<sup>1</sup>At a later stage, ERSE began to stand for Entidade Reguladora dos Serviços Energéticos, meaning that its scope had widened to the energy sector in general and was no longer confined to electricity (i.e it also covered gas).

MIBEL, ERSE determined that the third regulatory period should be transitory, having a one-year duration (i.e. 2005 only), and continue to apply the system used in the second regulatory period (2002-2004).

The current fourth regulatory period (2006-2008) brought few changes to the methodology used to calculate tariffs. However, further legislation was published in 2006 and the first half of 2007, setting a framework in line with the enactment of MIBEL, whose schedule has been delayed from the original starting date due to technical and regulatory issues. New regulation was also published to comply with European open market requirements<sup>2</sup>. Decree-laws were also published in 2006 and 2007, defining the basis for the new energy sector organisation, determining a new reference price for the calculation of the compensation due to the PPA's termination and establishing full separation between distribution and regulated commercialisation, which had been embedded into one single company until then (the "last recourse supplier" (LRS)). This change formally took place on 1 January 2007.

In 2006 and 2007, a "tariffs' deficit" was generated; this meant that the customer tariffs practised by the LRS were not covering all the costs, generating a loss for the LRS (EDP Serviço Universal) and for the Transmission System Operator (REN). This deficit was due to two different decree-laws: Decree-Law 187/95 required that the low voltage tariffs could not rise above the expected rate of inflation in 2006; whilst Decree-Law 237/2006 set a maximum cap of a 6 per cent. rise in tariffs for residential customers (normal low voltage) in 2007. Both deficits – 2006 and 2007 – are expected to be fully recovered within ten years, beginning in 2008, through annual rises in access charges.

Meanwhile, in September 2006, a significant event occurred: residential customers were able to switch supplier, meaning that all customers were now eligible to choose their supplier in the market. Full liberalisation of the supply market was reached. This was the final step of a path started in 1999, when only large industrial costumers could choose suppliers freely in the market.

With the technical problems solved and a satisfactory regulatory framework in place, MIBEL came into effect on 1 July 2007. MIBEL is the result of a joint initiative by the Portuguese and Spanish governments. As a regional market, it constitutes an important transitional step in the creation of an internal electricity market. As MIBEL comes into force, it will be possible for each consumer in the Iberian Peninsula to obtain electricity from any producer or seller that operates in both countries under a regime of free competition.

As a consequence of MIBEL and the new energy sector organisation, ERSE proceeded to a general review of the specific regulatory framework within the electricity market, and notably of all the codes. ERSE has also adjusted the LRS's tariffs to final customers and access charges, an adjustment which came into effect on 1 September 2007. The main purpose of this tariff adjustment is to reflect the effect of PPA termination and will remain effective until the end of the year. Nonetheless, full additivity in tariffs has not been achieved yet and there is still some cross-subsidisation between customers.

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<sup>2</sup>Bearing in mind the conclusions and recommendations stated in the "Energy Package" released by the European Commission in January 2007.

In real terms, adjusted for inflation, very high-, high- and medium-voltage final customer tariffs, generally applicable to industrial customers, have declined approximately 15 per cent. over the period from 1998 to 2007<sup>3</sup>. The final customer tariffs for low-voltage customers, typically residential, have also declined in real terms by approximately 11.9 per cent. over the same period. In 2007, in nominal terms, final customer tariffs for very high-, high- and medium-voltage levels increased by an average of 5.6 per cent. and for low-voltage customers, by 5.1 per cent., from the 2006 levels. For 2007, in nominal terms, final customer tariffs increased across all voltage levels by an average of 5.3 per cent. from the 2006 levels.

In real terms, adjusted for inflation, very high-, high- and medium-voltage access charges have increased by a yearly average of 8.5 per cent. over the period from 1999 to 2007. The access tariffs for low-voltage customers have increased approximately 16.7 per cent. in 2007 in comparison to 2006.

The following tables show the variation in final customer tariffs and access charges from 1998 and 1999 respectively, to 2007.

#### Final customer tariff variation from 1998 to December 2007

	Tariffs	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Vari- ation 2007/ 1998
VHV	Real	100	87	85	81	72	70	71	78	79	83	-17
	Nominal	100	90	90	90	84	84	86	97	101	109	9
HV	Real	100	87	83	81	74	73	73	80	81	85	-15
	Nominal	100	90	89	90	87	86	90	100	104	112	12
MV	Real	100	87	84	81	75	75	75	79	84	85	-15
	Nominal	100	90	89	90	88	89	92	99	108	113	13
SLV	Real	100	93	90	87	86	85	85	85	95	96	-4
	Nominal	100	95	95	96	97	100	102	105	119	124	24
NLV	Real	100	93	90	87	87	86	86	86	85	87	-13
	Nominal	100	95	95	96	98	101	103	106	107	113	13

#### Access charges variation from 1999 to December 2007

	Tariffs	1999	2000	2001	2002	2003	2004	2005	2006	2007	Vari- ation 2007/ 1999
VHV	Real	100	88	82	142	175	184	244	246	256	156
	Nominal	100	91	89	160	202	218	296	306	326	226
HV	Real	100	88	82	154	178	184	230	234	244	144
	Nominal	100	91	88	174	206	218	279	291	311	211
MV	Real	100	91	84	138	145	143	153	157	163	63
	Nominal	100	94	91	156	168	169	186	195	207	107
SLV	Real						100	105	110	115	15
	Nominal						100	108	116	124	24
NLV	Real								100	117	17
	Nominal								100	120	20

VHV (Very High Voltage); HV (High Voltage); MV (Medium Voltage); SLV (Special Low Voltage); NLV (Normal Low Voltage)

<sup>3</sup> When referring to 2007 from this point forward, the recent adjustment in September has already been taken into account.

### **2.1.1.10. Gas**

Since 2004, EDP has established a presence in the natural gas market in Portugal and Spain in accordance with its strategic objectives, as indicated below. In Portugal, EDP is present in the natural gas market through ownership interests of 71.97 per cent. in Portgás and 19.83 per cent. in Setgás. EDP acquired its interests in Portgás and Setgás as a result of the exercise, in 2004, of two options granted in two agreements signed in November 2003. Subsequently, in May 2006, EDP acquired from Endesa Gas, S.A., for €56.5 million, a 49 per cent. interest in the share capital of NQF Gás, SGPS, S.A., currently known as EDP Gás II, SGPS, S.A., thereby becoming the holder of the entire share capital of this company and, indirectly, the above mentioned ownership interests in Portgás and Setgás. Under a shareholders agreement valid until 31 December 2007 between EDP Gás II, Endesa Gás and Gaz de France/Elyo, EDP has joint control of Portgás.

Portgás and Setgás are two of six local distribution companies in Portugal. Portgás covers 29 municipalities in the northern coast area of Portugal. Setgás covers ten municipalities on the southern bank of the Tagus River.

## **2.1.2. SPAIN**

### **2.1.2.1. Electricity overview**

The main characteristics of the Spanish electricity sector are the existence of the wholesale Spanish generation market (also referred to as the Spanish pool), and the fact that any consumer has been free to choose its supplier since 1 January 2003. Additionally, since 2006 bilateral contracts and the forward market (long term energy acquisition contracts) have become more important.

Generation facilities in Spain operate under either the “conventional regime” or the “special regime”. The electricity system must acquire all electricity offered by special regime generators, which comprise small or renewable energy facilities, at tariffs fixed by decree-law, which vary depending on the type of generation but are generally higher than Spanish market prices. Conventional regime generators provide electricity at market prices to the Spanish pool and under bilateral contracts to qualified consumers and other liberalised suppliers at market prices.

Companies with the capacity to sell and buy electricity may participate in the Spanish pool. Electricity generators sell electricity to the pool. The regulated electricity distributors or suppliers in the liberalised or unregulated market and consumers can buy electricity in this pool. Foreign companies and consumers that have foreign agent status may also sell and buy in the Spanish pool.

The market operator and agency responsible for the market’s economic management and bidding process is *Operador del Mercado Ibérico de Energía – Polo Español, S.A.* (“OMIE”). In addition to selling electricity to consumers, transmission companies and regulated distributors must provide network access to all consumers that have chosen to be supplied in the liberalised market. However, these consumers must pay an access tariff to the distribution companies if such access is provided.

Liberalised suppliers are free to set prices for their consumers. These entities’ main direct activity costs are the wholesale market price and the regulated access tariffs to be paid to the distribution companies. Electricity generators and liberalised suppliers or qualified consumers may also engage in bilateral contracts without participating in the wholesale market.

### **2.1.2.2. Regulation**

Recent decisions have begun to change the regulatory environment in order to make the Spanish market more attractive:

#### *Interconnections and MIBEL*

A series of measures have been passed in order to start up MIBEL, which has been in force since 1 July 2007. MIBEL has two markets:

- Spot market, which includes daily and intra-daily markets and is managed by the current market operator of the Spanish market on the basis of legislation in force in Spain. Congestion on the interconnection capacity will be solved by market-splitting; and

- Forward market, which is managed from Portugal. This market does not require physical settlement, allowing the possibility of exclusive financial settlements

Recently, the Spanish and Portuguese government's ministers have reaffirmed their compromises with a view to a future Iberian Market Operator (OMI). It has been agreed to structure the shareholdings model of the future Iberian Market Operator based on two holdings: OMI – Polo Español (shareholding) and OMI – Polo Portugués (shareholding). Both entities will have 50 per cent. of the management companies in the markets, run by a joint Board of Directors. The full operation of the organised market managed by OMEL since its establishment and the adaptation of our activities to the latest information technologies available, (to the deregulation process in contracting, and to the relationship with agents providing information and training services, has continued to improve making it a useful and efficient instrument for the development of competitive trading.

#### *Pass-through of the cost of energy in tariff setting*

From January 2007, the Royal Decree on tariffs set the provisional assimilated energy value at the daily and intraday market price plus the capacity payment and the ancillary services costs, eliminating market distortion and leading to the end of significant contracting in complementary services.

#### *Energy auctions for regulated demand*

Suppliers for regulated clients in Iberian Peninsula can acquire electricity in spot or forward markets or in energy auctions for regulated demand. Auctions of this kind started in June 2007.

#### *Virtual capacity auctions*

Royal Decree 1634/2006 required Endesa and Iberdrola to hold auctions offering virtual power plant capacity, known in Spanish as “*Emisiones Primarias de Energía*”, to any party who is a member of the Spanish electricity market. A further objective is to increase the proportion of electricity that is purchased through bilateral contracts with a duration of several months and stimulate liquidity in forward electricity markets. The first VPP auction was held in June, 2007.

Since January 2003, all consumers have become qualified consumers. There are now over 88,800 high voltage consumers and 23.3 million low voltage domestic and commercial consumers. All of them may now choose to acquire electricity under any form of free trading through contracts with resellers, by going directly to the organised market or through bilateral contracts with producers. This ability to choose, which had experienced a continuous decline from the middle of 2005 to the second half of 2006 due to high pool prices, has become stabilised at around 25 per cent. of the total energy acquired in the production market and began recovering in the first quarter of 2007, once the negative effects of the integral tariff regulation on the market disappeared.

During 2006, 297,401 GWh of energy were negotiated for the entire production market including bilateral contracts, representing a 12.3 per cent. increase in contracting. More than 2.1 million consumers bought their energy in the free market in 2006. The price of the daily market in Spain was 5.053 euro per kWh in 2006, 5.9 per cent. below the previous year's daily market price and has remained in the low Central European price band.

A tariff price analysis made comparing the current group of 25 EU countries, reveals that Spanish prices are on the average band. Even counting the average increase of the electricity tariff, which started coming into effect at the beginning of 2006, prices of electricity in Spain for residential consumers continue to be the lowest out of the former group of 15 EU countries, except for Greece.

On 26 May, 2007 the Royal Decree 661/2007 was published which establishes the new regulation of the special regime. This Decree, that was approved after a long period of discussion between the Government and companies, introduces a stable framework and sets the basis for future development of renewable energy in terms of competition and profitability. It is framed within the commitment of the Spanish Government to incentivise investment in renewable energy in Spain. It also aims to realise the objectives set out in the Renewable Energy Plan 2005-2010 and the commitments at the European level. With the development of such sources of energy, renewable energy in Spain will cover 30 per cent. of the energy demand by 2010 and will prevent the emission of 27 million tonnes of CO<sub>2</sub>.

Under the new regulation, power facilities will be able to opt for a fixed feed-in tariff or to participate in the market, receiving in this case the price traded on the market plus a premium, and subjected to a cap and floor on final prices.

### **2.1.2.3. Generation**

HC Energía's installed capacity represents 5.2 per cent. of Spain's mainland generation capacity, or 6.4 per cent., excluding special regime facilities.

In 2006, HC Energía had a total installed capacity of 2,595 MW in the ordinary regime, approximately 61.8 per cent. of which are coal-fired facilities, 15.1 per cent. a CCGT facility, and 16.7 per cent. hydroelectric facilities. HC Energía also holds a 15.5 per cent. interest in Central Nuclear Trillo I, A.I.E., which owns the Trillo nuclear power plant, corresponding to 156 MW of the plant's total installed capacity of 1,066 MW. Additionally HC Energía also has 523 MW of special regime other than wind power, 24 per cent. co-generation facilities, 65.6 per cent. waste to energy facilities and 9.9 per cent. biomass and mini-hydroelectric.

In May 2004, HC Energía and EDP created Neo Energía, a society for the development of renewable energies. Under this holding company EDP has concentrated its Iberian subsidiaries which produce renewable energy, i.e., Enernova – Nova Energias, S.A., the Portuguese renewable energy company of EDP's Group, and Generaciones Especiales I, S.L., the Spanish renewable energy company of EDP's Group. In June 2007, Neo Energía has 1,817 MW of wind power capacity installed in the Iberian Peninsula (Spain: 1,485 MW and Portugal: 332 MW) and is also present with 75 MW in France.

### **2.1.2.4. Distribution and supply**

HC Energía has a network infrastructure that covers the regions of Asturias (accounting for the vast majority of its network), Valencia, Madrid and Alicante, totaling 20,592 km. Electricity distributed in 2006 through HC Energía's own network amounted to 9,550 GWh, a 10.3 per cent. increase from 2003 levels. As at 31 December 2006, HC Energía's distribution business had 603,181 customers out of a total of 24,016,207 consumers, according to the *Comisión Nacional de Energía*, representing a 7.5 per cent. increase from 2003, a 5.0 per cent increase from 2004 and a 3.1 per cent. increase from 2005. Since 1 January 2003, every consumer in HC Energía's market can elect to be supplied by non-regulated suppliers.

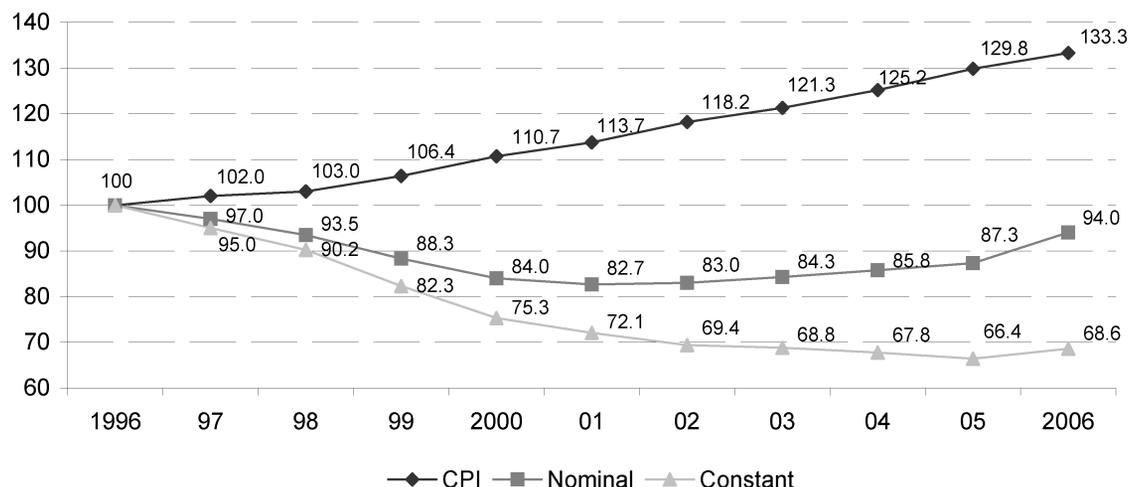
### **2.1.2.5. Electricity tariffs**

At the beginning of each year, the Spanish government sets both the access and final tariffs. In December 2002, it established a new calculation method for the 2003-2010 period, which allows tariffs to be fixed under more objective, transparent and predictable conditions. Under this calculation method electricity companies may recover the losses (known as “*deficit tarifarios*” or “rate deficits”) caused by the reduction of tariffs during previous years. During the last two years the Spanish government has extensively amended the tariff structure and calculation methods. The aim of these amendments is the improvement of the competitiveness of the electricity market and the quality of the electricity supply services. Royal Decree 1634/2006 of 29 December has amended the tariff structure with new types of tariffs that depend on the consumption and hourly periods (day-night). The Royal Decree has not fixed an average tariff (or reference tariff) for 2007. The tariffs for 2007 were updated on July 2007 and then every three-month period. The cumulative rate of reduction in nominal terms for all Spanish customers from 1996-2007 was – 3.6 per cent. in nominal terms and – 29.6 per cent. in real terms. The fixed tariff for 2007 increased by an average of 4.3 per cent. on the 2006 average tariff or reference tariff, which includes all applicable tariffs and costs.

The electricity tariff from 1 January 2007 is established by the Royal Decree 1634/2006 of 29 December (BOE 30/12/2006). The average increase in tariffs approved in 2007 is 4.3 per cent. The electricity tariff for domestic consumers has risen an average of 2.8 per cent., the tariffs for small industrial companies and the service sector connected to low voltage supply has risen 4.3 per cent., while the rise for industrial companies and the service sector connected to high voltage supply has increased from 5.4 per cent. to 9 per cent. with an average of 6.5 per cent. The average access tariffs for consumers who acquire power in the market has been reduced by 10 per cent. This new framework is intended to

advance the liberalisation process. The objective for the end of 2007, is that 50 per cent. will be in the open market, especially among the high voltage consumers.

The figure below shows the evolution of electricity tariff prices and CPI in Spain since 1996. Tariff prices decreased (in constant terms) until 2005, but since 2006 have increased more than CPI.



Under some of the provisions of the new regulatory scheme, electricity transmission and distribution activities will continue to be regulated since their particular characteristics impose severe limitations on the possibility of introducing competition. However, the new regulatory framework changed the manner in which electricity businesses receive payments, in order to promote efficiency and quality of service. The regulations take into account the investment and operational costs related to transmission activities. Fixed remuneration for distribution is based on investment, operational and maintenance costs. They also take distribution areas, incentives for supply quality, loss reduction and commercial management costs into account.

#### 2.1.2.6. Gas

In March 2003, Hidrocarburo won the auction privatisation process that led to its acquisition of 62 per cent. of Naturgas. Subsequently, Naturgas reorganised its gas holdings, as a result of which Hidrocarburo's ownership of Naturgas decreased from 62 per cent. to 56.18 per cent. As a result of the reorganisation of Naturgas, Hidrocarburo has become the second largest gas company in the Spanish market, with more than 641,000 customers.

Gas invoiced in 2006 to the regulated market amounted to 19,713 GWh, representing a 10.6 per cent. decrease from 22,059 GWh in 2004 and a 8.5 per cent. decrease from 21,547 GWh in 2005. Additionally, the volume of gas distributed in the free market (in which EDP provide third-party access to EDP's network) reached 13,755 GWh. The total number of gas consumers that are connected to Hidrocarburo's distribution network increased from 577,802 in 2004 to 599,904 in 2005 and to 641,336 in 2006, representing, in this latest year, approximately 10 per cent. of the 6,411,033 total number of consumers in Spain, according to the *Comisión Nacional de Energía*.

## 2.2. BRAZIL

### 2.2.1. Overview of Brazilian Market

In December 2006, the total installed electricity generation capacity in Brazil was 99,948 MW, according to the Brazilian National Electric Power Agency (*Agência Nacional de Energia Elétrica*), ("ANEEL"). In 2006, the Ministry of Mines and Energy (*Ministério de Minas e Energia*) ("MME"), approved a ten-year expansion plan under which Brazil's total installed electricity generation capacity is projected to increase to 134,667 MW by 2015, of which 73 per cent. will be from hydroelectric sources,

15 per cent. from thermoelectric plants (fossil fuels and biomass) and the remainder from small hydro plants and other renewables (4 per cent.), nuclear (2 per cent.) and imports (6 per cent.).

Approximately 40 per cent. of the installed electricity generation capacity within Brazil is currently owned by Eletrobrás, a company controlled by the Brazilian government. Through its subsidiaries, Eletrobrás is also responsible for 65 per cent. of the installed transmission capacity above 230 kV. In addition, some Brazilian states control entities involved in the generation, transmission and distribution of electricity. They include, among others, the Companhia Energética de São Paulo (“CESP”), the Companhia Paranaense de Energia (“COPEL”) and the Companhia Energética de Minas Gerais (“CEMIG”).

In 2006, total electricity consumption in Brazil reached 347,371 GWh, exceeding 2005 figures by 3.8 per cent. and growth of Brazil’s GDP for the same period, which was 3.7 per cent. Growth in electricity consumption is expected to remain consistent with Brazil’s overall economic performance in the coming years.

### **2.2.2. Regulation**

The MME is the Brazilian government’s primary regulator of the power industry, acting as the granting authority on behalf of the Brazilian government and empowered with policymaking, regulatory and supervisory capacity. Following the adoption of the New Electricity Law, the Brazilian government, acting primarily through MME, undertook certain duties that were previously the responsibility of ANEEL, including granting concessions and issuing directives governing the bidding process for concessions relating to public services. The Brazilian power industry is regulated by ANEEL. Since the enactment of the New Electricity Law, ANEEL’s primary responsibility has become to regulate and supervise the power industry pursuant to the policies adopted by the MME.

The New Electricity Law introduced material changes to the regulation of the Brazilian power industry, in order to provide incentives to private and public entities to build and maintain the country’s generation capacity and assure the supply of electricity within Brazil at low tariffs through competitive electricity public auctions. The key features of the New Electricity Law include:

- the creation of a parallel environment for the trading of electricity, with one market for the purchase of electricity destined for distribution companies, called the regulated contracting market, operated through electricity purchase auctions and another market with more flexible trading rules, for the generators, free consumers and electricity trading companies, called the free contracting market;
- a requirement that distribution companies purchase electricity sufficient to satisfy 100 per cent. of demand;
- the creation of an electricity reserve for all electricity traded through contracts;
- restrictions on certain activities of electricity distribution companies to ensure that they focus only on their core business, to guarantee more efficient and reliable services to their customers;
- restrictions on self-dealing to encourage electricity distribution companies to purchase electricity at lower prices rather than buying electricity from related parties;
- continued compliance with contracts executed prior to the New Electricity Law, in order to provide stability to transactions carried out before its enactment;
- a prohibition on sales of electricity by distributors to free consumers at non-regulated prices; and
- a prohibition on distributors’ engaging directly in electricity generation and transmission operations.

### **2.2.3. Generation**

The electricity EDP generates in Brazil is all hydroelectric energy. The electricity generated is transmitted through EDP’s own systems or by third parties to the electricity distribution companies that distribute the electricity to end users. EDP’s generation companies sell the electricity they generate to electricity traders or distributors under long-term contracts, as determined by ANEEL. EDP’s generation

assets had a total generation capacity of 1,018 MW at December 2006. The volume of electricity sold by EDP's generation companies in 2006 totalled 4,747 GWh, an increase of 101.9 per cent. compared to the 2,352 GWh generated in 2005.

#### **2.2.4. Distribution**

Electricity distribution is our main activity in Brazil, representing, in 2006, 81.9 per cent. of our total net revenues (before intercompany eliminations) in 2006 in Brazil. In 2006, our Brazilian electricity distribution companies served more than 3.1 million customers and distributed 23,948 GWh, 3.8 per cent. higher than the 23,061 GWh distributed in 2005.

Electricity distribution services are provided to a market that is divided into captive customers, who acquire electricity provided by the distributor and pay for their use of the network, and network service customers, who choose a different electricity supplier and pay the distributor only for the use of the distribution network.

##### **Bandeirante**

Energias do Brasil currently owns 100 per cent. of Bandeirante, a distribution company in the Brazilian state of São Paulo that, in 2006, had approximately 1.3 million customers and served a population of approximately 4.4 million. Bandeirante's concession area is located in a region characterised by a high concentration of industry and a strong business presence. Bandeirante's gross profits represented 42 per cent. of the total gross profits of our Brazilian electricity distribution companies in 2006.

##### **Escelsa**

Energias do Brasil currently owns 100 per cent. of Escelsa, a distribution company in the state of Espírito Santo that, in 2006, had more than one million customers and served a population of approximately 3.2 million in an area that covers approximately 90 per cent. of the total area of the state. Escelsa's gross profits represented 29 per cent. of the total gross profits of our Brazilian electricity distribution companies in 2006.

##### **Enersul**

Energias do Brasil holds 100 per cent. of Enersul, a distribution company in the state of Mato Grosso do Sul that, in 2006, had approximately 690,000 customers and served a population of approximately 2.1 million in an area that covers approximately 92 per cent. of the total area of the state. Enersul's gross profits represented 29 per cent. of the total gross profits of our Brazilian electricity distribution companies in 2006.

#### **2.2.4.1. Distribution tariffs**

##### **The tariff mechanisms**

Electricity distribution companies operate with regulated tariffs, and their operating results are therefore subject to regulatory acts. Their concession contracts contain provisions for periodic and annual tariff adjustments and the possibility of extraordinary tariff revisions.

##### **Periodic tariff revisions**

To calculate periodic tariff revisions, ANEEL determines the revenue required for an electricity distribution company to cover what we refer to as Portion A and B costs. Portion A costs consist of a distribution company's costs of purchasing electricity to supply its consumers as well as the relevant tariff charges, whereas Portion B costs consist of the company's operating costs, taxes, depreciation and return on investment.

Because our electricity distribution companies' required revenue is calculated on an annual basis, we must establish a revenue flow that is compatible with the economic costs of providing electricity distribution service for the 12-month period following the date of the rate revision. If the estimated required revenue for the year under analysis, which we refer to as the test year, is different from the

actual revenue of the concessionaire for that year, calculated based on existing tariffs, our tariffs are revised in order to reconcile the required revenue with the actual revenue.

Periodic tariff revisions are conducted every three years for Escelsa, every four years for Bandeirante and every five years for Enersul.

### **Tariff adjustments**

Because electricity distribution companies' revenues are affected by inflation, they are afforded an annual tariff adjustment to address the impact of inflation in the period between periodic revisions. For purposes of the annual adjustment, a tariff adjustment rate (referred to as the Tariff Adjustment Index) is applied, through which Portion A costs are adjusted to account for variations in costs, and Portion B costs are adjusted to account for variations in the "IGP-M" inflation index. For Portion B, the tariff adjustment rate also takes into account a measure of the distributor's operating efficiency, which we refer to as the X factor.

### **2.2.5. Trading**

Our electricity trading activities are conducted by Enertrade, a wholly owned subsidiary of Energias do Brasil, which acquires new customers not only by seeking out the customers of our distribution companies who wish to migrate to the free market, but also by seeking potentially free consumers outside our distribution concession areas. In 2006, Enertrade traded electricity with our companies and in the free market. The volume of electricity sold by Enertrade in 2006 totalled 6,702 GWh, including transactions with related parties, representing an increase of 5.1 per cent. over the 6,379 GWh sold in 2005.

## **2.3. UNITED STATES OF AMERICA**

### **2.3.1. Overview**

On 27 March, 2007 EDP entered into an agreement to acquire 100 per cent. of the share capital of Horizon Wind Energy LLC ("Horizon"), a leading developer, owner and operator of wind power generation in the United States, from The Goldman Sachs Group, Inc. The acquisition was concluded on 2 July, 2007 pursuant to the obtaining of the relevant regulatory and administrative authorisations.

The transaction valued the equity of Horizon at USD 2,150 million. Horizon's net financial debt as of 31 December, 2006 was USD 180 million. The final price of the transaction was set at an enterprise value of USD 2,740 million for Horizon, already including the capital expenditures supported by Goldman Sachs between the end of 2006 and 2 July, 2007.

The acquisition was funded by debt raised at EDP and proceeds from a tax equity partner. The financing was provided through a syndicated loan of USD 3,000 million contracted at the EDP level, split into a USD 1,500 million tranche with a one year maturity (with an option to extend it for another year) and another USD 1,500 million tranche with a seven year maturity. This syndicated loan was led by Barclays Capital and Citigroup.

The acquisition of Horizon constitutes a natural fit with EDP's strategy, as it: (i) accelerates the implementation of the strategic guidelines defined in the 2007-2010 plan; (ii) enhances EDP's global position in renewable generation; (iii) provides entry into the high growth U.S. market with a leading position; and (iv) diversifies EDP's income sources, reducing portfolio risk.

The combined entity resulting from the acquisition will be a leading global renewable energy company, with over 3,800 MW gross of wind power generation expected to be in operation by the end of 2007.

### **2.3.2. Renewable energy generation**

The U.S. wind market is expected to be one of the fastest growing markets in the next four to five years (13.2 GW of additional capacity), and has the potential to become the largest in the world (up to 80 GW of installed capacity by 2020). The attractive economics and significant growth potential are currently largely driven by the following government initiatives:

- Renewable Portfolio Standards (“RPS”), which set targets for renewable energy at the state-level;
- Production Tax Credits (“PTCs”), which work as subsidies granted by the Federal Government for ten years; and
- Accelerated depreciation (“MACRS”), which stimulate capital investments

Since it was founded in 1999, Horizon has been one of the most successful wind developers in the United States, largely because of its highly experienced team and a strong reputation for working closely with landowners, communities and customers. As of June 2007, Horizon owned 837 MW gross of operating wind projects and had 720 MW of projects under construction, for expected operational capacity by the end of 2007 of 1,556 gross MW (1,324 net MW). Horizon also has a strong pipeline of projects in several stages of development in 15 different states across the country, with combined aggregate generating potential of over 9,000 MW. The assets of Horizon represent a high quality portfolio, namely through a presence in highly liquid and diversified energy markets, a strong footprint in the main RPS states, and high wind resource sites (the average load factor for the projects in operation and under construction is 37.5 per cent.).

## 2.4. OTHER ACTIVITIES

EDP is involved in the information technology sector through Edinfor – Sistemas Informáticos, S.A., (“Edinfor”), which owns 100 per cent. of ACE – Holding SGPS, S.A. (“ACE”). ACE owns 100 per cent. of CASE – Conceção e Arquitectura de Soluções Informáticas Estruturadas, S.A., (“CASE”). CASE provides consulting and information systems services to EDP and to third parties. Following EDP’s sale of 60 per cent. of Edinfor to LogicaCMG Corporate Holdings Limited, (“LogicaCMG”), in April 2005, EDP currently owns 40 per cent. of Edinfor. As a result of this sale a partnership was established with LogicaCMG, pursuant to which EDP will be able to maintain the availability and security of key systems and enhance Edinfor’s growth potential. Under the terms of this sale, EDP may have the option to sell its remaining 40 per cent. interest in Edinfor to LogicaCMG from April 2007.

Since 31 January, 2007, EDP has divested from its telecommunications and related activities, which used to be conducted by ONI, SGPS, S.A. (“ONI”). Pursuant to a shares purchase and sale agreement entered into on 9 November 2006 with Winreason, S.A., a Portuguese subsidiary of the Riverside Company, and Gestmin, SGPS, S.A., a holding company controlled by a private investor, EDP has sold the entire share capital of ONI.

EDP also has financial interests in energy and non-energy related assets located in Macau (China), in which it holds 21.19 per cent. of Companhia de Electricidade de Macau and in Guatemala, in which it holds 21 per cent. of DECA – Distribution Eléctrica Centroamerica S.A.

## 3. STRATEGY

### 3.1. Overview

EDP’s strategic guidelines presented by the new management team in July 2006 are based on three pillars:

- Controlled risk:** EDP intends to preserve the low risk profile of its business portfolio, essentially through an active management of the regulatory agenda in the market where the company is present and the development of risk hedging policies in the market related operations, the latter through the development of the retail supply business as a natural hedge to our presence in merchant electricity generation and a conservative hedging policy of our fuel procurement needs (essentially coal, gas and CO<sub>2</sub>).
- Superior efficiency:** EDP intends to be a reference among its peers in terms of efficiency levels, in order to preserve our competitiveness. As a result, EDP has launched a company-wide cost efficiency program which targets the achievement of annual cost saving of €150m in the 2006-2010 period. In terms of efficiency of capital allocation, EDP presented a program of its disposals of non-core assets, namely telecoms, electricity transmission and real estate assets, allowing the total focus of the company over its core operations, and is

implementing tighter discipline on capex fostering internal competition for financial resources.

- c) **Focused growth:** EDP has an ambitious 2007-2010 capex program of €11.1 billion (after the Horizon acquisition) in which more than 60 per cent. is allocated to the construction of new wind power plants in Europe and the United States, and Hydro plants in Portugal and Brazil. Around 67 per cent. of this programme is related to expansion capital expenditures and around 76 per cent. of this programme is related to activities regulated or with low exposure to energy markets.

Through the controlled risk and superior efficiency approach, EDP intends to preserve a sustained growth of free cash flow generation of its existing operations while EDP's focused growth policy should assure the reinvestment of generated cash flows in (i) areas in which EDP has proven capabilities, (ii) at attractive internal rates of return, and (iii) in efficient and CO<sub>2</sub> emissions free electricity generation assets. Overall, the objective of EDP's strategic plan is to provide a combination of low risk and high growth investment profile to our shareholders.

### **3.2. Controlled risk**

EDP is currently facing an increasingly challenging environment where: (i) increasing competition arises from higher liberalisation levels both in Portugal and in Spain; (ii) expected capacity additions could lead to some overcapacity in the Iberian market in the short term while demand and supply should balance in the medium term; (iii) the allocation of free CO<sub>2</sub> allowances is being reduced for the electricity industry; and (iv) competition between Coal and CCGT for working hours depend on dark and spark spread. The company prepared itself to face such environmental conditions. On the liberalised generation side, current strategy is focused on taking advantage of the company's highly efficient and competitive coal assets and on managing proactively its CO<sub>2</sub> needs. Investment plans are centered on hydro capacity, to maintain a significant weight on CO<sub>2</sub> emissions free hydro generation, and CCGT to enable a diversification of the generation mix and a better balance of gas to coal mix with the market, while reducing CO<sub>2</sub> emissions per GWh. On the supply side, EDP developed a profitable supply strategy in an increasingly liberalised market through the capture of clients at profitable pricing conditions and when possible hedging market risks. EDP considers that in an increasingly liberalised market, a sound relationship with our liberalised clients will be a key competitive advantage.

### **3.3. Superior efficiency**

As a way of further increasing the efficiency of its operations, EDP launched a new programme to reduce operating costs in the Iberian Peninsula and Brazil with the goal of achieving international best practice standards, and minimise the impact of tariff reductions in the current regulatory period on operating margins of its electricity distribution businesses. The programme is expected to enable annual savings of some €150 million by 2010, the main levers being headcount reduction, both in Brazil and in the Iberian Peninsula, optimisation of the plant maintenance model and increased Iberian integration on technical services at our generation business, a new procurement model and process redesign at our distribution business, and an optimisation of our IT infrastructure maintenance and outsourcing costs.

### **3.4. Focused growth**

#### **3.4.1. Tighter discipline on capital expenditures fostering internal competition for resources**

EDP has been making considerable efforts to optimise capital allocation in its core business. EDP's operating investment is focused on core business with a tight control over returns, associated risks, execution and payback levels. Most of EDP group's operating investment is to be allocated to low-risk regulated businesses and new capacity (wind, hydro and CCGTs). In addition, in an increasingly competitive environment, EDP is taking steps to continue improving the quality of service through cost-conscious investment in technical and commercial infrastructure, particularly in the areas of electricity distribution and supply. EDP targets an average ratio of interest rate of return to weighted average cost of capital in excess of 1.4x for its consolidated capital expenditures programme.

### **3.4.2. Growth in renewables: Focus on wind power in Europe and the United States**

Renewable energies, and in particular wind power, are expected to be the main growth driver for EDP in the 2007-2010 period, focusing on pipeline delivery and further build-up in existing markets (Spain, US, Portugal, France and Belgium) and eventual expansion to neighborhood markets such as Eastern Europe and Latin America, under attractive markets condition in terms of growth potential and regulatory framework. In Europe, in addition to being one of the major players in the Iberian market for renewable energies, EDP is also present in France and Belgium and the company's wind gross installed capacity is expected to increase almost threefold until 2010 to some 4,200 MW. Recently, EDP has also entered into the North American market through the acquisition of Horizon. This acquisition has consolidated EDP's leadership position as a global player in renewable energies and enabled the development of a strong growth platform in the United States. EDP group expects to have approximately 3,400 MW of gross wind installed capacity in the United States by the end of 2010.

EDP considers that the current framework for wind power, both in Europe and United States provides favorable returns and stability and enables a diversification of the regulatory risk of EDP's business portfolio.

In addition to wind power, EDP Group is building competitive advantage positions in new renewable technologies, namely biomass, solar and waves technology. In biomass, EDP Group has a 50/50 joint-venture with Altri – the second major forestry owner and wood purchaser in Portugal – and expects to have some 115 MW of gross installed capacity in Portugal by the end of 2010. As for solar and waves technologies, EDP is expecting to have some 50 MW of solar capacity in operation by 2010 and, in what concerns waves technology, EDP is involved in a research and development project of Breakwave technology.

### **3.4.3. Brazil**

EDP considers that Brazil has strong fundamentals for investment in the energy sector based on a fast growth of demand, reduction of system reserve margin, which should support incentives to the construction of additional generation capacity to prevent a future rationing. EDP considers that Brazil regulatory framework has improved significantly over the last years, supporting the company's intention of reinforcing investments in the electricity sector in this country.

EDP's operations in Brazil are managed locally through our listed subsidiary Energias do Brasil. EDP's Brazilian operations are fully funded locally and local debt is non recourse to the mother company. In Brazil, EDP intends to focus on the improvement of efficiency of the electricity distribution activities, providing an adequate remuneration of capital employed, through initiatives such as electricity losses programme and analysis of the feasibility of shared services, through an integrated management of the three distribution subsidiaries Bandeirante, Escelsa and Enersul. Energias do Brasil, intends to reinvest the free cash flow generated by our electricity distribution activities in expansion investments in generation, namely mini-hydro plants, large/mid –sized hydro plants and coal thermal. Mini-hydro plants have increased its importance due to its shorter construction period and a lighter environmental licensing process and coal thermal plants are seen as an alternative if Brazil has a suddenly need of installed capacity. These increases can be provided by auctions or acquisitions and will only be done at attractive internal rates of return and if shareholder value is preserved. In order to reinforce its presence in Brazil, EDP is open to participate in consolidation moves in the market, but without losing the operating control of its electricity business in Brazil.

## **4. BUSINESS OPERATIONS**

EDP Group's 2006 operating revenues amounted to a total of €10,349.8 million, approximately 86.8 per cent. of which derived mainly from electricity sales, yielding operating income of €1,253 million. As at 31 December 2006, EDP Group's total assets were €25,468.9 million, and shareholders' equity was €6,534.9 million. The EDP Group had 13,443 employees as at 31 December 2006.

### **4.1. PORTUGAL (Electricity and gas)**

Historically, electricity has been EDP's core business. As the largest generator, distributor and supplier of electricity in Portugal, the EDP Group currently holds the leading position in the Portuguese

domestic electricity market, as per data made available by ERSE at its website ([www.erse.pt](http://www.erse.pt)). According to such data, in 2006, the EDP Group accounted for approximately 82.5 per cent. of the installed generation capacity, 99.66 per cent. of the distribution and 56 per cent. of supply in the National Electricity System. The Portuguese electricity business accounted for 57.7 per cent. of EDP Group's EBITDA, with 65.5 per cent. emerging from generation activities and the remainder 34.5 per cent. from distribution and supply activities.

#### **4.1.1. Generation**

In 2006, EDP Group's generating facilities in Portugal had a total maximum capacity of 9,078 MW, approximately 47.8 per cent. of which was represented by hydroelectric facilities, 31.8 per cent. by fuel oil/natural gas facilities, 13.1 per cent. by coal-fired facilities, 1.8 per cent. by gas oil facilities and 5.4 per cent. by wind-driven, cogeneration and biomass facilities. The EDP Group does not own or operate any nuclear-powered facilities in Portugal.

#### **4.1.2. Distribution**

In its distribution function, EDP Distribuição carries out approximately 99.66 per cent. of Portugal's local electricity distribution. In 2006, EDP Distribuição provided more than 5,987 million customers with 45,414 GWh of electricity.

In 2006, Portuguese distribution revenues amounted to €4,289 million, accounting for 41.4 per cent. of EDP Group's consolidated revenues.

The most significant increase in sales has been to low-voltage customers (typically residential and services), to whom sales increased from €2,080 million in 2000 to €2,572 million in 2006. Recent growth in revenue from electricity sales was mainly due to expansion in consumption and average tariff increases set by the regulator of 2.3 per cent. in 2005 and 5.1 per cent. in 2006.

#### **4.1.3. Supply**

EDP supplies electricity to clients in the liberalised market through its wholly owned subsidiary, EDP Comercial. In December 2006, the total number of clients in the liberalised market supplied by EDP Comercial was 22,586. EDP Comercial supplied 4,037 GWh of electricity in 2006, compared to 6,314 GWh of electricity supply in 2005. Total sales were €326.7 million in 2006, compared with sales of €525 million in 2005. The energy sold by EDP Comercial represents 56 per cent. of the total energy sold in liberalised market in Portugal in 2006.

#### **4.1.4. Gas**

As at 31 December 2006, Portgás and Setgás had approximately 163,390 customers and 118,399 customers, respectively, constituting estimated market shares of 17 per cent. and 12 per cent., respectively. Total revenues in 2006 for Portgás and Setgás were €96.2 million and €31.8 million, respectively.

### **4.2. SPAIN (Electricity and gas)**

In 2006, electricity activity revenues in Spain from HC Energias – Hidroeléctrica del Cantábrico, S.A. amounted to €2,258.6 million, accounting for 21.8 per cent. of EDP Group's consolidated revenues. EBITDA totalled €428 million, and amounted to 18.4 per cent. of EDP Group's consolidated EBITDA.

#### **4.2.1. Generation**

Net generation in the ordinary regime was 13,584 GWh in 2006, which represented a decrease of 11.6 per cent. from 15,372 GWh in 2005 (out of a total generation in the Spanish market in 2006 of approximately 206.7 TWh, according to Red Eléctrica Española).

In the special regime, renewable energy net generation amounted to 1,770 GWh in 2006, representing an increase of 193 per cent. from 2005 which resulted from the additional capacity that was brought on stream and from the increase in the number of equivalent service hours of NEO's wind farms. Additionally, cogeneration totalled 131 GWh in 2006, reducing from 210 GWh in 2005.

#### **4.2.2. Distribution**

Electricity distributed in 2006 through Hidrocantábrico's own network amounted to 9,550 GWh, a 3.3 per cent. increase from 2005 levels. As at 31 December, 2006, Hidrocantábrico's distribution business had 603,181 customers out of a total number of consumers of 24,016,207, according to the *Comisión Nacional de Energía*. This represents a 3.1 per cent. increase from 2005.

#### **4.2.3. Supply**

The electricity supply activity performed by HC Energía and Naturgás includes the supply of electricity to qualified consumers.

In December 2006, the total number of clients in free market supplied by HC Energía and Naturgás was 62,173. HC Energía and Naturgás invoiced 6,671 GWh of electricity supply in 2006, compared to 5,926 GWh of electricity supply in 2005. Total sales were €538.3 million in 2006, compared with sales of €354.5 million in 2005. The energy sold by HidroCantábrico represents 10 per cent. of the total energy sold on the liberalised market in Spain in 2006.

#### **4.2.4. Gas**

Hidrocantábrico's gas distribution activities revenues of €1,032.2 million in 2006 compared with €668.4 million in 2005. In 2006, Hidrocantábrico had 10 per cent. of the gas consumers in the Iberian Peninsula (according to the *Comisión Nacional de Energía* there were approximately 6.4 million consumers in Spain in 2006).

### **4.3. BRAZIL**

EDP operations in Brazil consist of generation and distribution of electricity and related activities. In 2006, Brazilian operations contributed with 18.6 per cent. (€1,922.9 million) to EDP Group's consolidated revenues and 19.1 per cent. (€440.6 million) of the Group's EBITDA. EDP distribution companies in Brazil (Bandeirante, Escelsa and Enersul) served more than 3.1 million customers and distributed 23,948 GWh in 2006, while the Group's Brazilian generating facilities had a maximum total capacity of 1,018 MW, composed of hydroelectric power plants.

### **4.4. UNITED STATES OF AMERICA**

Horizon's wind energy generation activities revenues of \$23.8 million in 2006 compared with \$4.1 million in 2005. In 2006, Horizon had 480 per cent. increase due to the addition of 312 MW in operation.

### **4.5. OTHER ACTIVITIES**

Since 31 January, 2007, EDP no longer develops telecommunications and related activities, which used to be developed by former subsidiary of EDP, ONI, SGPS, S.A. ("ONI"). EDP sold the entire share capital of ONI in a share purchase and sale agreement entered into on 9 November 2006 with Winreason, S.A., a Portuguese subsidiary of the Riverside Company, and Gestmin, SGPS, S.A., a holding company controlled by a private investor.

In 2006, ONI had revenues of €164.1 million, of which €4.5 million was generated from services provided to the EDP Group, and an operating loss of €38.0 million compared with revenues of €278.4 million in 2005, of which €5.5 million was generated from services provided to the EDP Group, and an operating loss of €61.8 million.

EDP currently owns 40 per cent. of Edinfor, as a result of the sale of a 60 per cent. stake to LogicaCMG. Under the terms of this sale, EDP has the option to sell its remaining 40 per cent. interest in Edinfor to LogicaCMG from April 2007.

In 2006, Edinfor had revenues of €18.8 million and an operating gain of €4.6 million compared with, in 2005, revenues of €278.4 million, of which €5.5 million was generated from services provided to the EDP Group, and an operating loss of €61.8 million.

## 5. MANAGEMENT AND SUPERVISION CORPORATE BODIES

### 5.1. New corporate governance model

The General Shareholders Meeting held on 30 March 2006 approved a new corporate governance model for EDP, which has become applicable from 30 June 2006. This new corporate governance model is structured as a two-tier system composed of an Executive Board of Directors and a General and Supervisory Board and has replaced the former one-tier system composed of a Board of Directors and an Executive Committee.

The Executive Board of Directors is the managing body of the Company with responsibility for the definition of the Company's strategy and for its management. This Board must be composed of a minimum of five and a maximum of seven directors, all of which are executive directors. For the current mandate of 2006-2008, the Executive Board of Directors is composed of seven directors, who were elected by the shareholders.

The General and Supervisory Board is a supervisory and consulting body, which is responsible, among other things, for supervising the Company's activities and providing its confirmatory opinion in relation to significant and strategic transactions involving the Company. It must be composed of a number of members not lower than nine and always higher than the number of directors, all such members exercising non-executive functions. For the current mandate of 2006-2008, the General and Supervisory Board is composed of 15 members, who were elected by the shareholders.

### 5.2. Executive Board of Directors

The Executive Board of Directors, together with the executive officers of EDP manages EDP's affairs and monitors the daily operation of the activities of EDP in accordance with Portuguese law and EDP's Articles of Association. Executive officers are in charge of various administrative departments of EDP and report directly to the Executive Board of Directors of EDP. The operating companies within the EDP Group are managed by their respective Boards of Directors. The members of the Executive Board of Directors of EDP, their principal current and past affiliations and certain other information are set forth below:

Name	Age	Position	Year originally elected
António Luís Guerra Nunes Mexia	50	Chief Executive Officer	2006
Ana Maria Machado Fernandes	44	Executive Director	2006
António Martins da Costa	52	Executive Director	2006
António Manuel Barreto Pita de Abreu	57	Executive Director	2006
João Manuel Manso Neto	49	Executive Director	2006
Jorge Manuel Pragana da Cruz Morais	49	Executive Director	2006
Nuno Maria Pestana de Almeida Alves	49	Chief Financial Officer	2006

*Mr. António Luís Guerra Nunes Mexia* was appointed EDP's Chief Executive Officer in March 2006. Between July 2004 and March 2005, he served as Minister of Public Works, Transportation and Communications of Portugal's 16th Constitutional Government. Mr. António Mexia was CEO of GALP between 2001 and 2004 and Chairman and CEO of Gas de Portugal and of Transgás between 1998 and 2001. In 1990, he joined Banco ESSI, the investment bank of the Espírito Santo group, and served as a member of the Executive Board of Directors in charge of the equity capital markets and project finance divisions until 1998. Previously, he was Vice-Chairman of ICEP, the Portuguese board of external trade and foreign investment between 1988 and 1990 and Assistant to the Secretary of State for Foreign Trade between 1986 and 1988. Mr. Mexia holds a degree in Economics (1980) from the University of Geneva. During his career, he has acted as a Professor in Economics at University of Geneva, Lisbon's Universidade Católica Portuguesa and Universidade Nova de Lisboa.

*Mrs. Ana Maria Machado Fernandes* was appointed to EDP's executive board of directors in March 2006. Previously she was a board member of GALP (2004-2005), responsible for strategy, portfolio management, sustainable development; Chairman and CEO of Galp Power (2002-2005) in charge of

launching the electrical business within GALP as a new business; a non-executive board member of Transgás (2001-2002); director of strategy and portfolio management at GALP; and Director of Strategy and Planning at Gás de Portugal. From 1995 until 1998, Mrs. Fernandes was a board member of several companies of Banco de Fomento e Exterior, and, after it was acquired by Banco Português de Investimento, she assumed responsibilities at the corporate finance department as leader of an investment banking team and director of the bank. From 1989 until 1994 she was a senior financial analyst and director at Efisa – Sociedade de Investimento, S.A., the Portuguese arm of SG Warburg, later Banco Efisa. From 1986 until 1990, Mrs. Fernandes was a teacher at the economy faculty of Universidade do Porto and Universidade Portucalense, secretary general at the Portuguese Association of the Tanning Industry and a financial analyst at Banco Português do Atlântico (currently absorbed by BCP). Mrs. Fernandes holds a degree in economics and a post-graduate degree in international finance both from the economy faculty at Universidade do Porto. She has an MBA from Universidade do Porto/Universidade Nova de Lisboa.

*Mr. António Martins da Costa* was appointed to EDP's executive board of directors in March 2006. He is also the CEO and Vice-Chairman of the board of directors of Energias do Brasil and Chairman of the board of directors of its subsidiaries in Brazil. He started his professional career in 1976 as a lecturer at the Superior Engineering Institute of Porto, joined EDP in 1981 and in 1989 moved to the financial sector, assuming the position of General Manager and Executive Board Member of insurance companies, pension funds and asset management operations of BCP and director of Eureka BC (Holland). Since 1999, he was also deputy CEO and vice-president of the executive board of PZU (Poland), the biggest insurance company and asset manager in Central and Eastern Europe. He holds a degree in Civil Engineering and an MBA from the University of Oporto, and has completed executive education studies at INSEAD (Fontainebleau), AESE (University of Navarra) and the AMP of the Wharton School (University of Pennsylvania).

*Mr. António Manuel Barreto Pita de Abreu* was appointed to EDP's executive board of directors in March 2006. He is also Chairman of Edinfor and of EDP Powerline and a member of the board of HidroCantábrico, EDP Serviner, EDP – Estudos e Consultoria, CEM – Companhia de Electricidade de Macau and of EDA—Electricidade dos Açores. Previously at EDP he was a member of the board of directors (Executive Director from 2000-2003), general manager (2003-2006), general secretary, company secretary, Chairman of EDPP, EDPD, REN (2000), CPPE, TER, TERGEN and EDP Cogeração, Onitelecom (1998-2000), Oni Açores, Onisolutions (1999-2000), Edinet (1997-1999), ACE, MRH (2000-2001), Sãvida (2000-2001), ENAGAS and NQF Gás, a member of the board of Optep (1997-1998), NQF PTE and NQF Energia, 093x (2000-2002), Vice President of Turbogás, S.A., executive director of REN (1994-1997), a director of DORE-Direcção Operacional da Rede Eléctrica (1991-1994) and had several roles in EDP's divisions in charge of the Portuguese National Grid (1977-1991). Mr. Pita de Abreu holds a degree in electrotechnical engineering from Instituto Superior Técnico de Lisboa.

*Mr. João Manuel Manso Neto* was appointed to EDP's executive board of directors in March 2006. He joined EDP in July 2003 as a General Manager. He was previously president of the executive committee of EDP Produção and CEO of HidroCantábrico. Before joining EDP, he worked in banking since 1981, mainly in what is now the BCP Group (in Portugal and in Poland), where he was General Manager in charge of several areas, including Treasury and Capital Market and Large Corporate Clients. Mr. Neto holds a degree in economics from Instituto Superior de Economia de Lisboa, a post-graduate degree in European economy from Universidade Católica de Lisboa and the academic component of the masters degree in economics from Universidade Nova de Lisboa. Until 1993, he also taught economics in Universidade Nova de Lisboa.

*Mr. Jorge Manuel Pragana da Cruz Morais* was appointed to EDP's executive board of directors in March 2006. He joined EDP in 1983. Since 2005, he was an executive board member at HC Energía, and a board member of Naturgás and Telecable (Telecommunication Company in Asturias). Additionally, he was the CFO of EDP Group for the Spanish EDP companies. From 2000 to 2005, he was an executive board member and CFO of ONI. Prior to that, he was in charge of the Corporate Planning Division, having been responsible for the re-structuring of EDP and for the two initial phases of the reprivatization process of EDP. Mr. Morais holds a degree in electrical engineering from Instituto Superior Técnico and an MBA from Universidade Nova de Lisboa.

*Mr. Nuno Maria Pestana de Almeida Alves* was appointed EDP's Chief Financial Officer in March 2006. Previously he was an executive board member of Millennium BCP Investimento responsible for BCP Group Treasury and Capital Markets (2000-2006), Chairman and CEO of CISF Dealer, the brokerage arm of Banco CISF (1999), co-head of Investment Banking Division (1997) and head of the Capital Markets Division (1996) of Banco CISF (currently Millennium BCP Investimento). In 1991, Mr. Alves was appointed as the Investor Relations Officer for Millennium BCP and in 1994 joined the retail network as Coordinating Manager. He joined the Planning and Strategy Department of Millennium BCP (1988) and in 1990 became an associate director of the bank's Financial Investments Division. Mr. Alves holds a degree in Naval Architecture and Marine Engineering and an MBA from the University of Michigan.

### 5.3. General and Supervisory Board

The General and Supervisory Board is responsible for overseeing, on a permanent basis, the activity of the management of EDP and controlled companies and to, in such respect, advise and assist the Executive Board of Directors, notably in relation to strategy, achievement of goals and compliance with the applicable legal rules, as well for carrying out other supervision and control functions in relation to the company. The General and Supervisory Board comprises a mandatory audit committee composed of three members from said Board, which is responsible for overseeing the financial data and auditing of the company.

The members of the General and Supervisory Board of EDP, their principal current and past affiliations and certain other information are set forth below<sup>4</sup>:

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Year originally elected</b>
António de Almeida	70	Chairman	2006
Alberto João Coraceiro de Castro	55	Vice-Chairman	2006
António Francisco Barroso de Sousa Gomes	71	Member	2006
Carlos Jorge Ramalho dos Santos Ferreira	58	Member	2006
Diogo Campos Barradas de Lacerda Machado	45	Member	2006
Eduardo de Almeida Catroga	64	Member	2006
José Maria Espírito Santo Silva Ricciardi	52	Member	2006
Manuel Fernando de Macedo Alves Monteiro	50	Member	2006
Manuel Ménéndez Menéndez	47	Member	2006
Rui Eduardo Ferreira Rodrigues Pena	68	Member	2007
Vasco Maria Guimarães José de Mello	50	Member	2006
Vital Martins Moreira	62	Member	2006
Vítor Domingos Seabra Franco	56	Member	2006
Vítor Fernando da Conceição Gonçalves	52	Member	2006

*Mr. António de Almeida* is the Chairman of the general and supervisory board of EDP. Mr. Almeida is also Chairman of the Audit Committee of the Angola Millennium Bank, the Mozambique International Bank, the Mozambique International Insurance and Lisgráfica. At EDP, António de Almeida was also CEO from October 1996 to April 1998 and Chairman of the Audit Committee from May 2003 to March 2004. He was previously CEO of OMIP – Iberian Electricity Derivatives Exchange and Chairman of OMIClear – Energy Derivatives Clearing Company. From 1998 to January 2004, he was a board member of the European Bank for Reconstruction and Development. From November 1978 to January 1980 and from June 1983 to November 1985, he was the Secretary of State Treasury. Mr. Almeida holds a degree in Economics, taught economics at the Mozambique University and was an invited Lecture of Business Administration at the Lisbon Autonomic University.

<sup>4</sup>Sonatrach has been elected to become a member of the General and Supervisory Board at the General Shareholders Meeting held on 12 April 2007. However, the effectiveness of its election is subject to the verification of a condition precedent which consists in the implementation of the strategic partnership envisaged by EDP and Sonatrach for the natural gas activities in the Iberian Peninsula.

*Mr. Alberto Castro* was appointed to EDP's general and supervisory board in 2006. Mr. Castro is currently the Dean of the School of Economics and Business Administration at the Portuguese Catholic University. He is also a non-executive member of the board of Douro Azul SGPS, president of Ciencinvest, a consultant for APICCAPS (Footwear Industrialists Association) and for Quaternaire Portugal, a member of the board of the Portuguese Business Association, a member of the board of the Oporto Trade Association, coordinator of Contacto@ICEP, an international internship programme promoted by ICEP Portugal, a member of the board of the Association for the Museum of Transportation and Communications, a member of the board of the Association of the Universities of the North of Portugal (AURN), representing the Catholic University, a member of the steering committee of the International Working Party on Labour Market Segmentation and a member of the European Association of Research in Industrial Economics.

Previously he was a member of the Advisory Board of PROINOV (Portugal Innovation Programme) and head of the management unit of "RIS Norte-Regional Innovation Strategy". Mr. Castro has several publications, academic and professional, in the areas of industrial economics, economics of the firm, labour economics, regional economics, international economics and business strategy. He holds a degree in Economics from the Universidade do Porto and a Ph.D. in Economics from the University of South Carolina.

*Mr. António Sousa Gomes* was appointed to EDP's general and supervisory board in 2006. Previously he was Chairman and Executive President of CIMPOR – Cimentos de Portugal, SGPS, SA. (1992-2001), Chairman and Executive President of IPE, SA, Chairman of the Board, SEFIS and EGF, Director at the Development Studies Institute (Instituto de Estudos para o Desenvolvimento), Portuguese Minister of Housing and Public Works (1978-1979) and Minister of Industry (1978), Minister of Economic Coordination and Planning (1976-1978), Member of the Portuguese Parliament (1976-1979), Economic Consultant in industrial and strategic planning and Project Manager in metallurgical and steel activities. Mr. Gomes holds a degree in mechanical engineering from Lisbon University and SEP, Graduate School of Business, Stanford University.

*Mr. Carlos Jorge Ramalho dos Santos Ferreira* was appointed to EDP's general and supervisory board in 2006. He is currently Chairman of CGD. He was a member of the Tax Reform Commission (1984-1988), a member of the Portuguese Parliament, Vice-Chairman of the Parliamentary Commission for Health and Social Security (1976), a voting member of the Management Board of ANA (1977-1987) and Chairman of the Board of Fundação de Oeiras (1987-1989) and of the Macao Airport Company (1989-1991). He has been a director of the Champalimaud Group, and chaired the Board of Mundial Confiança and the General Meeting of Shareholders of Banco Pinto & Sotto Mayor. Between 1999 and 2003, at the BCP Group, he was a director of Servibanca, Vice-Chairman and a voting member of the Board of Director of Seguros e Pensões Gere, a Director and Chairman of Império Bonança, of Ocidental and Ocidental Vida Insurance companies, of Seguro Directo, of ICI-Império Comércio e Indústria, of Companhia Portuguesa de Seguros de Saúde, of Autogere, of Corretoresgest, and a director of Eureka B.V. He has also been Vice-Chairman of Estoril Sol, Vice-Chairman of Finansol, a non-executive Chairman of Willis Portugal-Corretores de Seguros (2003-2005) and a director of Seng Heng Bank (2005). Mr. Ferreira holds a law degree from the Universidade Clássica de Lisboa (1971).

*Mr. Diogo Lacerda Machado* was appointed to EDP's general and supervisory board in 2006. He was admitted to the Portuguese Bar Association in 1986. He was Secretary of State for the Justice Department of the Government of Portugal (1999-2002), adviser to the Secretary Assistant of the Administration and Justice Department of the Government of Macao (1988-1990), lecturer in the master degree programme at the University of Coimbra, Law School, post-graduate of the Catholic University and High Institute of Education and Sciences and the Portuguese Bars of Lisbon and Coimbra and a member of the Judiciary Superior Council as Parliament Representative from 1997-1999, as well as of a number of organisations, including, AIDA Concordia Conciliation Centre and AMG – Business Mediators. Mr. Machado is the author of a number of articles on justice, courts, alternative dispute resolution methods and complementary justice services published in several newspapers and publications and was the speaker at several national and international conferences on insolvency and corporate restructuring, business law, dispute resolution, telecommunications, computer software licensing, copyrights, corporate law, mergers and acquisitions, patents, litigation, arbitration and mediation. Mr. Machado holds a law degree from the University of Lisbon.

*Mr. Eduardo de Almeida Catroga* was appointed to EDP's general and supervisory board in 2006. Since 2002, Mr. Catroga has been the President of Sapec, a holding company with activities in Portugal and Spain where he was previously Vice-President (1996-2002) and CEO (1981-1993). He is also a board member of Banco Finantia (an investment bank) and of Nutrinveste (a consumer products company) since 1996. From 1993 to 1995 he was Minister of Finance of Portugal. He was Member of the Board of Directors of BP – Portugal (Portuguese subsidiary of BP Group) (1983-1988), a Board Member of Cel-Cat (a cable manufacturer company) (1982-1993), President of the Portuguese Association of Chemical Companies (1982-1988), Vice-President of Quimigal (a chemical company) (1978-1980), Member of the Executive Committee of CUF (1975-1977), Executive Director of CUF (1974-1975), an Economist at Group CUF Holding company (the most important conglomerate group of companies in Portugal before 1974 revolution) (1968-1973) and a Consultant at the Ministry of Finance (1967). He has been Professor of Business Strategy at ISEG Technical University of Lisbon since 1990 and was also Assistant Professor of General Management (1974-1986). Mr. Catroga holds a degree in Finance from the Instituto Superior de Ciências Económicas e Financeiras (ISCEF), Technical University of Lisbon (currently ISEG) and a PMD from Harvard Business School.

*Mr. José Maria Ricciardi* was appointed to EDP's general and supervisory board in 2006. He is currently President and Chief Executive Officer of Banco Espírito Santo de Investimento, S.A., the merchant bank of the Espírito Santo financial group. He has been with the Espírito Santo Group since 1979 where he served as member of the board and executive committee of Banco Espírito Santo, S.A. with responsibility of global risk management, Vice-Chairman of the Executive Board of Banco Espírito Santo de Investimento, S.A. (formerly Espírito Santo Sociedade de Investimentos, S.A.), Director of Espírito Santo Sociedade de Investimentos, S.A., General Manager of the Corporate Finance Department and Manager of the Merchant Banking – Capital Markets Department of Banco Internacional de Crédito, Co-Manager of Bank Espírito Santo International Limited and Financial Controller and Assistant to the General Financial Controller of Espírito Santo Group Worldwide. From 1978 to 1979 he worked for Ytong Portuguesa, a civil construction work equipment manufacturing corporation, as an Economist Consultant. Mr. Ricciardi graduated with honours in “Sciences Economiques Appliqués” at the Institute of Business Administration of the Catholic University of Louvain – Belgium, where he presented his graduation thesis on “La Banque et la Prise de Décision d’Octroi de Crédits d’Investissement”.

*Mr. Manuel Fernando Macedo Alves Monteiro* was appointed to EDP's general and supervisory board in 2006. Mr. Alves Monteiro is a non-executive board member of the listed companies, NOVABASE and Jerónimo Martins, and unquoted companies CIN, Douro Azul – SGPS, PPH-Porto Património Mundial – Emp. Imob., SA and Boats 4U – Projectos Fabricação Embarcações, Lda. He is Chairman of IPCG – Portuguese Corporate Governance Society. He is also an Advisory Board member of BPP – Banco Privado Português and of FEP-Faculty of Economics of the University of Porto. Other current roles include Audit Committee member of NOVABASE, President of the Remuneration Committee of Douro Azul – SGPS and consulting services for public organisations and private companies; he graduated in Law and member of the Portuguese Bar Association. In the past he was Chairman of Euronext Lisbon (the Portuguese Stock Exchange) and held various senior managing positions as board member of Euronext Holding (Holland), Euronext Paris, Euronext Brussels, Euronext Amsterdam and Clearnet. He was also Chairman and CEO of Interbolsa (Portugal) as well as CEO of the Portuguese Futures and Options Exchange. Additionally he acted as Chairman of the Managing Board of Casa da Música / Porto 2001, S.A. Mr. Alves Monteiro performed different roles in the executive bodies of international organisations connected to capital markets issues (FIABV-Ibero-American Federation of Stock Exchanges, ECOFEX-Committee of Options and Futures Exchanges, IFCI-International Finance and Commodities Institute (Committee Founder), ECMI – European Capital Markets Institute). He also took part in several organisations connected with the Portuguese financial market and Portuguese companies (President of the Board of Directors of APDMC-Portuguese Association for the Development of the Capital Market, Vice-President of the Board of Directors of FAE – Company Administrators Forum, Council member of the National Capital Market (chaired by the Finance Minister) and was member of the Advisory Committee of CMVM-Portuguese Securities and Exchange Commission. In 2003 he was awarded with the distinction “Chevalier de L’Ordre National de la Légion d’Honneur” by order of the President of France.

*Mr. Manuel Ménéndez Menéndez* was appointed to EDP's general and supervisory board in 2006. At EDP he was a member of the board of directors since January 2005. He is currently Chairman of CajaAstur, of HidroCantábrico and Naturgás, a board member of Neo Energia, of the Spanish Confederation of Savings Banks and of UNESA (Spanish Association for Electricity Industry) and a member of the Official Registry of Auditors of Accounts. He represents Peña Rueda S.L. (a 100 per cent.-owned subsidiary of CajAstur) on Enagas board of directors. He was previously a board member of CajAstur and HidroCantábrico, a member of the board, of the executive committee and audit and control committee of AIRTEL (now Vodafone), a board member of ENCE and LICO Corporación, Vice-Chairman of SEDES, S.A. and Executive Chairman of the Sociedad de Garantías Recíprocas de Asturias (Asturgar). Mr. Menéndez has been a professor in the Department of Business Administration and Accountancy at the University of Oviedo, where he earned his doctorate in economic sciences in 1985 (cum laude and with a Special Mention from the Board of Examiners). He earned degrees in economics and business administration in 1982.

*Mr. Rui Eduardo Ferreira Rodrigues Pena* was appointed to EDP's general and supervisory board in 2007. He was admitted to the Portuguese Bar Association in 1964. Mr. Rui Pena is, since 2006, the Chairman of Instituto das Sociedades de Advogados (Law Firm's Institute) and a founding partner of Rui Pena, Arnault & Associados, Law Firm (2002). His professional experience includes being founding partner of Pena, Machete, Nobre Guedes, Botelho Moniz, Ruíz & Associados, Law Firm (1999-2002) and founding partner of Pena, Machete & Associados, Law Firm (1987-1999). He was a member of the Legal Council at the Portuguese State Oil Group (Sacor) between 1964 and 1975. Mr. Rui Pena holds a degree in law, from the University of Lisbon Law School. He was Minister of National Defense of the Government of Portugal (2001-2002), member of the General Council of the Portuguese Bar Association (1987-1989), lecturer of the Administrative Law I and Administrative Law II Chairs at the Autónoma University in Lisbon (1987), he was elected as member of the Lisbon Municipal Board (1986), as well as appointed by the Portuguese Government for the Board of Referees and Mediators of the ICSID (International Centre for Settlement of Investment Disputes) (1985). He was also Chairman of the Portuguese Group at the Interparliament Union (1980-1982); lecturer of Administrative Law at the Livre University of Lisbon (1978-1981); assistant professor in Administrative Law at the University of Lisbon Law School (1978-1980); Portuguese Minister for the Reform of Administration (1978); assistant professor in Civil Law at the University of Lisbon Law School (1977-1978); member of the Portuguese Parliament – Whip for the CDS MP Group (1976-1983); appointed as non-executive Director of several industrial and Business Corporations (1973-2005) and lecturer of History of Political Ideas at Instituto Superior de Línguas e Administração – Lisbon (1962-1963).

*Mr. Vasco Maria Guimarães José de Mello* was appointed to EDP's general and supervisory board in 2006. He is Chairman and CEO of Brisa and Chairman and CEO of José de Mello, S.G.P.S., S.A., holding company of one of the major Portuguese groups, with significant interests in banking, chemical industry, healthcare, energy, technologies and highway toll concessions. He also serves as Vice-Chairman of the Advisory Board of BCP, Invited Member of the Supervisory Board of BCP, Member of the Supervisory Board of Millennium BCP Bank (Poland) and Member of the Board of Albertis, Infraestructuras, S.A. From 1992 to 2000, he was Chairman of Banco Mello, Chairman of Banco Mello de Investimentos, Chairman of Companhia de Seguros Império, Vice Chairman of José de Mello, S.G.P.S. and Director of UIF – União Internacional Financeira. From 1985 to 2002 he was Managing Director of CUF Finance in Geneva, Switzerland. From 1978 until 1980 he was with Citicorp in New York and in Banco Crefisul de Investimento in São Paulo, Brazil. Mr. José de Mello holds a bachelor's degree in Business Administration from the American College of Switzerland.

*Mr. Vital Moreira* was appointed to EDP's general and supervisory board in 2006. He is currently Professor of Public Law (Faculty of Law, University of Coimbra), Chairman of the Research Centre of Public Law and Regulation at the Faculty of Law in Coimbra University (Centro de Estudos de Direito Público e Regulação) and director of a postgraduate course on Public Regulation and Competition, available since 2001. Mr. Vital Moreira is co-editor of "Journal of Public Law of the Economy" ("Revista de Direito Público da Economia") a Portuguese-Brazilian quarterly published in Belo Horizonte, Brazil, the author of several books and many articles on constitutional law and administrative law, including *The Economy and the Constitution (Economia e Constituição – Coimbra, 1974)*, *Professional Self-Regulation and Public Administration (Auto-regulação Profissional e Administração Pública – Coimbra, 1997)* and,

together with Fernanda Maças, Independent Regulatory Authorities (Autoridades Reguladoras Independentes – Coimbra, 2003). Mr. Moreira is weekly columnist of the general daily newspaper “Público” (Lisbon) and monthly columnist of the business daily newspaper “Diário Económico” (Lisbon). He is a former Member of the Constituent Assembly (1975-76) and of Parliament (1976-1982, 1996-97) and former justice of the Constitutional Court (1983-1989).

*Mr. Victor Domingos Seabra Franco* was appointed to EDP’s general and supervisory board in 2006. Mr. Franco is since 2005 the chairman of the Assembly of Instituto Superior de Ciências do Trabalho e da Empresa (ISCTE) and a partner in Victor Franco & Lisboa Nunes, SROC and in Grant Thornton & Associados, SROC, Lda, statutory auditors companies. From 1998 until 2005 he was chairman of the General Meeting of the Association for Statutory Auditors. From 1976/2006 he was a professor of financial accounting, cost accounting and management accounting in the management degree and masters and doctoral programme in accounting at ISCTE, coordinator of management accounting in the management degree programme at ISCTE (1988/2006) and of the masters and doctoral programme in accounting at ISCTE (1999/2003) and chairman of the Masters Committee at ISCTE’s Management School (2000/2001), of the Scientific Committee of the Management School (2002/2004). He is a registered statutory auditor, registered lawyer, registered manager, legal liquidator and registered economist. He graduated in finance from Instituto Superior de Economia da Universidade Técnica de Lisboa, graduate in law from the Lisbon Law Faculty, Universidade Clássica de Lisboa. Mr. Franco holds a Ph.D. in Economics and Business Sciences from Universidad Autónoma de Madrid and is a Full Professor of the Finance and Accounting Department at ISCTE. From 1977 to 1987 he was Inspector for the General Inspection of Finances – Ministry of Finance.

*Mr. Vítor da Conceição Gonçalves* was appointed to EDP’s general and supervisory board in 2006. He has been a Full Professor of Business Administration at ISEG – Instituto Superior de Economia e Gestão, Universidade Técnica de Lisboa since 1994. He has been the Dean of ISEG since 2003 and has been the President of the Executive Council of Idefe – Instituto para o Desenvolvimento e Estudos Económicos, Financeiros e Empresariais since 2003 and the President of the General Meeting of CEGE – Centro de Estudos de Gestão since 1996. He is currently the scientific director of several post-graduate programs in Management at ISEG. Mr. Gonçalves was a member of the Board of Directors of Promindustria – Sociedade de Investimento SA (1994-1996) and a member of the board of directors of IFEA – Instituto de Formação Empresarial Avançada SA (1998-2003). He acted as a senior consultant to several Portuguese and international companies and also to several government organisations. He was the president of the international “expert group” that evaluated the “European research area” programme for the European Commission (2001-2002). Mr. Gonçalves holds a degree in Management from ISEG / Universidade Técnica de Lisboa, a doctorate degree in Business Administration from Universidade de Sevilla and the Aggregate title from the Universidade Técnica de Lisboa.

#### **5.4. Executive Officers**

EDP has twenty Executive Officers who are in charge of various business and administrative departments at the holding company level of EDP and report directly to the board of directors. Selected information is set forth below for the executive officers in charge of a principal business function.

<b>Name</b>	<b>Age</b>	<b>Year of appointment</b>	<b>Position</b>
Ms. Teresa Isabel Pereira	42	2006	Company Secretary and Head of Legal Office
Mr. Nuno Correia de Brito	51	2007	Head of Human Resources Strategic Management Office
Mrs. Maria Adília Pina Pereira	42	2005	Head of Top Human Resources Management Office
Mr. Eugénio André da Purificação Carvalho	53	2001	Head of Human Resources Operations and Labour Affairs Office
Mr. Rui Maria Ribeiro Ferin Cunha	44	2007	Head of Organisational Development Office
Mr. Miguel Stilwell de Andrade	31	2005	Head of Mergers and Acquisitions Office
Mrs. Azucena Viñuela Hernández	42	2006	Head of Internal Audit Office
Mr. Paulo Campos Costa	42	2006	Head of Brand and Communication Office and Chief of Staff of the Chairman of the Executive Board
Mr. Miguel Nuno Ferreira Setas	36	2007	Head of Corporate Marketing Office
Mrs. Magda Abdool Magid Vakil	45	1998	Head of Financial Management Office
Mr. José Alberto de Baptista Allen Lima	59	2006	Head of Risk Management Office
Mr. Rui Manuel Teixeira	35	2006	Head of Planning and Control Office
Mr. Miguel Ribeiro Ferreira	40	2003	Head of Consolidation Accounting and Tax Office
Mr. Pedro Neves Ferreira	32	2007	Head of Energy Planning Office
Mrs. Paula Pinto da Fonseca	47	2003	Head of Customer Relationship Office
Mrs. Maria Joana Mano Pinto Simões	46	2000	Head of Regulation and Competition Office
Mr. Miguel Henriques Viana	35	2006	Head of Investor Relations Office
Mr. António Silva Vidigal	57	2007	Head of Information Systems Office
Mr. António Manuel Neves de Carvalho	57	2000	Head of Sustainability and Environment Office
Mr. Carlos Alves Pereira	42	2005	Head of Trading Business Unit

The business address of each member of the Executive Board of Directors and of the General and Supervisory Board and each executive officer of EDP is Praça Marquês de Pombal, 12, 1250-162 Lisbon.

#### **5.5. Conflict of interests**

The members of the administrative, management or supervisory bodies of EDP do not have any conflicts, or any potential conflicts, between their duties to EDP and their private interests or other duties.

#### **6. Trend Information**

There has been no material adverse change in the prospects of EDP since 31 December, 2006, being the date of its last published audited financial statements.

#### **7. Financial and Trading Position**

There has not been any significant change in the financial or trading position of the EDP Group since 30 June, 2007, being the end of the last financial year.

## **8. Legal Proceedings**

There are no, nor have there been any governmental, legal or arbitration proceedings, involving EDP or any of its subsidiaries (and, so far as EDP is aware, no such proceedings are pending or threatened) which may have or have had during the twelve months prior to the date of this Prospectus a significant effect on the financial position of EDP or the EDP Group.

## FINANCIAL STATEMENTS OF THE EDP GROUP

The following financial information is extracted without material adjustment from the audited consolidated financial statements of EDP as at 31 December, 2005 and 31 December, 2006 prepared in accordance with International Financial Reporting Standards, and from the unaudited consolidated financial statements of EDP as at 30 June, 2006 and 2007 prepared in accordance with recognition and measurement requirements of International Financial Reporting Standards.

### EDP – ENERGIAS DE PORTUGAL S.A. CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2007

	<b>June 2007</b>
	<b>Euro</b>
<b>Assets</b>	
Property, plant and equipment .. .. .	15,473,302
Intangible fixed assets .. .. .	1,710,262
Goodwill .. .. .	2,718,006
Investments in associates .. .. .	191,617
Available for sale investments .. .. .	1,174,890
Financial assets advanced payments .. .. .	11,395
Deferred tax assets .. .. .	774,841
Trade receivables .. .. .	143,881
Debtors and other assets .. .. .	308,685
Total Non-Current Assets .. .. .	22,506,879
Inventories .. .. .	198,328
Trade receivables .. .. .	1,460,853
Debtors and other assets .. .. .	802,005
Tax receivable .. .. .	468,973
Financial assets held for trading.. .. .	85,466
Cash and cash equivalents .. .. .	530,788
Assets classified as held for sale.. .. .	-
Total Current Assets .. .. .	3,546,413
Total Assets .. .. .	26,053,292
<b>Equity</b>	
Share capital .. .. .	3,656,538
Treasury stock .. .. .	(42,618)
Share premium .. .. .	501,992
Reserves and retained earnings .. .. .	1,424,440
Consolidated net profit attributable to equity holders of the parent .. .. .	422,072
Total Equity attributable to equity holders of the parent .. .. .	5,962,424
Minority interests .. .. .	936,198
Total Equity .. .. .	6,898,622
<b>Liabilities</b>	
Medium/Long term debt and borrowings .. .. .	8,471,203
Employee benefits .. .. .	1,666,590
Provisions for liabilities and charges .. .. .	413,681
Hydrological correction account.. .. .	224,141
Deferred tax liabilities .. .. .	564,673
Trade and other payables .. .. .	2,832,615
Total Non-Current Liabilities .. .. .	14,172,903
Short term debt and borrowings.. .. .	1,593,524
Trade and other payables .. .. .	3,004,933
Tax payable .. .. .	383,310
Liabilities classified as held for sale .. .. .	-
Total Current Liabilities.. .. .	4,981,767
Total Liabilities .. .. .	19,154,670
Total Equity and Liabilities .. .. .	26,053,292

**EDP – ENERGIAS DE PORTUGAL, S.A.**  
**CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2006 AND 2005**

	<b>December 2006</b>	<b>December 2005</b>
	<b>Euro</b>	<b>Euro</b>
<b>Assets</b>		
Property, plant and equipment .. .. .	15,081,728	13,864,146
Intangible fixed assets .. .. .	1,168,136	1,462,003
Goodwill .. .. .	2,553,831	2,046,824
Investments in associates .. .. .	201,863	351,302
Available for sale investments .. .. .	822,148	566,446
Financial assets advanced payments .. .. .	-	-
Deferred tax assets .. .. .	898,323	892,653
Trade receivables .. .. .	117,651	121,992
Debtors and other assets .. .. .	299,968	374,601
<b>Total Non-Current Assets .. .. .</b>	<b>21,143,648</b>	<b>19,679,967</b>
Inventories .. .. .	228,692	219,194
Trade receivables .. .. .	1,475,202	1,463,505
Debtors and other assets .. .. .	874,916	1,465,612
Tax receivable .. .. .	620,840	346,175
Financial assets held for trading.. .. .	116,439	275,618
Cash and cash equivalents .. .. .	753,493	585,499
Assets classified as held for sale.. .. .	255,681	-
<b>Total Current Assets .. .. .</b>	<b>4,325,263</b>	<b>4,355,603</b>
<b>Total Assets .. .. .</b>	<b>25,468,911</b>	<b>24,035,570</b>
<b>Equity</b>		
Share capital .. .. .	3,656,538	3,656,538
Treasury stock .. .. .	(14,542)	(38,119)
Share premium .. .. .	501,992	501,992
Reserves and retained earnings .. .. .	504,424	(368,113)
Consolidated net profit attributable to equity holders of the parent .. .. .	940,823	1,071,102
<b>Total Equity attributable to equity holders of the parent .. .. .</b>	<b>5,589,235</b>	<b>4,823,400</b>
Minority interests .. .. .	945,661	1,287,763
<b>Total Equity .. .. .</b>	<b>6,534,896</b>	<b>6,111,163</b>
<b>Liabilities</b>		
Medium/Long term debt and borrowings .. .. .	8,624,695	8,600,721
Employee benefits .. .. .	1,770,560	1,843,246
Provisions for liabilities and charges .. .. .	388,473	269,249
Hydrological correction account.. .. .	198,596	169,967
Deferred tax liabilities .. .. .	557,269	369,722
Trade and other payables .. .. .	2,427,193	1,898,258
<b>Total Non-Current Liabilities .. .. .</b>	<b>13,966,786</b>	<b>13,151,163</b>
Short term debt and borrowings .. .. .	1,528,355	1,983,579
Trade and other payables .. .. .	2,757,669	2,613,925
Tax payable .. .. .	521,107	175,740
Liabilities classified as held for sale .. .. .	160,098	-
<b>Total Current Liabilities.. .. .</b>	<b>4,967,229</b>	<b>4,773,244</b>
<b>Total Liabilities .. .. .</b>	<b>18,934,015</b>	<b>17,924,407</b>
<b>Total Equity and Liabilities .. .. .</b>	<b>25,468,911</b>	<b>24,035,570</b>

**EDP – ENERGIAS DE PORTUGAL, S.A.**  
**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005**

	<b>December 2006</b>	<b>December 2005</b>
	<b>In thousand Euros</b>	<b>In thousand Euros</b>
Turnover .. .. .	10,349,826	9,648,167
Cost of consumed electricity .. .. .	(4,380,703)	(4,222,003)
Cost of consumed gas .. .. .	(744,350)	(458,233)
Changes in inventories and cost of raw material and consumables used .. .. .	(1,066,319)	(1,112,592)
	<u>4,158,454</u>	<u>3,855,339</u>
<b>Other operating income/(expenses)</b>		
Other operating income .. .. .	144,148	211,553
Supplies and services .. .. .	(741,398)	(816,781)
Personnel costs .. .. .	(585,086)	(545,987)
Employee benefits expense .. .. .	(162,287)	(200,291)
Other operating expenses .. .. .	(508,381)	(453,666)
	<u>(1,853,004)</u>	<u>(1,805,172)</u>
	<u>2,305,450</u>	<u>2,050,167</u>
<b>Provisions</b>		
Provisions .. .. .	(94,564)	(12,474)
Depreciation and amortisation expense .. .. .	(1,058,866)	(993,413)
Amortisation of deferred income on partially funded properties received under concessions .. .. .	101,016	97,600
	<u>1,253,036</u>	<u>1,141,880</u>
Gains from the sale of financial assets .. .. .	4,818	440,730
Other financial income .. .. .	770,361	527,894
Other financial expenses .. .. .	(977,738)	(927,171)
Share of profit of associates .. .. .	245,329	35,295
	<u>1,295,806</u>	<u>1,218,628</u>
Income tax expense .. .. .	(265,915)	(152,189)
	<u>1,029,891</u>	<u>1,066,439</u>
Profit after tax but before gains/losses on discontinued operations .. .. .		
Gains/(losses) on sale of discontinued operation, net of tax .. .. .	(12,808)	45,522
	<u>1,017,083</u>	<u>1,111,961</u>
<b>Attributable to</b>		
Equity Holders of EDP .. .. .	940,823	1,071,102
Minority interests .. .. .	76,260	40,859
	<u>1,017,083</u>	<u>1,111,961</u>
<b>Earnings per share (Basic and diluted) – Euros .. .. .</b>	<u>0.26</u>	<u>0.29</u>

**EDP – ENERGIAS DE PORTUGAL**  
**CONSOLIDATED STATEMENT OF INCOME**  
**FOR THE NINE MONTHS ENDED 30 JUNE 2007 AND 2006**

	<b>June 2007</b>	<b>June 2006</b>
	<b>Euro</b>	<b>Euro</b>
Turnover .. .. .	5,627,455	5,241,868
Cost of consumed electricity .. .. .	(2,341,431)	(2,340,264)
Cost of consumed gas .. .. .	(517,803)	(365,915)
Changes in inventories and cost of raw material and consumables used .. .. .	(505,599)	(575,670)
	<u>2,262,622</u>	<u>1,960,019</u>
<b>Other operating income/(expenses)</b>		
Other operating income.. .. .	49,532	50,171
Supplies and services .. .. .	(324,223)	(354,499)
Personnel costs .. .. .	(298,420)	(318,759)
Employee benefits expense .. .. .	(53,744)	(35,814)
Other operating expenses .. .. .	(283,200)	(234,588)
	<u>(910,055)</u>	<u>(893,489)</u>
	<u>1,352,567</u>	<u>1,066,530</u>
<b>Provisions</b>		
Provisions .. .. .	(42,333)	(8,080)
Depreciation and amortisation expense .. .. .	(534,922)	(505,549)
Amortisation of deferred income on partially funded properties received under concessions .. .. .	52,192	50,430
	<u>827,504</u>	<u>603,331</u>
Gains from the sale of financial assets .. .. .	–	2,834
Other financial income .. .. .	327,637	410,519
Other financial expenses .. .. .	(498,073)	(446,472)
Share of profit of associates .. .. .	11,114	16,879
	<u>668,182</u>	<u>587,091</u>
Profit before tax .. .. .	(176,653)	(183,194)
Income tax expense .. .. .	491,529	403,897
Profit after tax but before gains/losses on discontinued operations .. .. .	–	–
Gains/(losses) on sale of discontinued operation, net of tax .. .. .	–	–
Profit for the year .. .. .	<u>491,529</u>	<u>403,897</u>
<b>Attributable to</b>		
Equity Holders of EDP .. .. .	422,072	374,651
Minority interests .. .. .	69,457	29,246
Profit for the year .. .. .	<u>491,529</u>	<u>403,897</u>
<b>Earnings per share (Basic and diluted) – Euros .. .. .</b>	<u>0.12</u>	<u>0.10</u>

## EDP B.V.

### Incorporation, Duration and Domicile

EDP B.V., a wholly-owned subsidiary of EDP, was incorporated under Dutch law as a limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*) in Amsterdam on 1 October 1999 for an unlimited period of time.

EDP B.V. has its registered office at Strawinskylaan 3105, 1077 ZX Amsterdam (phone number: +31 20 406 4444) and its statutory seat is in Amsterdam. EDP B.V. is registered in the Commercial Register of the Chamber of Commerce and Industry in Amsterdam under No. 34121496.

### Objects and Activities

The main objects of EDP B.V. are to assist EDP and EDP Group in raising funds in the international markets and to provide financial and investment services to group companies.

### Management

The management of EDP B.V. is conducted by a Management Board which may consist of one or more members.

Members of the Management Board are elected by the general meeting of shareholders of EDP B.V. and may be recalled from this position at any time.

The current Management Board is composed of two members: Equity Trust Co. N.V. and EDP. Details of the directors of EDP can be found on pages 95 to 102 of this Prospectus.

The details of the directors/proxyholders of Equity Trust Co. N.V. are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Elected</u>
Mr. Jacob Cornelius Willem van Burg	48	Director	2003
Mr. Wolbert Hinrik Kamphuijs	46	Director	2006

The contact address for the above directors is Equity Trust Co. N.V., Strawinskylaan 3105, 1077ZX Amsterdam (Tel: +31 20 406 4444).

EDP B.V. may be legally represented by Equity Trust Co. N.V. and EDP acting jointly as managing directors.

### Conflicts of Interest

The members of the management board of EDP B.V. do not have any conflicts, or any potential conflicts, between their duties to EDP B.V. and their private interests or other duties.

### General Meeting of the Shareholders

The annual general meeting of shareholders must be held in Amsterdam, the Netherlands, within six months following the end of each fiscal year. Each share is entitled to one vote.

### Financial Statements and Distribution of Profits

EDP B.V.'s fiscal year coincides with the calendar year. The annual general meeting of the shareholders determines the use of the annual surplus.

### Trend Information

There has been no material adverse change in the prospects of the Issuer since 31 December 2006.

## TAXATION

The following is a general description of certain Netherlands and Portuguese tax considerations relating to the Instruments. It does not purport to be a complete analysis of all tax considerations relating to the Instruments. Prospective purchasers of Instruments should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Netherlands and/or Portugal of acquiring, holding and disposing of Instruments and receiving payments of interest, principal and/or other amounts under the Instruments. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

### Portugal

The following is a general summary of the Issuers' understanding of current law and practice in Portugal as in effect on the date of this Prospectus in relation to certain current relevant aspects to Portuguese taxation of the Instruments and is subject to changes in such laws, including changes that could have a retroactive effect. The following summary is intended as a general guide only and is not exhaustive. It is not intended to be, nor should it be considered to be, legal or tax advice to any Beneficial Owner of Instruments. It does not take into account or discuss the tax laws of any country other than Portugal and relates only to the position of persons who are absolute beneficial owners of Instruments. Prospective investors are advised to consult their own tax advisers as to the Portuguese or other tax consequences resulting from the purchase, ownership and disposition of Instruments, including the effect of any state or local taxes, under the tax laws of Portugal and each country where they are, or are deemed to be, residents.

The reference to "interest", "other investment income" and "capital gains" in the paragraphs below means "interest", "other investment income" and "capital gains" as understood in Portuguese tax law. The statements below do not take any account of any different definitions of "interest", "other investment income" or "capital gains" which may prevail under any other law or which may be created by the "Terms and Conditions of the Instruments" or any related documentation.

#### 1. Instruments issued by EDP B.V.

Interest and other investment income obtained by Portuguese resident individuals on Instruments issued by EDP B.V. is subject to individual tax. If the payment of interest or other investment income is made available to Portuguese resident individuals through a Portuguese resident entity or a Portuguese branch of a non resident entity, withholding tax applies at a rate of 20 per cent., which is the final tax on that income unless the individual elects to include it in his taxable income, subject to tax at progressive rates of up to 42 per cent. In this case, the tax withheld is deemed a payment on account of the final tax due. If the interest on the Instruments is not received through an entity located in Portugal, it is not subject to Portuguese withholding tax, but an autonomous taxation rate of 20 per cent. will apply, unless an option for aggregation is made.

Capital gains obtained by Portuguese resident individuals on the transfer of the Instruments are not subject to tax. Accrued interest does not qualify as capital gains for tax purposes.

Interest and other investment income derived from the Instruments and capital gains obtained with the transfer of the Instruments by legal persons resident for tax purposes in Portugal and by non resident legal persons with a permanent establishment in Portugal to which the income or gains are attributable are included in their taxable profits and are subject to corporate income tax at a rate of 25 per cent. and may be subject to a municipal surcharge ("*derrama*") of up to 1.5 per cent. on their taxable profits.

No Stamp Duty applies to the acquisition through gift or inheritance of Instruments by an individual.

The acquisition of Instruments through gift or inheritance by a Portuguese resident legal person or non resident acting through a Portuguese permanent establishment is subject to corporate income tax at a rate of 25 per cent. A municipal surcharge of up to 1.5 per cent. may also be due.

There is neither wealth nor estate tax in Portugal.

Payments made by EDP B.V. of interest, other investment income or principal on Instruments issued by it to an individual or legal person non resident in Portugal for tax purposes without permanent establishment to which income may be attributable are not subject to Portuguese income tax.

Capital gains obtained on the transfer of a Instrument by an individual or a legal person who is neither resident nor engaged in business through a permanent establishment in Portugal to which that gain is attributable are not subject to Portuguese income tax.

## **2. Instruments issued by EDP not integrated in a centralised control system recognised by the Portuguese Securities Code (“*Código dos Valores Mobiliários*”)**

Interest and other types of investment income obtained on Instruments by a Portuguese resident individual is subject to individual tax. If the payment of interest or other investment income is made available to Portuguese resident individuals, withholding tax applies at a rate of 20 per cent., which is the final tax on that income unless the individual elects to include it in his taxable income, subject to tax at progressive rates of up to 42 per cent. In this case, the tax withheld is deemed a payment on account of the final tax due.

In the case of zero coupon Instruments, the difference between the redemption value and the subscription cost is qualified as investment income and is also subject to Portuguese income tax.

Capital gains obtained by Portuguese resident individuals on the transfer of Instruments are not subject to tax. Accrued interest qualifies as investment income, rather than as capital gains, for tax purposes.

Interest and other investment income derived from Instruments and capital gains obtained with the transfer of Instruments by legal persons resident for tax purposes in Portugal and by non resident legal persons with a permanent establishment in Portugal to which the income or gains are attributable are included in their taxable income and are subject to corporate tax at a rate of 25 per cent. and may be subject to a municipality surcharge (“*derrama*”) of up to 1.5 per cent. on their taxable profits. Withholding tax at a rate of 20 per cent. applies, which is deemed a payment on account of the final tax due.

Financial institutions, pension funds, retirement and/or education savings funds, share savings funds, venture capital funds and some exempt entities, among other entities, are not subject to withholding tax.

Interest and other types of investment income obtained by non resident beneficial owners (individuals or legal persons) without a Portuguese permanent establishment to which the income is attributable is subject to withholding tax at a rate of 20 per cent., which is the final tax on that income.

Under the tax treaties entered into by Portugal which are in full force and effect on the date of this Prospectus, the withholding tax rate may be reduced to 15, 12 or 10 per cent., depending on the applicable treaty and provided that the relevant formalities (including certification of residence by the tax authorities of the beneficial owners of the interest and other investment income) are met. The reduction may apply at source or through the refund of the excess tax. The forms currently applicable for these purposes were approved by Order (“*Despacho*”) n. 11 701/2003 (2nd series), published in the Portuguese official gazette, second series, n. 138, of 17 June 2003 of the Portuguese Minister of Finance and may be available at [www.dgci.min-financas.pt](http://www.dgci.min-financas.pt).

Capital gains obtained by non resident individuals on the transfer of Instruments are not subject to tax. Accrued interest does not qualify as capital gains for tax purposes.

Gains obtained on the disposal of Instruments by a legal person non resident in Portugal for tax purposes and without a permanent establishment in Portugal to which gains are attributable are exempt from Portuguese capital gains taxation, unless the share capital of the beneficial owner is more than

25 per cent. directly or indirectly held by Portuguese resident entities or if the beneficial owner is resident in a country, territory or region subject to a clearly more favourable tax regime included in the “low tax jurisdictions” list approved by Ministerial order (“*Portaria*”) no. 150/2004 of 13 February (“*Lista dos países, territórios e regiões com regimes de tributação privilegiada, claramente mais favoráveis*”). If the exemption does not apply, the gains will be subject to corporate income tax at a rate of 25 per cent. Under the tax treaties entered into by Portugal, such gains are usually not subject to Portuguese tax, but the applicable rules should be confirmed on a case by case basis.

Stamp Duty at a rate of 10 per cent. applies to the acquisition through gift or inheritance of Instruments by an individual who is domiciled in Portugal. An exemption applies to transfers in favour of the spouse, descendants and parents/grandparents. The acquisition of Instruments through gift or inheritance by a Portuguese resident legal person or a non resident acting through a Portuguese permanent establishment is subject to corporate tax at a rate of 25 per cent. A municipal surcharge of up to 1.5 per cent. on taxable profits may also be due.

No Stamp Duty applies to the acquisition through gift and inheritance of Instruments by an individual who is not domiciled in Portugal. The acquisition of Instruments through gift or inheritance by a non resident legal person is subject to corporate income tax at a rate of 25 per cent. Under the tax treaties entered into by Portugal, such gains are usually not subject to Portuguese tax, but the applicable rules should be confirmed on a case by case basis.

There is neither wealth nor estate tax in Portugal.

### **3. Instruments issued by EDP integrated in a centralised control system recognised by the Portuguese Securities Code**

The regime described in paragraph 2. above corresponds to the general tax treatment of investment income and capital gains on Instruments issued by a Portuguese entity and to the acquisition through gift or inheritance of such Instruments.

Nevertheless, pursuant to the Special Tax Regime for Debt Securities, approved by Decree-law 193/2005, of 7 November 2005, as amended from time to time (hereafter “the special regime approved by Decree-law 193/2005”), which is in full force and effect as from 1 January 2006, investment income and gains on the disposal of debt securities issued by Portuguese resident entities, such as the Instruments obtained by non-resident beneficial owners, are exempt from Portuguese income tax provided that the debt securities are integrated in a centralised system recognised under the Securities Code and complementary legislation (such as the *Central de Valores Mobiliários*, managed by Interbolsa), and:

- (i) the beneficial owners have no residence, head office, effective management or permanent establishment in the Portuguese territory to which the income is attributable; and
- (ii) the beneficial owners are not held, directly or indirectly, in more than 20 per cent. by Portuguese resident entities; and
- (iii) the beneficial owners are not domiciled in a country, territory or region subject to a clearly more favourable tax regime included in the list approved by the Ministerial Order (“*Portaria*”) n. 150/2004, of 13 February (“*Lista dos países, territórios e regiões com regimes de tributação privilegiada, claramente mais favoráveis*”), except if they are central banks and governmental agencies.

The special regime approved by Decree-law 193/2005 sets out the detailed rules and procedures to be followed on the proof of non residence by the beneficial owners of the Instruments which it applies. Under these rules, the direct register entity (i.e. the entity affiliated to the centralised system where the securities are integrated), as the entity holding the relevant account with the relevant centralised system in which the Instruments are integrated, will be under obligation to obtain and keep proof, in the form described below, that the beneficial owner is a non resident entity that is entitled to the exemption. As a general rule, the evidence of non residence status should be provided to, and received by, the direct registration entities prior to the relevant date for payment of any interest, or the redemption date (for zero coupon Instruments), and prior to the transfer of Instruments date, as the case may be.

The following is a general description of the rules and procedures on the proof required for the exemption to apply at source, as they stand on the date of this Prospectus.

**(a) Domestically Cleared Instruments**

The beneficial owner of Instruments must provide proof of non residence in Portuguese territory substantially in the terms set forth below.

- (i) If the beneficial owner of Instruments is a central bank, an international organisation or a public law institution integrated in the Public Administration (either central, regional, peripheral, indirect or autonomous), a declaration of tax residence issued by the beneficial owner of Instruments itself, duly signed and authenticated or proof pursuant to paragraphs (ii) or (iv) below;
- (ii) If the beneficial owner of Instruments is a credit institution, a financial company, a pension fund or an insurance company domiciled in any OECD country or in a country with which Portugal has entered into a double taxation treaty and is subject to a special supervision regime or administrative registration, certification shall be made by means of the following: (A) its tax identification; or (B) a certificate issued by the entity responsible for such supervision or registration confirming the legal existence of the beneficial owner of Instruments and its domicile; or (C) proof of non residence status pursuant to paragraph (iv) below.
- (iii) If the beneficial owner of Instruments is either an investment fund or other type of collective investment undertaking domiciled in any OECD country or any country with which Portugal has entered into a double tax treaty, certification shall be provided by means of any of the following documents: (A) declaration issued by the entity which is responsible for its registration or supervision or by the tax authorities, confirming its legal existence, the law of incorporation and domicile; or (B) proof of non residence status pursuant to paragraph (iv) below.
- (iv) In any other case, confirmation must be made by way of (A) a certificate of residence or equivalent document issued by the relevant tax authorities; or (B) a document issued by the relevant Portuguese consulate certifying residence abroad; or (C) a document specifically issued by an official entity of the public administration (either central, regional or peripheral, indirect or autonomous) of the relevant country certifying the residence; for these purposes, an identification document such as a passport or an identity card or document by means of which it is only indirectly possible to assume the relevant tax residence (such as a work or permanent residency status permit) is not acceptable.

There are rules on the authenticity and validity of the documents mentioned in paragraph (iv) above, in particular that the beneficial owner of Instruments must provide an original or a certified copy of the residence certificate or equivalent document. This document must be issued up to until three months after the date on which the withholding tax would have been applied and will be valid for a three-year period starting on the date such document is produced. The beneficial owner of Instruments must inform the register entity immediately of any change in respect of the requirement conditions that may prevent the tax exemption from applying.

When the Instruments are held by central banks or governmental agencies, the respective proof of non residence in Portuguese territory is provided just once, its periodical renewal not being necessary.

**(b) Internationally Cleared Instruments**

If the Instruments are held through a centralised system recognised under the Portuguese Securities Code and complementary legislation, and registered in an account with an international clearing system recognised by the Minister of Finance (such as Euroclear Bank or Clearstream, Luxembourg), and the management entity of such international clearing system undertakes not to provide registration services to (i) residents for tax purposes in Portugal which do not benefit from either an exemption from Portuguese taxation or an exemption from Portuguese withholding tax, and (ii) non resident entities for tax purposes which do not benefit from the above Portuguese income tax exemption, special rules apply under which proof of the requirements to benefit from the exemption will be made through documents provided by the participants to the direct register

entity through the international clearing system managing entity. These documents must take into account the total accounts under their management regarding each beneficial owner of Instruments that are tax exempt or benefit from an exemption from Portuguese withholding tax.

The relevant procedures are as follows:

- (i) Filing a certificate, on a yearly basis, with the name of each beneficial owner, address, taxpayer number (if applicable), specification of the securities held and the legal basis for the exemption from taxation or from Portuguese withholding tax. The certificate on page 114 of this Prospectus corresponds with the current form (English version) for these purposes and was approved by Order (“*Despacho*”) n. 4980/2006 (2nd series) of the Portuguese Minister of Finance and Public Administration (currently “*Ministro das Finanças e da Administração Pública*”), published in the Portuguese official gazette, second series, n. 45, of 3 March 2006, and may be available at [www.dgci.min-financas.pt](http://www.dgci.min-financas.pt).
- (ii) Alternatively, filing a yearly declaration that states that the beneficial owners are exempt or not subject to withholding tax. This declaration is complemented by a disclosure list, on each coupon payment date, stating the beneficial owners names, addresses, taxpayer numbers (if applicable), quantity held, and the legal basis for the exemption from taxation or from Portuguese withholding tax. The declaration on page 116 of this Prospectus corresponds to the current form (English version) for these purposes and was approved by Notice (“*Aviso*”) n. 3714/2006 (2.nd series), published in the Portuguese official gazette, second series, n. 59, of 23 March 2006 issued by the Portuguese Secretary of State for Tax Affairs (currently “*Secretário de Estado dos Assuntos Fiscais*”) and may be available for viewing at [www.dgci.min-financas.pt](http://www.dgci.min-financas.pt):

**CERTIFICATE FOR EXEMPTION FROM PORTUGUESE WITHHOLDING TAX ON INCOME FROM DEBT SECURITIES (PARAGRAPH 1 OF ARTICLE 17 OF THE SPECIAL TAX REGIME APPROVED BY THE DECREE-LAW NR. 193/2005, OF 7 NOVEMBER)**

The undersigned Participant hereby declares that he holds debt securities covered by the special tax regime approved by the Decree-Law nr. 193/2005, of 7 November (the “Securities”), in the following securities account number .....

(the “Account”) with .....  
 (name and complete address of the international clearing system managing entity).

We will hold these Securities in our capacity as beneficial owner or in our capacity as intermediary, holding Securities on behalf of one or more beneficial owners, including ourselves, if applicable, all of whom are eligible for exemption at source from Portuguese withholding tax according to Portuguese legislation.

**1.** We are:

Name: .....

Residence for tax purposes (full address): .....

Tax ID Number: .....

**2.** We hereby certify that, from the date hereof until the expiry date of this certificate:

**A.** We are the Beneficial Owner of the following Securities:

<i>Security ISIN or Common Code</i>	<i>Security description</i>	<i>Nominal position</i>

and we hereby declare that we are not liable to pay Portuguese withholding tax, in accordance with the applicable legislation, indicated hereafter:

- Special Tax Regime approved by the Decree-Law no. 193/2005, of 7 November
- Art. 90 of CIRC (Corporate Income Tax Code) – Exemption from withholding tax

**B.** We are intermediaries of the following Securities:

<i>Security ISIN or Common Code</i>	<i>Security description</i>	<i>Nominal position</i>

which are held on behalf of:

Name: .....

Residence for tax purposes (full address): .....

Tax ID Number: .....

and we attach a statement of beneficial ownership, which includes the justification for the exemption of personal or corporate income withholding tax.

**3.** We hereby undertake to provide .....  
(*name of the international clearing system managing entity*) with a document proving the exemption of personal or corporate income withholding tax referred in the attached statement of beneficial ownership, whenever the beneficial owner is not a central bank, public institution, international body, credit institution, financing company, pensions fund or insurance company resident in any OECD country or in a country with which Portugal has concluded a Convention for the Avoidance of International Double Taxation, on behalf of which we hold Portuguese debt securities in the Account.

**4.** We hereby undertake to notify .....  
(*name of the international clearing system managing entity*) promptly in the event that any information contained in this certificate becomes untrue or incomplete.

**5.** We acknowledge that certification is required in connection with Portuguese law and we irrevocably authorise .....  
(*name of the international clearing system managing entity*) and its Depository to collect and forward this certificate or a copy hereof, with any attachments and any information relating to it, to the Portuguese authorities, including tax authorities.

**6. THIS STATEMENT IS VALID FOR A PERIOD OF TWELVE MONTHS AS FROM THE DATE OF SIGNATURE.**

**PLACE:** ..... **DATE:** .....

Authorised Signatory ..... Name .....

Title/position .....

Authorised Signatory ..... Name .....

Title/position .....

**STATEMENT OF BENEFICIAL OWNERSHIP**

The undersigned beneficiary:

- Name: .....
- Address: .....
- Tax ID number: .....

Holding via the following financial intermediary:

- Name of financial intermediary: .....
- Account number: .....

The following securities:

- Common /ISIN code: .....
- Security name: .....
- Payment date: .....
- Nominal position: .....

1. Hereby declares that he/she/it is the beneficial owner of the above-mentioned securities and nominal position at the payment date ...../...../.....; and

2. Hereby declares that he/she/it is not liable to withholding tax, in accordance with the applicable legislation, indicated herein after (tick where applicable):

- Special Tax Regime approved by the Decree-Law no. 193/2005, of 7 November
- Art. 90 of CIRC (Corporate Income Tax Code) – Exemption from withholding tax
- Art. 9 of CIRC – State, Autonomous Regions, local authorities, their associations governed by public law and social security federations and institutions
- Art. 10 of CIRC – General Public Interest Companies, Charities and other non-governmental social entities; exemption by Ministerial Regulation no. ...., published in the *Diário da República* .....
- Art. 14 of EBF (Tax Incentives Statute) – Pension Funds and assimilated funds
- Art. 21 of EBF – Retirement Savings Funds (FPR), Education Savings Funds (FPE), Retirement and Education Savings Funds (FPR/E)
- Art. 22 – A of EBF – Venture Capital Investment Funds
- Art. 24 of EBF – Stock Savings Funds (FPA)
- Other legislation (indicate which).....

This document is to be provided to the Portuguese tax authorities, if requested by the latter, as foreseen in Article 17 of the Special Tax Regime approved by the Decree-Law nr. 193/2005, of 7 November.

Authorised signatory:

Name: .....

Function: .....

Signature: .....

**STATEMENT FOR EXEMPTION FROM PORTUGUESE WITHOLDING TAX ON INCOME  
FROM DEBT SECURITIES (PARAGRAPH 2 OF ARTICLE 17 OF THE SPECIAL TAX  
REGIME APPROVED BY DECREE-LAW NR. 193/2005, OF 7 NOVEMBER)**

The undersigned Participant hereby declares that he holds or will hold debt securities in accordance with the special tax regime approved by Decree-Law no. 193/2005, of 7 November (the "Securities"), in

the following securities account number .....

(the "Account") with .....

*(name and complete address of the international clearing system managing entity).*

We hold or will hold these Securities in our capacity as beneficial owner or in our capacity as intermediary, holding Securities on behalf of one or more beneficial owners, including ourselves, if applicable, all of whom are eligible for exemption at source from Portuguese withholding tax according to Portuguese legislation.

**1.** We are:

Name: .....

Residence for tax purposes (full address): .....

Tax ID Number: .....

**2.** We hereby undertake to provide .....  
*(name of the international clearing system managing entity)* with a list of Beneficial Owners at each relevant record date containing the name, residence for tax purposes, Tax Identification Number and nominal position of Portuguese debt Securities for each Beneficial Owner, including ourselves if relevant, on behalf of which we hold or will hold Portuguese debt securities in the Account.

**3.** We hereby undertake to notify .....  
*(name of the international clearing system managing entity)* promptly in the event that any information contained in this certificate becomes untrue or incomplete.

**4.** We acknowledge that certification is required in connection with Portuguese law and we irrevocably authorise .....  
*(name of the international clearing system managing entity)* and its Depository to collect and forward this statement or a copy hereof, with any attachments and any information relating to it, to the Portuguese authorities, including tax authorities.

**5.** This statement is valid for a period of twelve months as from the date of signature.

**PLACE:** ..... **DATE:** .....

Authorised Signatory ..... Name .....

Title/position .....

Authorised Signatory ..... Name .....

Title/position .....

## LIST OF BENEFICIAL OWNERS

For:

Interest due ...../...../.....

Security code (ISIN or Common Code): .....

Securities description: .....

Securities Clearance Account Number: .....

We certify that the above Portuguese debt securities are held on behalf of the following Beneficial Owners:

Name	Tax identification number	Residence for tax purposes	Quantity of securities	Legal basis of the exemption from withholding tax	
				Code(*)	Legislation(**)

(\*) Indicate the legal basis of the exemption from withholding tax in accordance with the following table:

**Code Legal basis of the exemption**

- 1 Special Tax Regime approved by the Decree-Law no. 193/2005, of 7 November
- 2 Art. 90 of CIRC (Corporate Income Tax Code) – Exemption from withholding tax
- 3 Art. 9 of CIRC – State, Autonomous Regions, local authorities, their associations governed by public law and social security federations and institutions
- 4 Art. 10 of CIRC – General Public Interest Companies, Charities and other non-governmental social entities
- 5 Art. 14 of EBF (Tax Incentives Statute) – Pension Funds and assimilated funds
- 6 Art. 21 of EBF – Retirement Savings Funds (FPR), Education Savings Funds (FPE), Retirement and Education Savings Funds (FPR/E)
- 7 Art. 22 – A of EBF – Venture Capital Investment Funds
- 8 Art. 24 of EBF – Stock Savings Funds (FPA)
- 9 Other legislation

(\*\*) The completion of this column is mandatory when the code “9” is indicated in the previous column.

In addition, the international clearing system managing entity shall inform the direct register entity of the income paid to each participant for each security payment.

No Portuguese exemption shall apply at source under the special regime approved by Decree-law 193/2005 if the above rules and procedures are not followed. Accordingly, the general Portuguese tax provisions shall apply as described above.

If the conditions for the exemption to apply are met, but, due to inaccurate or insufficient information, tax was withheld, a special refund procedure is available under the special regime approved by Decree-law 193/2005. The refund claim is to be submitted to the direct or indirect register entity of the

Instruments within 90 days from the date the withholding took place. A special tax form for these purposes was approved by Order (“*Despacho*”) n. 4980/2006 (2nd series), published in the Portuguese official gazette, second series, n. 45, of 3 March 2006 issued by the Portuguese Minister of Finance and Public Administration (currently “*Ministro das Finanças e da Administração Pública*”) and may be available at [www.dgci.min-financas.pt](http://www.dgci.min-financas.pt).

The refund of withholding tax in other circumstances or after the above 90 day period is to be claimed from the Portuguese tax authorities under the general procedures and within the general deadlines.

## **The Netherlands**

### *General*

The following summary describes the principal Netherlands tax consequences of the acquisition, holding, settlement, redemption and disposal of the Instruments, but does not purport to be a comprehensive description of all Netherlands tax considerations thereof. Reference in this summary to Instruments shall include Receipts and Coupons. This summary is intended as general information only and each prospective investor should consult a professional tax adviser with respect to the tax consequences of an investment in the Instruments.

This summary is based on the tax legislation, published case law, treaties, regulations and published policy, in force as of the date of this Prospectus, though it does not take into account any developments or amendments thereof after that date whether or not such developments or amendments have retroactive effect.

This summary does not address the Netherlands tax consequences for:

- (i) holders of Instruments that are resident or deemed to be resident of the Netherlands;
- (ii) holders of Instruments holding a substantial interest (*aanmerkelijk belang*) in the Issuer. Generally speaking, a holder of Instruments holds a substantial interest in the Issuer, if such holder of Instruments, alone or, where such holder is an individual, together with his or her partner (statutory defined term) or certain other related persons, directly or indirectly, holds (i) an interest of 5 per cent. or more of the total issued capital of the Issuer or of 5 per cent. or more of the issued capital of a certain class of shares of the Issuer, (ii) rights to acquire, directly or indirectly, such interest or (iii) certain profit sharing rights in the Issuer;
- (iii) investment institutions (*fiscale beleggingsinstellingen*) and exempt investment institutions (*vrijgestelde beleggingsinstellingen*); and
- (iv) pension funds or other entities that are exempt from Netherlands corporate income tax.

### *Withholding tax*

All payments made by the Issuer under the Instruments may be made free of withholding or deduction for any taxes of whatsoever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein provided that the Instruments do not in fact function as equity of the Issuer within the meaning of article 10, paragraph 1, under d of the Netherlands corporate income tax act 1969 (*Wet op de vennootschapsbelasting 1969*).

### *Corporate and individual income tax*

If a holder is not a resident nor deemed to be a resident of the Netherlands for Netherlands tax purposes (nor has opted to be taxed as a resident of the Netherlands), such holder is not taxable in respect of income derived from the Instruments and gains realised upon the settlement, redemption or disposal of the Instruments, unless:

- (i) the holder has an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands to which permanent establishment or a permanent representative the Instruments are attributable; or

- (ii) the holder is entitled to a share in the profits of an enterprise that is effectively managed in the Netherlands, other than by way of securities or through an employment contract, and to which enterprise the Instruments are attributable; or
- (iii) the holder is an individual and such income or gains qualify as income from miscellaneous activities in the Netherlands, which include the performance of activities in the Netherlands with respect to the Instruments that exceed regular, active portfolio management.

If the holder is a corporate entity, that corporate entity is subject to a maximum corporate income tax rate of 25.5 per cent. If the holder is an individual, that holder is subject to a maximum individual income tax rate of 52 per cent.

#### *Gift and Inheritance taxes*

No gift or inheritance taxes will arise in the Netherlands in respect of the acquisition of the Instruments by way of gift by or as a result of the death of a holder that is neither a resident nor deemed to be a resident of the Netherlands for the purposes of the Netherlands gift and inheritance tax, unless:

- (i) such holder at the time of the gift, or at the time of his or her death, has an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands and to which permanent establishment or a permanent representative, the Instruments are (deemed to be) attributable; or
- (ii) the Instruments are (deemed to be) attributable to the assets of an enterprise that is effectively managed in the Netherlands and the donor or the deceased is entitled, other than by way of securities or through an employment contract, to a share in the profits of that enterprise, at the time of the gift or at the time of his or her death; or
- (iii) in the case of a gift of the Instruments by a holder who at the date of the gift was neither a resident nor deemed to be a resident of the Netherlands, such holder dies within 180 days after the date of the gift, while at the time of his or her death being a resident or deemed to be a resident of the Netherlands.

#### *Value added tax*

In general, no value added tax will arise in respect of payments in consideration for the issue of the Instruments or in respect of the cash payment made under the Instruments, or in respect of a transfer of Instruments.

#### *Other taxes and duties*

No registration tax, customs duty, transfer tax, stamp duty or any other similar documentary tax or duty, will be payable in the Netherlands by a holder in respect of or in connection with the subscription, issue, placement, allotment, delivery or transfer of the Instruments.

#### **EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required, from the 1 July, 2005, to provide to the tax authorities of another Member State details of payment of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries).

Also with effect from 1 July, 2005, a number of non-EU countries including Switzerland, and certain dependent or associated territories of certain Member States have agreed to adopt similar measures (either provision of information or transitional withholding) (a withholding system in the case of Switzerland) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident in one of those territories.

## SUBSCRIPTION AND SALE

Instruments may be sold from time to time by the Issuer to any one or more of ABN AMRO Bank N.V., Banco BPI, S.A., Banco Espírito Santo de Investimento, S.A., Banco Santander de Negócios Portugal, S.A. Barclays Bank PLC, Banco Millennium bcp Investimento S.A., BNP PARIBAS, Caixa-Banco de Investimento, S.A., Citigroup Global Markets Limited, Deutsche Bank AG, London Branch, Dresdner Bank Aktiengesellschaft, Mitsubishi UFJ Securities International plc, Morgan Stanley & Co. International Limited and UBS Limited (the “Dealers”). The arrangements under which Instruments may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in an amended and restated dealership agreement dated 23 October, 2007 (the “Dealership Agreement”) and made between the Issuer and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Instruments, the price at which such Instruments will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealership Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Instruments.

**United States of America:** *Regulation S Category 2; TEFRA D, unless TEFRA C is specified as applicable in the relevant Final Terms; Rule 144A Eligible if so specified in the relevant Final Terms.*

Instruments have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act. Terms used in the preceding sentence have the meanings given to them by Regulation S under the Securities Act.

Instruments in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to U.S. persons, except in certain transactions permitted by U.S. tax regulations. Terms used in the preceding sentence have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that, except as permitted by the Dealership Agreement, it will not offer, sell or deliver Instruments, (i) as part of their distribution at any time or (ii) otherwise until forty days after the completion of the distribution of the Instruments comprising the relevant Tranche, as certified to the Issue and Paying Agent or the Issuer by such Dealer (or, in the case of a sale of a Tranche of Instruments to or through more than one Dealer, by each of such Dealers as to Instruments of such Tranche purchased by or through it, in which case the Issue and Paying Agent or the Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to or for the account or benefit of U.S. persons, and such Dealer will have sent to each dealer to which it sells Instruments during the restricted period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Instruments within the United States or to or for the account or benefit of U.S. persons.

In addition, until forty days after the commencement of the offering of Instruments comprising any Tranche, any offer or sale of Instruments within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of Index Linked Instruments or Dual Currency Instruments shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Instruments, which additional selling restrictions shall be set out in the applicable Final Terms.

### **Portugal**

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree, that the Prospectus has not been and will not be registered with

or approved by the Portuguese Securities Exchange Commission (“*Comissão do Mercado de Valores Mobiliários*”, “CMVM”) nor has a prospectus recognition procedure been commenced with the Portuguese Securities Exchange Commission. The Instruments may not be and will not be offered to the public in Portugal under circumstances which are deemed to be a public offer under the Portuguese Securities Code (*Código dos Valores Mobiliários*) enacted by Decree Law no. 486/99 of 13 November 1999 (as amended and restated from time to time) unless the requirements and provisions applicable to the public offering in Portugal are met and the above mentioned registration approval or recognition procedure is made. In addition, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that (i) it has not directly or indirectly taken any action or offered, advertised, marketed, invited to subscribe, gathered investment intentions, sold or delivered and will not directly or indirectly take any action, offer, advertise, invite to subscribe, gather investment intentions, sell, re-sell, re-offer or deliver any Instruments in circumstances which could qualify as a public offer (“*oferta pública*”) of securities pursuant to the Portuguese Securities Code, notably in circumstances which could qualify as a public offer addressed to individuals or entities resident in Portugal or having permanent establishment located in Portuguese territory, as the case may be; (ii) all offers, sales and distributions by it of the Instruments have been and will only be made in Portugal in circumstances that, pursuant to the Portuguese Securities Code or other securities legislation or regulations, qualify as a private placement of Instruments only (“*oferta particular*”); (iii) it will comply with all applicable provisions of the Portuguese Securities Code, the Prospectus Regulation implementing the Prospectus Directive and any applicable CMVM Regulations and all relevant Portuguese securities laws and regulations, in any such case that may be applicable to it in respect of any offer or sale of Instruments by it in Portugal or to individuals or entities resident in Portugal or having permanent establishment located in Portuguese territory, as the case may be, including compliance with the rules and regulations that require the publication of a prospectus, when applicable, and that such placement shall only be authorised and performed to the extent that there is full compliance with such laws and regulations.

### **The Netherlands**

Each Dealer has represented and agreed that any Instruments with a maturity of less than 12 months will either have a minimum denomination of EUR 50,000 or be offered in or outside the Netherlands only to professional market parties as defined in the Financial Supervision Act (*Wet op Financiële toezicht*) and the decrees issued pursuant thereto.

Zero Coupon Instruments (as defined below) in definitive form may only be transferred and accepted, directly or indirectly, within, from or into The Netherlands through the mediation of either EDP, EDP B.V. or a member of Euronext Amsterdam N.V. in accordance with the Dutch Savings Certificates Act (*Wet inzake Spaarbewijzen*) of 21 May 1985 (as amended) and, in addition thereto, if such Zero Coupon Instruments in definitive form do not qualify as commercial paper traded between professional borrowers and lenders within the meaning of the agreement of 2 February 1987 attached to the Royal Decree of 11 March 1987 (*Staatscourant 129*) (as amended) each transfer and acceptance should be recorded in a transaction note, including the name and address of each party to the transaction, the nature of the transaction and the details and serial numbers of such Instruments. No such mediation is required in respect of (a) the transfer and acceptance of Zero Coupon Instruments whilst in the form of rights representing an interest in a Zero Coupon Instrument in global form; or (b) the initial issue of Zero Coupon Instruments in definitive form to the first holders thereof; or (c) transfer and acceptance of Zero Coupon Instruments in definitive form between individuals not acting in the conduct of a business or profession, or (d) the transfer and acceptance of such Zero Coupon Instruments within, from or into The Netherlands if all Zero Coupon Instruments (either in definitive form or as rights representing an interest in a Zero Coupon Instrument in global form) of any particular Series or Tranche are issued outside The Netherlands and are not distributed within The Netherlands in the course of initial distribution or immediately thereafter. In the event that the Savings Certificate Act applies, certain identification requirements in relation to the issue and transfer of and payments on Zero Coupon Instruments have to be complied with. For the purposes of this paragraph “Zero Coupon Instruments” are Instruments that are in bearer form and that constitute a claim for a fixed sum against the Issuer and on which interest does not become due during their tenor or on which no interest is due whatsoever.

## **United Kingdom**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (1) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Instruments in circumstances in which section 21(1) of the FSMA does not apply to the Issuer;
- (2) in relation to any Instruments having a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Instruments other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal and agent) for the purposes of their businesses where the issue of the Instruments would otherwise constitute a contravention of section 19 of the FSMA by the Issuer; and
- (3) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Instruments in, from or otherwise involving the United Kingdom.

## **Japan**

The Instruments have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended, the “FIEL”) and, each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will not offer or sell any Instruments directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and any other applicable laws, ministerial guidelines and regulations of Japan.

## **Public Offer Selling Restriction under the Prospectus Directive**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Instruments to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Instruments to the public in that Relevant Member State:

- (a) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than EUR 43,000,000 and (3) an annual net turnover of more than EUR 50,000,000, as shown in its last annual or consolidated accounts; or
- (c) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospective Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Instruments referred to in (a) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Instruments to the public” in relation to any Instruments in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Instruments to be offered so as to enable an investor to decide to purchase or subscribe the Instruments, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

### **General**

Other than with respect to the listing of the Instruments on such stock exchange as may be specified in the Final Terms, no action has been or will be taken in any country or jurisdiction by the Issuer or the Dealers that would permit a public offering of Instruments, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus or any Final Terms comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Instruments or have in their possession or distribute such offering material, in all cases at their own expense.

The Dealership Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, in applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph headed “General” above.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification will be set out in the relevant Final Terms (in the case of a supplement or modification relevant only to a particular Tranche of Instruments) or (in any other case) in a supplement to this document.

## GENERAL INFORMATION

1. The admission of Instruments to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Instruments which is to be admitted to the Official List and to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market will be admitted separately as and when issued, subject only to the issue of a Global Instrument or Instruments initially representing the Instruments of such Tranche. Application has been made to the UK Listing Authority for Instruments issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Instruments to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market. The listing of the Programme in respect of Instruments is expected to be granted on or before 10 January 2006.
2. The establishment of the Programme was authorised by the Board of Directors of EDP at a meeting held on 21 September 1999 and by the management board of EDP B.V. at a meeting held on 8 October 1999. The increase in the amount of the Programme to EUR 5,000,000,000 and the entering into of the Trust Deed and the Keep Well Agreement was authorised by the Board of Directors of EDP at a meeting held on 13 March 2001 and by the management board of EDP B.V. at a meeting held on 8 March 2001. The update of the Programme was authorised by the Board of Directors of EDP at a meeting held on 2 February 2004 and by the management board of EDP B.V. at a meeting held on 17 December 2004. The update of the Programme and the increase of the nominal amount of the Programme to EUR 7,000,000,000 was authorised by the Board of Directors of EDP at a meeting held on 22 November 2005 and by the management board of EDP B.V. at a meeting held on 23 November 2005. The update of the Programme and the increase of the nominal amount of the Programme to EUR 12,500,000,000 was authorised by the Board of Directors of EDP at meetings held on 19 June 2007 and 9 October 2007 and by the management board of EDP B.V. at a meeting held on 18 October 2007. The Issuers have obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Instruments and their respective obligations under the Trust Deed and the Keep Well Agreement.
3. The Instruments have been accepted for clearance through Euroclear Bank and Clearstream, Luxembourg (which are the entities in charge of keeping records in respect of such Instruments). The appropriate common code and the International Securities Identification Number in relation to the Instruments of each Series will be specified in the Final Terms relating thereto. The Interbolsa Instruments will be cleared through the clearing system operated at Interbolsa; the appropriate identification reference for a Tranche of Interbolsa Instruments will be specified in the applicable Final Terms. At the date hereof Interbolsa only accepts to clear instruments denominated in euros. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Instruments for clearance together with any further appropriate information.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of Interbolsa is Avenida da Boavista, 3433-4100-138 Porto, Portugal.

4. Bearer Instruments (other than Temporary Global Instruments) and any Coupon appertaining thereto will bear a legend substantially to the following effect: "*Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code.*"

The sections referred to in such legend provide that a United States person who holds a Bearer Instrument or Coupon generally will not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bearer Instrument or Coupon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

5. For the period of 12 months following the date of this Prospectus, copies of the following documents will, when published, be available from the registered office of EDP, EDP B.V. and from the specified offices of the Paying Agents for the time being in London and Lisbon (together with English translations in the case of paragraphs (i), (ii) and (iii) below):
- (i) the constitutional documents of EDP and EDP B.V.;
  - (ii) the audited consolidated financial statements of EDP in respect of the financial years ended 31 December 2005 and 31 December 2006 and the audited financial statements of EDP B.V. in respect of the financial years ended 31 December 2005 and 31 December 2006, in each case with the audit reports prepared in connection therewith;
  - (iii) the most recently published audited annual financial statements of EDP and EDP B.V. and the most recently published unaudited interim financial statements (if any) of EDP and EDP B.V. in each case together with any audit or review reports prepared in connection therewith;
  - (iv) the Dealership Agreement, the Trust Deed, the Interbolsa Instrument, the Keep Well Agreement, the Agency Agreement and the forms of the Instruments, the Receipts, the Coupons and the Talons;
  - (v) a copy of this Prospectus;
  - (vi) any future information memoranda, prospectuses, offering circulars and supplements including Final Terms (save that Final Terms relating to an Instrument which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Instrument and such holder must produce evidence satisfactory to the relevant Paying Agent, as the case may be, as to its holding of Instruments and identity) to this Prospectus and any other documents incorporated herein or therein by reference; and
  - (vii) in the case of each issue of Instruments admitted to trading on the Gilt Edged and Fixed Interest Market subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

In addition, this Prospectus is also available at the website of the Regulatory News Service operated by the London Stock Exchange at [www.londonstockexchange.com/en-gh/pricenews/marketnews/](http://www.londonstockexchange.com/en-gh/pricenews/marketnews/).

6. There has been no significant change in the financial or trading position of EDP, EDP B.V. or the Group since 30 June 2007, and there has been no material adverse change in the financial position or prospects of EDP, EDP B.V. or the Group since the date of the last audited annual accounts being 31 December 2006.
7. None of EDP, EDP B.V. and any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which EDP or EDP B.V. is aware) in the 12 months preceding the date of this document which may have or have had a significant effect on the financial position and profitability of EDP, EDP B.V. or the Group.
8. The auditors of the EDP are KPMG & Associados, SROC, SA, independent certified public accountants, who have audited EDP's accounts, without qualification, in accordance with generally accepted auditing standards in Portugal for the financial year ended on 31 December 2006. The auditors of EDP have no material interest in EDP.

The current auditors of EDP B.V. are KPMG Accountants N.V. who audited EDP B.V.'s accounts, without qualification, in accordance with generally accepted auditing standards in The Netherlands for the financial year ended on 31 December 2006. The auditors of EDP B.V. have no material interest in EDP B.V. KPMG Accountants N.V. are chartered accountants ("registeraccountants") in The Netherlands.

The Trust Deed will provide that the Trustee may rely on any certificate or report by the auditors of the relevant Issuer or any other person called for by or provided to the Trustee (whether or not addressed to the Trustee) in accordance with the provisions of the Trust Deed as sufficient evidence of the facts stated therein notwithstanding that such certificate or report and/or any engagement letter or other document entered into by the Trustee in connection therewith contains a monetary or other limit on the liability of the auditors of the relevant Issuer or such other person in respect thereof.

9. The price and amount of Instruments to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.
10. The Issuers do not intend to provide any post-issuance information in relation to any issues of Instruments.
11. Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to, the Issuers and their affiliates in the ordinary course of business.

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**Banco Espírito Santo Investimento, S.A.**  
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**Banco Millenium bcp investimento, S.A.**  
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**Banco Santander de Negócios Portugal, S.A.**  
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**Dresdner Bank Aktiengesellschaft**  
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**Morgan Stanley & Co. International plc**  
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**UBS Limited**  
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*To EDP*  
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Praia da Vitoria,  
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*To EDP B.V.*  
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## TRUSTEE

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## ISSUE AND PAYING AGENT

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London EC2N 2DB

## REGISTRAR AND PAYING AGENT

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2 Boulevard Konrad Adenauer  
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## PORTUGUESE PAYING AGENT

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## LEGAL ADVISERS

*To EDP as to English law*

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*To EDP as to Portuguese law*

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