14 September 2015

EDP - ENERGIAS DE PORTUGAL, S.A.

(incorporated with limited liability in the Portuguese Republic)

€750,000,000 Fixed to Reset Rate Subordinated Notes due 2075

Issue Price: 99.456 per cent.

The €750,000,000 Fixed to Reset Rate Subordinated Notes due 2075 (the **Notes**) are issued by EDP - Energias de Portugal, S.A. (the **Issuer**). The Notes will bear interest, payable in arrear on 16 March in each year. The first payment (for the period from and including the Issue Date to but excluding 16 March 2016) and amounting to €2,672.81 per €100,000 in principal amount of Notes shall be made on 16 March 2016. The last interest payment (for the period from and including 16 March 2075 to but excluding 16 September 2075) shall be made on 16 September 2075. The Notes bear interest on their Principal Amount at (a) from and including the Issue Date to but excluding the First Call Date, 5.375 per cent. per annum; (b) from and including the First Call Date to but excluding the First Step-Up Date, the relevant Reset Rate of Interest; (c) from and including the First Step-Up Date to but excluding the Second Step-Up Date, the relevant Reset Rate of Interest plus 0.25 per cent. per annum; and (d) from and including the Second Step-Up Date to but excluding the Maturity Date, the relevant Reset Rate of Interest plus 1.00 per cent. per annum, each subject to, in the case of a Change of Control Event and unless redeemed early following such Change of Control Event, an increase of 5.00 per cent per annum (each capitalised term as defined in *"Terms and Conditions of the Notes"*). Interest payments may be deferred at the option of the Issuer. See Condition 3 of *"Terms and Conditions of the Notes"* for details on interest deferral.

The Notes will mature on 16 September 2075 (the **Maturity Date**), unless redeemed earlier at the option of the Issuer. Prior to the Maturity Date, the Issuer may redeem the Notes (in whole but not in part) on the First Call Date, the First Step-Up Date or on any Interest Payment Date falling after the First Step-Up Date at their Principal Amount, together with any interest accrued up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest Payments. The Issuer may also redeem the Notes (in whole but not in part): (i) following a Gross-up Event, a Change of Control Event or a Substantial Repurchase Event, at their Principal Amount; or (ii) following a Tax Event or a Rating Agency Event at: (a) if such redemption occurs prior to the First Call Date, 101 per cent. of their Principal Amount; or (b) if such redemption occurs on or following the First Call Date, their Principal Amount, in each case plus any interest accrued up to (but excluding) the Redemption Date and any outstanding Deferred Interest Payments (each capitalised term as defined in *"Terms and Conditions of the Notes"*). See Condition 4 of "*Terms and Conditions of the Notes*" for further detail.

The Notes will constitute direct, unsecured and subordinated obligations of the Issuer, as more particularly described in Condition 2 of "*Terms and Conditions of the Notes*".

Prospective investors should have regard to the factors described under the section headed *"Risk Factors"* on page 12 of this Prospectus.

The Notes will be rated Ba2 by Moody's Investors Service Limited (**Moody's**), B+ by Standard & Poor's Credit Market Services France SAS, a Division of the McGraw-Hill Companies Inc. (**Standard & Poor's**) and BB by Fitch Ratings Limited (**Fitch**). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

Each of Moody's, Standard & Poor's and Fitch is established in the European Union (**EU**) and is registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). As such, each of Moody's, Standard & Poor's and Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

The Prospectus has been approved by the Central Bank of Ireland (the **Central Bank**), as competent authority under Directive 2003/71/EC, as amended (which includes the amendments made by Directive 2010/73/EU) (the **Prospectus Directive**). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive.

Application has been made to the Irish Stock Exchange PLC (the **Irish Stock Exchange**) for the Notes to be admitted to the official list of the Irish Stock Exchange (the **Official List**) and trading on its regulated market (the **Main Securities Market**). The Irish Stock Exchange's Main Securities Market is a regulated market for the purposes of Directive 2004/39/EC as amended.

The Notes will be represented in dematerialised book-entry ("*escriturais*") and nominative ("*nominativas*") form in the denomination of €100,000 each and will be held through the accounts of affiliate members of the Portuguese central securities depositary and the manager of the Portuguese settlement system, *Interbolsa–Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A.* (**Interbolsa**), as operator and manager of the "*Central de Valores Mobiliários*" (the **CVM**).

Deutsche Bank | **UBS Investment Bank**

(Global Coordinators and Structuring Banks)

Banco Santander Totta, S.A. | **BNP PARIBAS**
Deutsche Bank | **HSBC**
Millennium Investment Banking | **J.P. Morgan**
UBS Investment Bank

(Joint Lead Managers)

This Prospectus comprises a prospectus for the purpose of the Prospectus Directive and for the purpose of giving information with regard to the Issuer and the Issuer and its subsidiaries taken as a whole (the **Group**) which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer.

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (having 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.

Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and to trading on the Main Securities Market. References in this Prospectus to Notes being “listed” (and all related references) shall mean that Notes have been admitted to trading on the Main Securities Market and have been admitted to the Official List.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Prospectus.

The Lead Managers (as defined in "*Subscription and Sale*" below) have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, expressed or implied, is made and no responsibility or liability is accepted by the Lead Managers as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer in connection with the Notes. No Lead Manager accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer in connection with the Notes.

In connection with the issue and sale of the Notes, no person is authorised to give any information or to make any representation not contained in, or inconsistent with, this Prospectus or any other information supplied in connection with the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Lead Managers.

Neither this Prospectus, nor any other information supplied in connection with the Notes, is intended to provide the basis of any credit or other evaluation or should be considered as a recommendation by the Issuer or the Lead Managers that any recipient of this Prospectus or any other information supplied in connection with the Notes should purchase any of the Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. This Prospectus may only be used for the purposes for which it has been published.

No person is authorised to give any information or to make any representations other than those contained in this Prospectus in connection with the offering or sale of the Notes and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Issuer or the Lead Managers. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication or constitute a representation that there has been no change in the affairs of the Issuer or the Group since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the Group since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Notes is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes 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 offering of the Notes in certain jurisdictions may be restricted by law. Neither the Issuer nor any of the Lead Managers represents that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an available exemption, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Lead Managers which is intended to permit a public offering of the Notes or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not 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 comes are required by the Issuer and the Lead Managers to inform themselves about, and to observe, any applicable restrictions. For a description of certain further restrictions on the offering, sale and delivery of the Notes and on the distribution of this Prospectus, see "*Subscription and Sale*" below.

Each potential investor in the Notes 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 Notes, the merits and risks of investing in the Notes 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 Notes and the impact the Notes 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 Notes, including where euro is different from the potential investor's currency;

iv. understand thoroughly the terms of the Notes and be familiar with the behaviour of the relevant 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 Notes are complex financial instruments. A potential investor should not invest in Notes unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

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) the Notes are legal investments for it; and (2) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**), and the Notes are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States of America or to U.S. persons.

References in this Prospectus 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 on the functioning of the European Union, as amended.

STABILISATION

IN CONNECTION WITH THIS ISSUE, DEUTSCHE BANK AG, LONDON BRANCH (OR PERSONS ACTING ON BEHALF OF DEUTSCHE BANK AG, LONDON BRANCH) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT DEUTSCHE BANK AG, LONDON BRANCH (OR PERSONS ACTING ON BEHALF OF DEUTSCHE BANK AG, LONDON BRANCH) 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 NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY DEUTSCHE BANK AG, LONDON BRANCH (OR PERSON(S)

ACTING ON BEHALF OF DEUTSCHE BANK AG, LONDON BRANCH) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

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OVERVIEW

The following overview refers to certain provisions of the "Terms and Conditions of the Notes" and is qualified by the more detailed information contained elsewhere in this Prospectus. Capitalised terms used herein have the meaning given to them in "Terms and Conditions of the Notes", as appropriate.

Issuer	EDP – Energias de Portugal, S.A.
Issue size	€750,000,000
Issue Date	16 September 2015
Maturity	16 September 2075 (unless redeemed earlier by the Issuer).
Subordination	The Notes will rank: (a) junior to all Senior Obligations of the Issuer; (b) *pari passu* with each other and with the obligations of the Issuer in respect of any Parity Security; and (c) senior only to the Issuer's ordinary shares and any other class of share capital of the Issuer that ranks *pari passu* with ordinary shares. **Parity Security** means: (i) any security issued by the Issuer which ranks, or is expressed to rank, *pari passu* with the Notes; and (ii) any security guaranteed by, or subject to the benefit of a keep well agreement or support undertaking entered into by, the Issuer where the Issuer's obligations under the relevant guarantee, keep well agreement or support undertaking rank *pari passu* with the Issuer's obligations under the Notes. **Senior Obligations** means all obligations of the Issuer (including any obligation assumed by the Issuer under any guarantee of, or any keep well agreement) other than the obligations of the Issuer in respect of any Parity Security or the Issuer Shares.
Interest Payment Dates	Subject to any interest deferral (as described below), interest payments in respect of the Notes will be payable in arrear on 16 March of each year. The first payment (for the period from and including the Issue Date to but excluding 16 March 2016) and amounting to €2,672.81 per €100,000 in Principal Amount of Notes shall be made on 16 March 2016. The last interest payment (for the period from and including 16 March 2075 to but excluding 16 September 2075) shall be made on 16 September 2075.
Interest	The Notes bear interest on their Principal Amount at: (a) from and including the Issue Date to but excluding 16 March 2021 (the **First Call Date**), 5.375 per cent. per annum; (b) from and including the First Call Date to but excluding 16 March 2026 (the **First Step-Up Date**), at the relevant Reset Rate of Interest; (c) from and including the First Step-Up Date to but excluding the Second Step-Up Date, the relevant Reset Rate of Interest plus 0.25 per cent. per annum; and

(d) from and including the Second Step-Up Date to but excluding the Maturity Date, the relevant Reset Rate of Interest plus 1.00 per cent. per annum,

each subject to, in the case of a Change of Control Event and unless redeemed early following such Change of Control Event, an increase of 5.00 per cent per annum.

Second Step-Up Date means: (A) if, at any time between the Issue Date and the 30th calendar day preceding the First Call Date, the Issuer is assigned an issuer credit rating of "BBB-" or above by Standard & Poor's and does not, on the 30th calendar day preceding the First Call Date, have an issuer credit rating assigned to it of "BB+" (or such similar nomenclature then used by Standard & Poor's) or below, 16 March 2041; and (B) otherwise 16 March 2036.

Interest deferral

The Issuer will have the right to defer interest payments on the Notes, in whole or in part, otherwise scheduled to be paid on an Interest Payment.

The Issuer may settle outstanding Deferred Interest Payments (in whole or in part) at any time on the giving of prior notice to the Holders.

Notwithstanding the above, all outstanding Deferred Interest Payments must be settled (in whole and not in part) on the date which is the earlier of:

(i) the date which is 10 Business Days following the occurrence of a Compulsory Payment Event;

(ii) the next Interest Payment Date on which any interest is paid on the Notes;

(iii) the Maturity Date or the calendar day on which the Notes are otherwise redeemed; and

(iv) the calendar day on which an applicable legally binding resolution or order is made for the winding-up, dissolution or liquidation of the Issuer (other than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring while solvent, where the continuing entity assumes substantially all of the assets and obligations of the Issuer).

Each of the following is a Compulsory Payment Event:

(A) the shareholders of the Issuer validly approve a proposal to pay a dividend, other distribution or payment on any Issuer Shares, other than any payment in kind using Issuer Shares;

(B) the Issuer redeems, or the Issuer or any of its Subsidiaries purchases or otherwise acquires, any Issuer Shares for any consideration, except pursuant to the terms of any instrument which converts into Issuer Shares or in connection with the satisfaction by the Issuer of its obligations under any existing or future buy-back programme, share option or free share allocation plan or employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants;

(C) the Issuer or any of its Subsidiaries makes any payment of interest, dividend or other distribution or payment on any Parity Securities; and

(D) the Issuer redeems, or the Issuer or any of its Subsidiaries purchases or otherwise acquires, any of the Notes or any Parity Securities for any consideration, except pursuant to the terms of any instrument which converts into Issuer Shares or Parity Securities,

provided that, in the case of (C) and (D) above, no Compulsory Payment Event will occur if: (x) the Issuer or any of its Subsidiaries are obliged under these Conditions or under the terms and conditions of such Parity Securities to make such payment, redemption, purchase or other acquisition; or (y) the Issuer or any of its Subsidiaries repurchases or otherwise acquires any Notes or any Parity Securities in an open-market tender offer or exchange offer at a consideration per Note or Parity Security below its respective par value.

Redemption

The Notes will mature on the Maturity Date unless redeemed earlier at the option of the Issuer.

Prior to the Maturity Date, the Issuer may redeem the Notes (in whole but not in part) on the First Call Date, the First Step-Up Date or on any Interest Payment Date falling after the First Step-Up Date at their Principal Amount, together with any interest accrued up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest Payments.

The Issuer may also redeem the Notes (in whole but not in part):

(i) following a Gross-up Event, a Change of Control Event or a Substantial Repurchase Event, at their Principal Amount; or

(ii) following a Tax Event or a Rating Agency Event at:

  (a) if such redemption occurs prior to the First Call Date, 101 per cent. of their Principal Amount; or

  (b) if such redemption occurs on or following the First Call Date, their Principal Amount,

plus any interest accrued up to (but excluding) the Redemption Date and any outstanding Deferred Interest Payments.

Purchases

The Issuer or any of its Subsidiaries may, in compliance with applicable laws, at any time purchase Notes in the open market or otherwise and at any price. Such acquired Notes may be cancelled, held or resold.

The Issuer intends (without thereby assuming a legal obligation), during the period from and including the Issue Date to but excluding the Second Step-Up Date, that in the event of an early redemption or repurchase of the Notes under the circumstances further described in the section "*Replacement Intention*" in this Prospectus, if the Notes are assigned an "equity credit" by Standard & Poor's at the time of such redemption or repurchase, it will redeem or repurchase the Notes only to the extent the Aggregate Equity Credit of the Notes to be redeemed or repurchased does not exceed the Aggregate Equity Credit received by the Issuer or any Subsidiary during the 360 day period prior to the date of such redemption or repurchase from the sale or issuance by the Issuer or the relevant Subsidiary to third party purchasers of replacement securities (the **Restrictions**).

For the purpose of the Restrictions, **Aggregate Equity Credit** means:

(x) in relation to the Notes, the part of the aggregate Principal Amount of the Notes that was assigned "equity credit" by Standard & Poor's at the time of their issuance; and

(y) in relation to replacement securities, the part of the net proceeds received from issuance of such replacement securities that was assigned "equity credit" by Standard & Poor's at the time of their sale or issuance.

The intention described above does not apply if, among other circumstances as fully described in the section "*Replacement Intention*" in this Prospectus, on the date of such redemption or repurchase:

i. the rating assigned by Standard & Poor's to the Issuer is at least "BB+"; or

ii. the Issuer or any Subsidiary of the Issuer has individually or in the aggregate, redeemed, cancelled or purchased the Notes in an amount equal to or in excess of 80 per cent. of the sum of the aggregate Principal Amount of the Notes issued on the Issue Date and the aggregate Principal Amount of any Notes issued pursuant to Condition 8; or

iv. the statements made in the Restrictions set forth hereunder are no longer required for the Notes to be assigned an "equity credit" by Standard & Poor's that is equal to or greater than the "equity credit" assigned by Standard & Poor's on the Issue Date; or

v. such replacement would cause the Issuer's outstanding hybrid capital which is assigned "equity credit" by Standard & Poor's to exceed the maximum aggregate principal amount of hybrid capital which Standard & Poor's, under its then prevailing methodology, would assign "equity credit" to based on the Issuer's adjusted total capitalisation.

The statements of intention above summarise the statements of intention contained in the section "*Replacement Intention*" in this Prospectus. Please refer to that section for complete information in this regard.

Withholding taxation and gross-up

Payments of interest and other amounts in respect of the Notes will be made free of Portuguese withholding taxes, unless such taxes are required to be withheld by law. If any such withholding or deduction is made, additional amounts may be payable by the Issuer, subject to certain exceptions as provided in Condition 6.

Events of Default

If any of the events below (an **Event of Default**) occurs and is continuing then Holders holding not less than one quarter of the aggregate Principal Amount of the Notes then outstanding may declare the Notes immediately due and payable:

(i) upon the initiation of, or consent to, the liquidation, winding-up or dissolution of the Issuer or the Issuer admits in writing its inability to pay its debts as and when

	the same fall due; or (ii) the application to any court (that remains undischarged for sixty days) for, or the making by any court of, an insolvency order against the Issuer; or (iii) the appointment by any court of an insolvency administrator or other similar officer over all or any part of the Issuer's assets (that remains undischarged for sixty days); or (iv) if default is made in the payment of any principal or interest amount that is due and payable in respect of the Notes or any of them and the default continues for a period of 30 days, provided that no such event shall constitute an Event of Default if it is being contested in good faith by appropriate means by the Issuer and the Issuer has been advised by recognised independent legal advisers of good repute that it is reasonable to do so.
Voting rights	The Notes do not entitle Holders to participate in, or to vote at, any general meeting of the shareholders of the Issuer.
Denomination	The Notes are issued in the denomination of €100,000.
Listing and admission to trading	Applications have been made to the Irish Stock Exchange for the Notes to be admitted to listing on the Official List and trading on the Main Securities Market.
Governing Law	The Notes, and any non-contractual obligations arising out or in connection with the Notes, are governed by English law (with the exception of Conditions 1 and 2 which will be governed by Portuguese law). The form (*representação formal*) and transfer of the Notes, creation of security over the Notes and the Interbolsa procedures for the exercise of rights under the Notes are governed by, and shall be construed in accordance with, Portuguese law.
Clearing	The Notes will be represented in dematerialised book-entry ("*escriturais*") and nominative ("*nominativas*") form with Interbolsa and registered and cleared through the system operated by Interbolsa. The Notes will also be eligible for clearing and settlement through Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme, Luxembourg holding Notes through a custodian that is a member participating in the system managed by Interbolsa.
Ratings:	The Notes are expected to be rated Ba2 by Moody's, B+ by Standard & Poor's and BB by Fitch. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. As of the date of this Prospectus, each of Moody's, Standard & Poor's and Fitch is a credit rating agency established in the EU and registered under the CRA Regulation.
Use of Proceeds:	The proceeds of the Notes will be used for general corporate purposes.
Selling Restrictions:	The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Notes may be sold in other jurisdictions (including the UK and Portugal) only in

	compliance with applicable laws and regulations. See “*Subscription and Sale*”.
Risk Factors:	Prospective investors should carefully consider the information set out in the section entitled “*Risk Factors*” in conjunction with the other information contained or incorporated by reference in this Prospectus.
ISIN:	PTEDPUOM0024
Common Code:	129176784

RISK FACTORS

An investment in the Notes involves risks. The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. These factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the Notes are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with any Notes for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive. Accordingly, the factors detailed in this section should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including the documents incorporated by reference herein) and reach their own views prior to making an investment decision.

References in this section to EDP are to the Issuer and its group of companies.

RISKS RELATED TO EDP'S BUSINESS

EDP's operating results are highly affected by laws and regulations implemented by multiple public entities in the various jurisdictions in which it operates.

EDP's operations include the generation, distribution and supply of electricity (including the development, construction, licensing and operation of power plants and distribution grids), distribution and supply of natural gas 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. EDP's most extensive operations are in Portugal, Spain, Brazil, France, Belgium, Italy, Poland, Romania, Canada and the United States. The laws and regulations affecting EDP's activities in these countries may vary by jurisdiction and may be subject to modifications, including those unilaterally imposed by regulators and legislative authorities or as a result of judicial or administrative proceedings or actions, that may make such laws and regulations more restrictive or in other ways less favourable to EDP. Furthermore, additional laws and regulations may be implemented, including those enacted as a result of actions filed by third parties or lobbying by special interest groups. Changes to these laws and regulations, or the enactment of additional laws and regulations, could have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

In particular, the development and profitability of renewable energy projects is significantly dependent on policies and regulatory frameworks that support such development. Member States of the EU, including the European countries in which EDP operates or has pipeline projects, and many states in the United States and the U.S. federal government have adopted policies and measures that actively support renewable energy projects. Support for renewable energy sources has been strong in past years and EDP has benefited from such support. Notwithstanding, the EU has recently moderated its support to renewable energy projects. In 2014, the EU has issued the Communication 2014/C 200/01 containing guidelines on state aid for environmental protection and energy for 2014-2020, presenting a new trend to progressively abandon the feed-in tariff support scheme, and proposes alternative support schemes, which may subject renewable energy promoters to increasing market exposure, therefore reducing the predictability of investments. Also, in contrast with the EU 20/20/20 energy policy, the new energy targets for 2030 are, for the most part, particularly in relation to energy efficiency and renewable energy, not binding on a national level. Consequently, EDP cannot guarantee that such support, policies or regulatory frameworks will be maintained. Changes to these could have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

Concessions, licences and permits might, in some cases, be granted for certain periods of time only or might be subject to early termination or revocation ("*revogação*" or "*resgate*") under certain circumstances, including as a result of legal proceedings, challenges, disputes, legal or regulatory changes or 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. Under these circumstances, although specified compensatory amounts might be payable to EDP with respect to these assets, such amounts, if any, may not be sufficient to compensate EDP for its actual or anticipated loss and the loss of any of these assets may adversely affect EDP's business, financial condition, prospects or results of operations. Moreover, the expiration or termination of concessions, licences or permits might limit EDP's ability to conduct its business in an entire jurisdiction and, consequently, could have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

EDP's business is also affected by other general laws and regulations in the various jurisdictions in which it operates, including those regarding taxes, levies and other charges, which may be amended, or their interpretation may vary, from time to time. Therefore, EDP cannot guarantee that current laws and regulations will not be rapidly or significantly modified, or their interpretation by the relevant authorities or courts vary, in the future, whether in response to public pressure or initiated by regulatory, judicial or legislative authorities. Any such modifications, or changes in interpretation, could have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

In addition, there are certain laws and regulations which, as at the date of this Prospectus, do not apply to EDP's activities since the conditions that are essential for such application are not currently satisfied. However, said conditions may, in the future, become satisfied and thus trigger the application of such laws and regulations, which could have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

EDP's business is subject to and constrained by environmental, health and safety laws and regulations.

EDP's businesses are subject to numerous environmental regulations that could have a material adverse effect on its business, financial condition, prospects or results of operations. These include national, regional and local laws and regulations of the different countries in which EDP operates, as well as supra-national laws, particularly EU regulations and directives and international environmental agreements. More restrictive or less favourable regulations, or the stricter interpretation of current regulations, such as an obligation to modify existing power plants and associated facilities or the implementation of additional inspection, monitoring, clean up or remediation procedures, could lead to changes in EDP's operating conditions that might require additional capital expenditures, increase its operating costs or otherwise hinder the development of its business. Environmental regulations affecting EDP's business primarily relate to air emissions, water pollution, waste disposal and electromagnetic fields.

EDP's thermal electricity generation operations, particularly coal-based power plants, are significantly affected limited and regulated by legislation aimed at reducing emissions of CO_2 and other greenhouse gases. Until the end of 2012, CO_2 emissions were allocated for free to the energy sector. However, this changed substantially in 2013. From 2013 onwards, as dictated by the European Union Emissions Trading Scheme (**EU ETS**), emission allowances are to be bought in the market or through auctions. The unused allowances allocated for free and available to electricity generators until the end of 2012 do not expire and can still be banked and used after 2012. Therefore, in the generation process, power plants may use either their existing unused CO_2 allowances obtained until the end of 2012 or buy new allowances in the market. EDP's thermal plants in Portugal, which are subject to the stranded costs compensation mechanism approved under Decree-Law no. 240/2004, of 27 December, subsequently amended by Decree-law no. 199/2007, of 18 May, Decree-Law no. 264/2007, of 24 July, and Decree-Law no. 32/2013, of 26 February, designated as CMEC (**CMEC**) have the right to allocate costs of CO_2 emissions into the system tariff until the original date of termination of the Power Purchasing Agreement (**PPA**) concerning each plant, which will be at the end of 2017 in the case of EDP's main coal-based power plant at Sines.

Although EDP's past and planned future investments in new generation facilities assume that there will be no allocation of CO_2 emission allowances from 2013 onwards and that such emission allowances will become even more restricted over time, EDP continues to operate according to its current CO_2 risk management practices and according to the existing legislation and regulations regarding these emissions. There can be no assurance, however, that EDP will manage its CO_2 emissions to be less than or equal to the number of emission allowances it holds (or otherwise acquires) nor that the current relevant European or local laws, regulations and targets will not be subject to change. Such matters may adversely affect EDP's business, financial conditions, prospects or results of operations.

Apart from CO_2, the major waste products of electricity generation using fossil fuels are sulphur dioxide, nitrogen oxide, 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, and EDP may have to incur significant costs to comply with environmental regulations that require the implementation of preventive, mitigation or remediation measures. Environmental regulation may include emission limits, cap-and-trade mechanisms, taxes or remediation measures, among others, and may determine EDP's policies in ways that affect its business decisions and strategy, notably discouraging the use of certain fuels.

Concerning European legislation aimed at reducing such emissions, EDP's activities are affected by: (i) the EU Large Combustion Plant Directive 2001/80/EC, of the European Parliament and of the Council of 23 October 2001, as amended by Directives 2006/105/EC of the Council, of 20 November 2006, and 2009/31/EC of the European Parliament and of the Council, of 23 April 2009, concerning the reduction of emissions of acidifying pollutants, particles and ozone precursors, to be replaced in 2016 by Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 (**Directive 2010/75/EU**) on industrial emissions; and by (ii) other provisions of said Directive 2010/75/EU.

On the other hand, at a national level, the following legislation impacts EDP's activities: (i) Resolution of the Council of Ministers no. 56/2015, of July 30, which approved the Strategic Framework for Climate Policy, the Climate Change National Programme and the National Strategy for Climate Change Adjustment; and (ii) Decree-Law no. 127/2013, of 30 August 2013 (**Decree-Law no. 127/2013**), which implemented Directive 2010/75/EU into Portuguese national law, establishing an industrial emissions regime aiming for integrated prevention and control of pollution, as well as rules to prevent and reduce air, water and soil emissions and waste generation in order to achieve a high level of protection of the environment as a whole.

The aforementioned legislation has required EDP (and other market participants) to make additional investments in its thermal power plants or to reduce the operation of such thermal power plants.

Changes in health and safety regulations may affect the design of industrial equipment in the future or the manner in which EDP's power plants are constructed, including in ways that adversely affect their operational performance or EDP's profitability, which could have a material adverse effect on its business, financial condition, prospects or results of operations.

EDP has incurred, and will continue to incur, regular capital and operating expenditures and other costs in complying with safety and environmental laws and regulations in the jurisdictions in which it operates. Although EDP does not currently anticipate any significant capital expenditures in connection with environmental regulations outside of the ordinary course of business, EDP can provide no assurance that such significant capital expenditures will not be incurred or required in the future. Additionally, EDP may incur costs outside of the ordinary course of business to compensate for any environmental or other harm caused by its facilities or to repair damages resulting from any accident or act of sabotage. EDP's operational performance and profitability may also be adversely affected by changes in health and safety regulations in the future. The occurrence of any of these events could have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

In certain jurisdictions, EDP may be under a legal or contractual obligation to dismantle its facilities and restore the related site to a specified standard at the end of its operating term. In some cases, EDP is required to provide collateral for these obligations. EDP generally includes a provision in its accounts for dismantling costs based on its estimates of the costs, but there is no guarantee that this will reflect the real costs incurred. Therefore, any significant increase in or unanticipated dismantling costs could have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

Violations of environmental laws protecting migratory birds and endangered species in certain jurisdictions may also result in criminal penalties.

EDP's cash flow is subject to possible changes in the amounts and timings of the recovery of the regulatory receivables from the energy systems.

EDP has annually recognised an amount of regulatory receivables in its statement of financial position that is related to its regulated business activities in Portugal, Spain and Brazil. In relation to Brazil, in November 2014, the Brazilian Electricity Regulatory Agency (**ANEEL**) approved some changes to the distribution concessions' legal framework, which allowed for the recognition, as from December 2014, of the amounts of regulatory receivables in EDP's statement of financial position for accounting purposes under International Financial Reporting Standards (**IFRS**). These regulatory receivables are to be recovered/returned to the energy system within a pre-determined time period and any changes in the amount and timings of the recovery of such receivables may have an impact on EDP's cash flow. As of 30 June 2015, the net amount of regulatory receivables and payables recognised on EDP's statement of financial position to be recovered from the Portuguese, Spanish and Brazilian energy systems amounts to a regulatory receivable of €2,347 million.

With respect to energy distribution and supply activities in Portugal and Brazil, as well as the generation activities in Spain, a tariff deficit/surplus is generated whenever market conditions are different from the regulator's assumptions when setting electricity and gas tariffs for a certain year or, in case of deficit, when the regulator or the government decides not to recover all system costs in a given year and defer the payment of such regulatory receivables for a number of years. This amount of tariff deficit/surplus is to be received/returned from/to the electricity system within a defined time period that is set by the relevant regulator. In the past, significant amounts of regulatory receivables were generated, mostly in Portugal and Spain, meaning that revenues collected through electricity final tariffs were not sufficient to cover electricity system costs. In Portugal, EDP has been able to sell a significant part of its credits for these amounts without recourse while the remaining amounts are still to be received. There is no assurance that, in the future, new amounts of regulatory receivables will not continue to be generated or that final amounts received will not be different from the amounts initially expected, which could have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

Some of EDP's electricity generating power plants in Portugal are subject to the CMEC legislation, which was designed, following the early termination of the corresponding PPAs on 1 July 2007, to ensure 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 actually obtained in the market. The CMEC payment is subject to retrospective annual revisions during the first ten years of implementation and a prospective final revision at the end of such period, which are expected to involve financial compensation between EDP and the electricity system, ensuring that the company is compensated by receiving what it would have received or been paid if the power plants were still operating under PPAs. Finally, although the "true-up" system of the CMEC allows for recovery in the year following a year in which there was a failure of collections, the operation of the CMEC in any given year may also be affected by significant decreases in the level of contracted power or by a significant failure of the electricity system to collect tariffs from consumers. Failure to recover any amounts under the CMEC could have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

The profitability of EDP's hydro power plants is affected by variable river flows at the sites of its operations, which are dependent on weather conditions.

As of 30 June 2015, hydro power plants represented approximately one-third of EDP's total installed capacity of electricity generation, amounting to 7,777 MWs out of a total 23,336 MWs. During the development phase and prior to the construction of any hydro power plant, EDP conducts a study to evaluate the potential river flows at the proposed site, which may vary as a result of seasonal fluctuations in river currents and, over the long term, as a result of more general climate changes and shifts. EDP bases its core assumptions and investment decisions on the findings of these studies. Electricity generation output from EDP's hydro power plants in operation, as well as expected levels of output from plants under construction and under development, are highly dependent on weather conditions, particularly rain, which varies substantially across the different locations of the power plants, seasons and years. Moreover, the upstream use of river flows for other purposes, restrictions imposed by legislation or the impact of climate change may also result in a reduction in the water flow available for electricity generation purposes. EDP cannot guarantee that actual weather conditions at a project site will conform to the assumptions that were made during the project development phase on the basis of such studies and, therefore, it cannot guarantee that its hydro power plants will be able to meet their anticipated generation levels. Failure by EDP's hydro power plants to meet the anticipated generation levels could have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

The profitability of EDP's wind power plants is affected by variable wind speeds at the sites of its operations, which are dependent on weather conditions.

As of 30 June 2015, wind power plants represented 35 per cent. (or 8,172 MWs) of EDP's installed capacity of electricity generation. The expected levels of electricity generation output from EDP's wind power plants in operation, under construction and under development are based on historical averages of wind speeds at the power plants' sites, which are highly dependent on weather conditions, particularly wind levels, which vary materially across the different locations of the power plants, seasons and years. Variations in wind conditions at wind farm sites occur as a result of daily, monthly and seasonal fluctuations in wind currents and, over the longer term, as a result of more general climate changes and shifts. Because turbines will only operate when wind speeds fall within certain specific ranges that vary by turbine type and manufacturer, if wind speeds fall outside or towards the lower end of these ranges, energy output at EDP's wind farms declines. During the development phase and prior to the construction of any wind power plant, EDP conducts studies to evaluate the potential wind speeds of the site. EDP bases its core assumptions and investment decisions on the findings of these studies. EDP cannot guarantee that observed weather conditions at a project site will conform to the assumptions that were made during the project development phase on the basis of such studies and, therefore, EDP cannot guarantee that its wind power plants will be able to meet their anticipated generation levels. In Portugal, France and Brazil, marginal prices of wind power are inversely related to total annual generation levels, which partly limits, but does not eliminate, the impact of less favourable wind conditions on EDP's profitability. Variations and/or decreases of electricity generation output from EDP's wind power plants, or the inability of EDP to generate electricity in its wind power plants due to the lack of wind, could have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

The profitability of EDP's thermal power plants and gas supply activities is dependent on the reliability of EDP's access to fossil fuels, namely coal and natural gas, in the appropriate quantities, at the appropriate times and under competitive pricing conditions.

EDP's thermal power plants need to have ready access to fossil fuels, particularly coal and natural gas, in order to generate electricity. Although EDP has in place long-term purchase agreements for fossil fuels and corresponding transportation agreements, EDP cannot be certain that there will be no disruptions in its supply of fossil fuels. The adequacy of this supply also depends on shipping and transportation services involving a variety of third parties. In the event of a failure in the supply chain of fossil fuels, EDP may not be able to generate electricity in some or all of its thermal power plants, which could have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

EDP's thermal power plants in Portugal operating under the CMEC, and the Pecém coal plant in Brazil, which operates under a long-term PPA, are all able to pass through their fossil fuel costs, in accordance, respectively, with the CMEC rules and the terms of the PPA. However, the profitability of these plants could be reduced if actual levels of availability are below contracted levels, for example, due to a shortage of fossil fuels. EDP's ordinary regime thermal power plants in the Iberian Peninsula's liberalised market, which are not subject to CMEC legislation or to PPAs, are fully exposed to changes in fossil fuel costs and, therefore, variations of the fossil fuel costs could have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

The gas that EDP buys for use in its combined cycle gas turbine power plants (**CCGTs**) or to be supplied to its gas customers in Portugal and Spain, is currently furnished primarily through long-term contracts with Galp, Eni, Sonatrach, Gas Natural and Atlantic LNG, under which the gas is delivered both through liquefied natural gas (**LNG**) terminals (principally originating in Nigeria) and international pipelines (mainly originating in Algeria). The supply chain of gas to the Iberian Peninsula through foreign countries involves gas production and treatment, transport through international pipelines and by ship, and processing in liquefaction terminals. This supply chain is subject to political and technical risks. Although these risks are often addressed in *force majeure* clauses in supply, transit and shipping contracts that may, to a certain extent, mitigate contractual risk by shifting it to the end-user market, contractual provisions do not mitigate other risks that might lead to diminished margins and loss of profits. In addition, any capacity, access or operational restrictions imposed by the transmission system operator on the use of LNG terminals, international grid connections or domestic grid connections may impair normal supply and sales activities, and such circumstances involve additional contractual risks that could lead to a reduction in profits. EDP's long-term gas procurement contracts have prices indexed largely to benchmark oil price related indices in Europe and the Middle East. Under the terms of these gas contracts, EDP commits to purchasing a minimum amount of gas for a certain period of time through "take-or-pay clauses". As a result, under certain circumstances, EDP may have to purchase more gas than it needs to operate its CCGTs or supply its gas customers. Disruptions in the supply chain of natural gas and/or the enforcement of "take-or-pay clauses" could have a material adverse effect on EDP's business, financial condition, prospects or results of operations. The strategy adopted by EDP for coal and gas procurement is essentially based on establishing long-term contracts, with short-term consultation processes being launched to cover any additional needs that may arise. In 2014, roughly two-thirds of all coal purchased by EDP was bought directly from companies that produce the raw material and the remainder from coal traders. In 2014, the main sources of coal were mines located in Colombia (86 per cent.), South Africa and the United States (6 and 5 per cent. respectively), followed by Russia and Ukraine.

EDP's Aboño thermal plant in Spain and a neighbouring steel plant have a large-volume supply contract for blast furnace gas with relatively favourable terms compared to current market prices, which significantly reduces EDP's generation costs at that plant. Nevertheless, the volume of blast furnace gas available for EDP to purchase depends on the steel plant's production levels, which can change significantly. Any gas shortage for the Aboño plant is replaced by coal purchases, and therefore changes in coal spot or forward prices could have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

EDP's profitability may be affected by significant changes in energy demand in each of the countries where it operates.

EDP's profitability from the distribution of electricity and natural gas in Portugal is primarily dependent on fixed parameters set by *Entidade Reguladora dos Serviços Energéticos* (**ERSE**) for the regulatory period for electricity and on specific return levels defined for the applicable 40-year concession period for gas (starting 1 January 2008). Profitability of power plants subject to the CMEC system is also not materially affected by changes in demand during the life of the CMEC system. However, significant changes in demand for electricity and natural gas in the markets in which EDP operates may have an impact on the profitability of EDP's other business activities, such as supply activities. EDP's investment decisions take into consideration the company's expectations regarding the evolution of demand for electricity and natural gas, which may be significantly affected by the economic conditions of the countries in which EDP sells and distributes electricity and natural gas, but also by a number of other factors including regulation, tariff levels, environmental and climate conditions and competition. Significant changes in any of these variables may affect levels of per capita energy consumption, which could vary substantially from the company's expectations, and thus could have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

EDP's electricity generation plants that are in operation and under development may be subject to increasing competition in their respective markets or regions.

In the Iberian Peninsula, electricity generation is subject to licensing by the competent authorities, which is carried out in a competitive environment. Consequently, new electricity generation power plants may be licensed to EDP's competitors in the markets in which it operates, affecting the profitability of its liberalised market power plants that are in operation, under construction or under development. Furthermore, EDP may be unsuccessful in obtaining licences for the construction or operation of new power plants, and it could therefore be unable to increase or maintain its generation capacity or market share.

EDP's electricity generation capacity in the Iberian Peninsula has grown significantly in recent years, particularly through the construction of new CCGTs and new wind power plants. In addition, there are still a significant number of already licensed CCGTs and wind power projects that are currently under construction or under development in the region by other companies outside the EDP Group. Conversely, demand in the Iberian Peninsula has been depressed for some years. In 2014, electricity consumption in Portugal decreased by 0.7 per cent. and was 6 per cent. below the peak consumption in 2010. In Spain, electricity consumption fell by 1.2 per cent. in 2014 and was 8 per cent. below the peak consumption in 2008. The decline in electricity and gas demand in the Iberian Peninsula, together with the increase of installed capacity described above, may lead to a situation of overcapacity in the Iberian Peninsula, for an indeterminate period of time affecting the recoverability of investments made.

The improvement of electricity interconnections with markets or regions with excess capacity or lower energy prices than those in the markets or regions in which EDP operates power plants may also affect the profitability of EDP's plants. The electricity transmission grid operators in Portugal and Spain, REN – Rede Eléctrica Nacional, S.A. (''REN — Rede Eléctrica'', a subsidiary of REN – Redes Energéticas Nacionais, SGPS, S.A. (**REN**)) and Red Eléctrica de España, S.A. (**REE**), respectively, have been investing significantly in the improvement of transmission grid capacity in both countries and in the inter-connection grid between the two countries. REE and the French electricity grid operator have also been planning to expand the electricity inter-connection grid between Spain and France. Although the profitability of EDP's electricity generation capacity currently under the CMEC system in Portugal or under a special regime (including some wind, mini-hydro, cogeneration and biomass power) in the Iberian Peninsula is not currently exposed to the electricity pool price risk, over time, the end of the CMEC system combined with improved electricity interconnections could increase competition for EDP's power plants and could have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

With respect to the development of wind power generation, EDP primarily faces competition in bidding for or acquiring available sites (particularly sites with favourable wind resources and existing or potential interconnection infrastructure), in bidding for or acquiring grid interconnection rights, and in setting prices for energy produced. In certain European countries, interconnection rights to electricity transmission and distribution grids, which are critical for the development of wind farms, may be granted through tender processes. Although EDP has generally been able to obtain a number of interconnection rights through tender processes in the past, there is no certainty that it will be able to obtain such rights in the future, particularly in light of an increasingly competitive environment. Failure to obtain these rights may cause delays to or prevent the development of EDP's projects. In addition, not all of EDP's existing or future interconnection rights will be sufficient to allow EDP to deliver electricity to a particular market or buyer. Wind farms can be negatively affected by transmission congestion when there is insufficient available transmission capacity, which could result in lower prices for wind farms selling power into locally priced markets, such as certain U.S. markets. Competition in the renewable energy sector could therefore have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

The selling price and gross profit per unit of energy sold by EDP may decline significantly due to a deterioration of market conditions and/or exposure to market of certain power plants.

A decline in gross profit per unit of electricity or natural gas sold may result from a number of different factors, including an adverse imbalance between supply and demand in the electricity and natural gas markets in which EDP operates or in other related energy markets, the performance of international and/or regional energy prices such as oil, natural gas, coal, CO_2 allowances and green certificates, below-average rainfall or wind speed levels in the markets in which EDP operates, higher cost of power plant construction or a change in the technological mix of installed generation capacity. The gross profit per MWh of energy sold in liberalised energy markets can also be affected by administrative decisions imposed by legislative and regulatory authorities in the countries in which EDP operates.

The volatility of EDP's gross profit per unit of electricity and natural gas sold can be particularly significant in its activities in the liberalised electricity and natural gas markets of the Iberian Peninsula, which are fully exposed to market risk. If the difference between the electricity price in the market and the marginal generation cost (which depends primarily on fuel and CO_2 costs) available at its thermal plants is too low, EDP's thermal plants may not generate electricity or electricity generation may be limited, which could have a material adverse effect on EDP's business, financial condition, prospects or results of operation.

In addition, certain power plants operating in Portugal will stop benefitting from the CMEC mechanism over time and, as anticipated in the schedule to the CMEC legislation, these power plants shall become subject to market prices and volatility, which could have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

By December 2013, three of EDP's power plants which were under the CMEC system stopped benefitting from that mechanism. By December 2015, an additional eight hydro plants are expected to become subject to market conditions, and, from 2017 onwards, the operation of the remaining plants under the CMEC system will be subject to volume and price risk.

Payments for electricity sold by certain of EDP's wind farms depend, at least in part, on market prices for electricity. In certain countries, EDP sells its wind power output mainly through long-term PPAs, which define the sale price of electricity for the duration of the contract. Where a PPA is not executed due to market conditions or as part of a commercial strategy, EDP sells its electricity output in wholesale markets, in which it is fully exposed to market risk volatility. In jurisdictions where combinations of regulated incentives, such as green certificates, and market pricing are used, the regulated incentive component may not compensate for fluctuations in the market price component, and thus total remuneration may be volatile. A decline in market prices for energy below levels expected by EDP could have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

In Brazil, the electricity generated by EDP's power plants is primarily sold through PPAs, while EDP's electricity distribution business, in accordance with certain regulatory rules, has the ability to pass its electricity procurement costs through to customers. Nevertheless, payments for electricity sold by EDP's electricity generation, distribution and supply activities in Brazil can be affected by significant changes in electricity market prices, particularly those due to extremely dry periods, large fluctuations in electricity demand and modifications of EDP's electricity distribution concession areas. Prices for new PPAs both for electricity generation plants under development or in operation are set through public tenders and can change significantly due to changes in competitive pressures and/or the regulatory environment.

EDP currently uses and may in the future continue to use various financial and commodity hedging instruments relating to electricity, carbon emissions, fuel (coal and natural gas) and foreign exchange, as well as bilateral PPAs and long-term fuel supply agreements, in order to mitigate market risks. However, EDP may not be successful in using hedging instruments or long-term agreements, or it may not effectively anticipate and hedge against such risks, which could have a material adverse effect on its business, financial condition, prospects or results of operations.

Increased competition in electricity and natural gas supply in liberalised markets in the Iberian Peninsula may reduce EDP's margins and its ability to sell electricity and natural gas to value-added final customers.

The implementation by Portugal and Spain of EU directives that are intended to create competitive electricity and natural gas supply markets could have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

Pursuant to the implementation of such EU directives, electricity consumers in mainland Portugal have been free to choose their electricity supplier since 2006. After 2008, the size of the liberalised markets increased considerably. In June 2015, accumulated electricity consumption in the liberalised market represented about 86 per cent. of total consumption. EDP operates as the "last resort" supplier in the Portuguese electricity supply business through EDP Serviço Universal, S.A. (**EDP SU**) and acts as a common supplier in the liberalised market through EDP Comercial.

In addition, pursuant to Portuguese legislation, a process of phasing-out of the regulated end-user tariff, levied by the "last resort" supplier, for small and large clients in mainland Portugal has been undergoing with a transitory regulated tariff continuing to be applied until 31 December 2017 (except for very high voltage, in respect of which the transitory regulated tariff is no longer available).

In the natural gas sector, regulated end-user tariffs, levied by the "last resort" suppliers, for small and large clients are also in a phasing-out process with a transitory regulated tariff to be applied until 31 December 2017. EDP operates as the "last resort" supplier in determined areas of Portugal through EDP Gás Serviço Universal, S.A. and acts as a common supplier in the liberalised market through EDP Comercial.

In Spain, retail tariffs for electricity were phased out in June 2009, and substituted by a last resort tariff system. Thus, since 1 July 2009, last resort consumers (low-voltage consumers whose contracted power is less than or equal to 10 kW) have been able to choose between their last resort supplier and several common suppliers in the liberalised market. All other consumers are supplied in the liberalised market. EDP's subsidiary EDP Comercializadora de Último Recurso (**HC CUR**) is the last resort supplier of electricity in the Asturias region. Gas retail tariffs no longer exist in Spain, meaning that gas customers are able to choose between their last resort supplier and several common suppliers in the liberalised market. EDP's subsidiary Naturgas is the last resort supplier of gas in the Asturias region. In the future, more competing suppliers are expected to enter the market and engage in electricity sales. The effects of this increased competition could materially and adversely affect EDP's sales of electricity and gas.

In addition, EDP cannot anticipate the various risks and opportunities that may arise from the ongoing liberalisation in the Iberian Peninsula's electricity and natural gas markets. The complete implementation of the liberalisation process, with the end of regulated retail tariffs, the eventual end of the role of last resort suppliers, and the resulting competition could have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

EDP's renewable activities in the United States may be adversely affected by changes in current renewable support schemes, including the failure to extend currently expired federal tax incentives or changes to state renewable portfolio standards.

In the United States, the federal government has supported renewable energy primarily through tax incentives. In addition, many state governments have implemented Renewable Portfolio Standards (**RPS**) that typically require that, by a specified date, a certain percentage of a utility's electricity supplied to consumers within such state is to be from renewable sources.

Historically, the main tax incentives for wind projects have been the federal production tax credit (**PTC**) and the five-year depreciation for eligible assets under the Modified Accelerated Cost Recovery System (**MACRS**) under the Internal Revenue Code of 1986. The PTC is a per kilowatt-hour tax credit for electricity generated by qualified energy resources including wind, and sold by the taxpayer to an unrelated person during the taxable year. In February 2009, the American Recovery and Reinvestment Act allowed renewable energy projects to elect, in lieu of the PTC, an investment tax credit (**ITC**) equal to 30 per cent. of the capital invested in the project. In January 2013, under the American Taxpayer Relief Act of 2012, the PTC and ITC for wind projects were extended to apply to new projects that began construction before 1 January 2014. In December 2014, under the Tax Increase Prevention Act of 2014, the PTC and ITC for wind projects were extended to apply to new projects that began construction before 1 January 2015. As of the date of this Prospectus, the PTC and the option to elect an ITC for wind projects have not been further extended. Historically, the main tax incentives for solar projects have been an ITC equal to 30 per cent. of the capital invested in the project and the five-year depreciation for eligible assets under MACRS. The 30 per cent. ITC for solar projects is currently scheduled to be reduced to 10 per cent. for solar projects placed in service after 31 December 2016. There can be no assurance that the PTC or the ITC will be further extended beyond their current expiration dates.

With respect to asset depreciation under MACRS, in February 2008, the Economic Stimulus Act of 2008 provided for a temporary 50 per cent. bonus depreciation with 5-year MACRS utilised to recover the remaining basis for eligible property, including wind and solar property. The American Taxpayer Relief Act of 2012 extended the 50 per cent. bonus depreciation deadline to property placed into service by 31 December 2013. The Tax Increase Prevention Act of 2014 extended the 50 per cent. bonus depreciation deadline to property placed into service by 31 December 2014. As of the date of this Prospectus, the 50 per cent. bonus depreciation has not been extended and there can be no assurance that the 50 per cent. bonus depreciation will be extended beyond its current expiration.

EDP's ability to take advantage of the benefits of the PTC, ITC and depreciation incentives is based in part on the investment structures that EDP entered into with institutional investors in the United States (the **Partnership Structures**). Even assuming that the PTC, ITC and depreciation incentives are available in the future, there can be no assurance that (1) EDP will have sufficient taxable income in the United States to utilise the benefits generated by these tax incentives or (2) EDP will otherwise be able to realise the benefits of these incentives. In particular, there can be no assurance that EDP will be able to realise the benefits of these incentives through Partnership Structures entered into with investors who offer acceptable terms and pricing (or that there will be a sufficient number of such suitable investors).

In addition to U.S. federal tax incentives, a majority of state governments in the U.S. have established RPS policies that provide support for EDP's business by specifying mandatory or voluntary targets that a certain percentage of a utility's energy supplied to consumers within the state must come from renewable sources (typically between 15 per cent. and 25 per cent. by 2020 or 2025). A majority of states, the District of Columbia and four U.S. territories have RPS targets. While the RPS targets are mandatory in most of the states, and, in certain cases, make provision for various penalties for non-compliance, including financial penalties, the District of Columbia, certain states and U.S. territories have voluntary, rather than mandatory, targets. Although additional U.S. states may consider the enactment of an RPS or U.S. states with existing programmes may choose to adopt more aggressive RPS requirements, there can be no assurance that they will decide to do so, or that the existing RPS requirements will not be discontinued or adversely modified. See "EDP Group—Regulatory Framework—United States'' for further information.

EDP may encounter problems and delays in constructing or connecting its electricity generation facilities.

EDP faces risks relating to the construction of its electricity generation facilities, including risks relating to the availability of equipment from reliable suppliers, availability of building materials and key components, availability of key personnel, including qualified engineering personnel, delays in construction timetables and completion of the projects within budget and to required specifications. EDP may also encounter various setbacks such as adverse weather conditions, difficulties in connecting to electricity transmission grids, construction defects, delivery failures by suppliers, unexpected delays in obtaining zoning and other permits and authorisations or legal actions brought by third parties.

Any such setbacks may result in delays in the completion of a project and other unforeseen construction costs or budget overruns, which could have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

EDP's revenues are heavily dependent on the effective performance of the equipment it uses in the operation of its power plants and electricity and natural gas distribution networks.

EDP's business and ability to generate revenue depend on the availability and operating performance of the equipment necessary to operate its power plants and electricity and natural gas distribution networks. Mechanical failures or other defects in equipment, or accidents that result in non-performance or under-performance of a power plant or electricity and natural gas distribution network may have a direct adverse impact on the revenues and profitability of EDP's activities. The cost to EDP of these failures or defects is reduced to the extent that EDP has the benefit of warranties or guarantees provided by equipment suppliers that cover the costs of repair or replacement of defective components or mechanical failures, or the losses resulting from such accidents can be partially recoverable by insurance policies in force. However, while EDP typically receives liquidated damages from suppliers for shortfalls in performance or availability (up to an agreed cap and for a limited period of time), there can be no assurance that such liquidated damages would fully compensate EDP for the shortfall and resulting decrease in revenues, or that such suppliers will be able or willing to fulfil such warranties and guaranties, which in some cases may result in costly and time-consuming litigation or other proceedings. Accordingly, any significant expenses incurred by failures, defects or accidents relating to EDP's operating equipment and infrastructure could have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

EDP's assets could be damaged by natural and man-made disasters and EDP could face civil liabilities or other losses as a result.

EDP's assets could be damaged by fire, earthquakes, acts of terrorism, and other natural or man-made disasters. While EDP seeks to take precautions against such disasters, maintain disaster recovery strategies and purchase levels of insurance coverage that it regards as commercially appropriate should any damage occur and be substantial, EDP could incur losses and damages not recoverable under insurance policies in force.

EDP's power plants are susceptible to industrial accidents, and employees or third parties may suffer bodily injury or death as a result of such accidents. In particular, while EDP believes that its equipment has been well designed and manufactured and is subject to rigorous quality control tests, quality assurance tests, and is in compliance with applicable health and safety standards and regulation, the design and manufacturing process is ultimately controlled by EDP's equipment suppliers or manufacturers rather than EDP, and there can be no assurance that accidents will not result during the installation or operation of this equipment. Additionally, EDP's power plants and employees may be susceptible to harm from events outside the ordinary course of business, including natural disasters, catastrophic accidents and acts of terrorism. Such accidents or events could cause severe damage to EDP's power plants and facilities, requiring extensive repair or the replacement of costly equipment and may limit EDP's ability to operate and generate income from such facilities for a period of time. Such incidents could also cause significant damage to natural resources or property belonging to third parties, or personal injuries, which could lead to significant claims against EDP and its subsidiaries. The insurance coverage that EDP maintains for such natural disasters, catastrophic accidents and acts of terrorism may become unavailable or be insufficient to cover losses or liabilities related to certain of these risks.

Furthermore, the consequences of these events may create significant and long-lasting environmental or health hazards and pollution and may be harmful or a nuisance to neighbouring residents. EDP may be required to pay damages or fines, clean up environmental damage or dismantle power plants in order to comply with environmental or health and safety regulations. Environmental laws in certain jurisdictions in which EDP operates, including the United States, impose liability, and sometimes liability without regard to fault, for releases of hazardous substances into the environment. EDP could be liable under these laws and regulations at current and former facilities and third-party sites.

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 the natural and man-made disasters mentioned above. These liabilities may result in EDP being required to make indemnification payments in accordance with applicable laws that may not be fully covered by its insurance policies.

EDP has an interest in a nuclear power plant through Hidrocantábrico, 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 Hidrocantábrico's stake in Trillo, EDP could be subject to the risks arising from the operation of nuclear facilities and the storage and handling of radioactive materials.

The occurrence of one or more of any of these natural and man-made disasters, and any resulting civil liabilities or other losses, could have an adverse effect on EDP's business, financial condition, prospects or results of operations.

Information technology (IT) system failures could adversely affect EDP's operations.

EDP's IT systems are critically important in supporting all of its business activities. Failures in EDP's IT systems could result from technical malfunctions, human error, lack of system capacity, security or software breaches for which EDP has acquired operating licences and over which it has no control. The introduction of new technologies and the development of new uses, such as social networking, expose EDP to new threats. In addition, the cyber-attacks and hacking attempts to which companies may fall victim are increasingly targeted and carried out by specialists. Any failure or malfunctioning of EDP's IT systems could result in breaches of confidentiality, delays or loss of data and have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

EDP is exposed to counterparty risk in some of its businesses.

EDP's electricity and natural gas supply to final customers, its energy wholesale activities in the Iberian Peninsula and in international fuel markets, as well as its PPAs in the United States, Italy, Belgium and Brazil, are all subject to counterparty risk.

While EDP seeks (in these and other areas of its activity) to mitigate counterparty risk by entering into transactions with creditworthy entities, by diversifying counterparties and by requiring credit support, there can be no assurance that EDP is sufficiently protected from counterparty risk. EDP primarily faces the risks that counterparties may not comply with their contractual obligations, they may become subject to insolvency or liquidation proceedings during the term of the relevant contracts or the credit support received from such counterparties will be inadequate to cover EDP's losses in the event of its counterparty's failure to perform. Any significant non-compliance, insolvency or liquidation of EDP's customers or counterparties could have a material adverse effect on its business, financial condition, prospects or results of operations.

EDP is unable to insure itself fully or against all potential risks and may become subject to higher insurance premiums.

EDP's business is exposed to the inherent risks in the construction and operation of power plants, electricity and natural gas distribution grids and other energy related facilities, such as mechanical breakdowns, manufacturing defects, natural disasters, terrorist attacks, sabotage, personal injury and other interruptions in service resulting from events outside of EDP's control. EDP is also exposed to environmental risks, including environmental conditions that may affect, destroy, damage or impair any of its facilities. These events may result in increased costs and other losses which could have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

EDP has taken out insurance policies to cover certain risks associated with its business and it has put in place insurance coverage that it considers to be commensurate with its business structure and risk profile, in line with general market practice. EDP cannot be certain, however, that its current insurance policies will fully insure it against all risks and losses that may arise in the future. 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 business, financial condition, prospects or results of operations.

In addition, while EDP has not made any material claims to date under its insurance policies that would make any policy void or result in an increase to the premiums payable in respect of any policy, EDP's insurance policies are subject to annual review by its insurers and EDP cannot be certain that these policies will be renewed at all or on similar or favourable terms. If EDP were to incur a substantial uninsured loss or a loss that significantly exceeded the limits of its insurance policies, or if reviews of EDP's insurance policies led to less favourable terms, such additional costs could have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

EDP may not be able to sufficiently keep pace with technological changes in the rapidly evolving energy sector in order to maintain and increase its business operations competitiveness.

The technologies used in the energy sector have changed and may change and evolve rapidly in the future, and techniques for generating electricity are constantly improving and becoming more complex. In order for EDP to maintain its competitiveness and to expand its business, it must effectively adjust to changes in technology. In particular, technologies related to power generation and electricity transmission are constantly updated and modified. If EDP is unable to modernise its technologies quickly and regularly and to take advantage of industry trends, it could face increased pressure from competitors and lose customers in the markets in which it operates. EDP could also lose valuable opportunities to expand its operations in existing and new markets on account of an insufficient integration of new technologies in its operations. As a result, EDP's failure to respond to current and future technological changes in the energy sector in an effective and timely manner could have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

EDP's involvement in international activities subjects it to particular risks, namely foreign currency risks.

Investments in Brazil, the United States and other countries outside the Eurozone present a different or greater risk profile to EDP than those made in the energy business in the Eurozone. Risks associated with its investments outside of the Eurozone may include, but are not limited to: (1) economic volatility; (2) exchange rate fluctuations and exchange controls; (3) differing levels of inflationary pressures; (4) differing levels of government involvement in the domestic economy; (5) political uncertainty; and (6) unanticipated changes in regulatory or legal regimes. EDP can give no assurance that it will successfully manage its investments in Brazil, the United States and other international locations.

EDP is exposed to currency translation risk when the accounts of its Brazilian, U.S. and non-Eurozone (e.g. Poland and Romania) businesses, denominated in the respective local currencies, are translated into its consolidated accounts, denominated in Euros. EDP cannot predict movements in such non-Euro currencies, particularly the Brazilian Real and the U.S. dollar, and a major devaluation of such currencies could have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

Certain of EDP's operating subsidiaries (particularly in the United States, Brazil, Romania and Poland) have in the past and may in the future enter into agreements or incur substantial capital expenditures denominated in a currency that is different from the currency in which they generate revenues. EDP attempts to hedge currency fluctuation risks by matching the currency of its costs and revenues as well as by using various financial instruments. There can be no assurance that EDP's efforts to mitigate the effects of currency exchange rate fluctuations will be successful, that EDP will continue to undertake hedging activities or that any current or future hedging activities EDP undertakes will adequately protect its financial condition and operating results from the effects of exchange rate fluctuations, that these activities will not result in additional losses or that EDP's other risk management procedures will operate successfully. The occurrence of any of these events could materially adversely affect EDP's business, financial condition, prospects or results of operations.

EDP is exposed to the uncertainty of the macroeconomic climate.

The global economy and the global financial system have experienced a period of significant turbulence and uncertainty, including a very severe dislocation of the financial markets and stress to the sovereign debt and economies of certain EU countries including Portugal and Spain where EDP has a significant presence. This market dislocation has been accompanied by recessionary conditions and trends in many economies throughout the EU, including Portugal and Spain.

For example, in 2011, Portugal announced that it had entered into a memorandum of understanding with the European Commission, the International Monetary Fund and the European Central Bank, in relation to a stabilisation programme. The programme provided for significant financial assistance to Portugal, with up to €78 billion available for the period from 2011 to 2014, conditional on Portugal's compliance with a series of budgetary targets and structural measures. The stabilisation programme was terminated on 17 May 2014 with most of the budgetary targets and structural measures having been implemented by the Portuguese government. However, there is no guarantee that adverse macroeconomic conditions will not be experienced again in the near future by the Portuguese economy. Should this be the case, it could lead to a need for additional external assistance or additional measures being taken by the Portuguese government in respect of the energy sector which could in turn have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

EDP is not able to predict how the economic cycle is likely to develop in the short term or the coming years or whether there will be a further deterioration of the global, Portuguese and Spanish economic cycle. Any further deterioration of the current economic situation in Portugal, Spain or any other country where EDP operates could have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

EDP operates in a capital-intensive business and a significant increase in capital costs could have a material adverse effect on its business, financial condition, prospects or results of operations.

EDP has significant construction and capital expenditure requirements, and the recovery of its capital investment occurs over a substantial period of time. The capital investment required to develop and construct a power plant generally varies based on the cost of the necessary fixed assets, such as equipment for the power plants and civil construction services. The price of such equipment or civil construction services may increase, or continue to increase, if the market demand for such equipment or works is greater than the available supply, or if the prices of key component commodities and raw materials used to build such equipment increase. In addition, the volatility in commodity prices could increase the overall cost of constructing, developing and maintaining power plants in the future. Other factors affecting the amount of capital investment required include, among others, construction costs and interconnection costs. A significant increase in the costs of developing and constructing EDP's power plants or associated energy facilities could have a material adverse effect on EDP's ability to achieve its growth targets and its business, financial condition, prospects or results of operations.

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 the cash flows from its operating activities. If these sources are not sufficient, however, EDP may have to finance certain of its planned capital expenditures from outside sources, including bank borrowing, sales of minority interests, offerings in the capital markets, institutional equity partnerships and state grants. No assurance can be given that EDP will be able to raise the financing required for its planned capital expenditures on acceptable terms or at all. If EDP is unable to raise such financing, it may have to reduce its planned capital expenditures. Any such reduction could have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

EDP's financial position may be adversely affected by a number of factors, including restrictions in borrowing and debt arrangements, changes to EDP's credit ratings and adverse changes and volatility in the global credit markets.

EDP's business is partly financed through debt, and the maturity and repayment profile of debt used to finance investments often does not correlate to cash flows from EDP's assets. Accordingly, EDP relies on access to short-term commercial paper and money markets and long-term bank and capital markets as sources of finance. In recent years, global financial markets experienced extreme volatility and disruption. Ongoing adverse market conditions could increase EDP's cost of financing in the future, particularly as a result of its debt refinancing requirements. An increase in short or long term base interest rates could also negatively impact EDP's cost of debt, particularly given its floating rate exposure (which amounts to approximately 49 per cent. of EDP's debt as of 30 June 2015). In addition, some of EDP's debt is rated by credit rating agencies, and changes to these ratings, namely as a result of changes or downgrading to sovereign ratings, may affect both its borrowing capacity and the cost of those borrowings, as well as EDP's liquidity position.

EDP's sources of liquidity include short term deposits, revolving credit facilities and underwritten commercial paper programmes with a diversified group of creditworthy financial institutions. Should the creditworthiness of these financial institutions significantly change, EDP's liquidity position could be negatively affected.

If EDP is unable to access capital at competitive rates or at all, its ability to finance its operations and implement its strategy will be affected, which could have a material adverse effect on EDP's business, financial condition, prospects or results of operations.

EDP may incur future costs with respect to its employee benefit plans.

EDP grants some of its employees a supplementary retirement and survival plan (the **Pension Plan**). The liabilities and corresponding annual costs of the Pension Plan are determined through annual actuarial calculations by independent actuaries. The most critical risks relating to employee benefit plans 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 any of EDP's pension funds becomes underfunded according to local regulations, EDP or its relevant subsidiary may be required to make additional contributions to the fund, which could have an adverse effect on EDP's business, financial condition, prospects or results of operations.

EDP may be exposed to additional risks if it performs M&A activities.

EDP may seek opportunities to expand its operations in the future through strategic acquisitions. EDP plans to assess each investment based on extensive financial and market analysis, which may include certain assumptions. Additional investments could have a material adverse effect on EDP's business, financial condition, prospects or results of operations, as a result of any of the following circumstances or other factors:

(i) EDP may incur substantial costs, delays or other operational or financial problems in integrating acquired businesses;

(ii) EDP may not be able to identify, acquire or profitably manage additional businesses;

(iii) acquisitions may adversely affect EDP's operating results;

(iv) acquisitions may divert management's attention from the operation of EDP's existing businesses;

(v) EDP may not be able to retain key personnel of acquired businesses;

(vi) EDP may encounter unanticipated events, circumstances or legal liabilities; and

(vii) EDP may have difficulties in obtaining the required financing or the required financing may only be available on unfavourable terms.

EDP may also seek opportunities to divest non-core assets or to sell minority stakes in existing assets. There can be no assurance that such divestments will be done in a timely and efficient manner or that EDP will not incur in losses when disposing of such assets or that EDP's business, financial condition, prospects or results of operations will not be adversely affected by any such divestment.

EDP may have difficulty in hiring and retaining qualified personnel.

In order to maintain and expand its business, EDP needs to recruit, promote and maintain executive management and qualified technical personnel. The inability in the future to attract or retain sufficient technical and managerial personnel could limit or delay EDP's development efforts or negatively affect its operations, which could have an adverse effect on its business, financial condition, prospects or results of operations.

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

Although EDP believes that it maintains satisfactory working relationships with its employees, it is still subject to the risk of labour disputes and adverse employee relations and these disputes and adverse relations could disrupt EDP's business operations and adversely affect its business, financial condition, prospects or results of operations. Although EDP has not experienced any significant labour disputes or work stoppages to date, its 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, financial condition, prospects or results of operations.

EDP is a party in certain litigation proceedings.

EDP is, has been, and may be from time to time in the future, subject to a number of claims and disputes in connection with its business activities. EDP cannot ensure that it will prevail in any of these disputes or that it has adequately reserved or insured against any potential losses, and therefore an adverse decision could have a material adverse effect on EDP's reputation, business, financial condition, prospects or results of operations.

FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE SUITABILITY OF THE NOTES AS AN INVESTMENT

The Notes constitute subordinated obligations of the Issuer and hence the claims of all senior creditors will first have to be satisfied in any winding-up before the Holders may expect to receive from the Issuer any recovery in respect of their Notes.

The Notes will be subordinated obligations of the Issuer and the Notes will rank *pari passu* with each other in a winding-up of the Issuer. Upon the occurrence of a winding-up proceeding of the Issuer, payments on the Notes will be subordinated in right of payment to the prior payment in full of all other liabilities of the Issuer, except for liabilities which rank equally with the Notes. As such, the Holders may recover proportionately less than the holders of unsubordinated and other subordinated liabilities of the Issuer and the remedies for holders in any winding-up or insolvency proceeding of the Issuer may be limited. In particular, in an insolvency proceeding over the assets of the Issuer, holders of voluntarily subordinated debt such as the Notes, will not have any right to vote in the assembly of creditors, except if the creditors' assembly resolution is on the approval of an insolvency plan. Accordingly, Holders of the Notes should be aware that they will have limited ability to influence the outcome of any insolvency proceeding or a restructuring outside insolvency.

Holders of the Notes are advised that unsubordinated liabilities of the Issuer may also arise out of events that are not reflected on the balance sheet of the Issuer including, without limitation, the issuance of guarantees on an unsubordinated basis. Claims made under such guarantees will become unsubordinated liabilities of the Issuer that in a winding-up of the Issuer will need to be paid in full before the obligations under the Notes may be satisfied.

Although subordinated debt securities may pay a higher rate of interest than comparable debt securities which are not subordinated, there is a real risk that an investor in subordinated securities such as the Notes will lose all or some of his investment in the case of a winding-up or insolvency proceeding of the Issuer.

There are limited remedies available to the Holders in relation to their rights and claims under the Notes.

Holders of not less than one quarter of the aggregate Principal Amount will be able to declare the Notes immediately due and payable only if one of the limited Events of Default set out in Condition 10 occurs and is continuing, including in the case of liquidation, winding-up, dissolution or insolvency of the Issuer or default in the payment of principal or interest due and payable under the Notes for a period of 30 days. No such event shall constitute an Event of Default if it is being contested in good faith by appropriate means by the Issuer and the Issuer has been advised by recognised independent legal advisers of good repute that it is reasonable to do so.

The Issuer has the right to defer interest payments on the Notes with a potential adverse effect on the market price of the Notes.

The Issuer may, at its discretion, elect to defer, in whole or in part, any payment of interest on the Notes. Any such deferral of interest payments shall not constitute a default for any purpose unless such payments are required to be made in accordance with Condition 3.5 and are not so paid when due.

Any deferral of interest payments will likely have an adverse effect on the market price of the Notes. In addition, as a result of the interest deferral provision of the Notes, the market price of the Notes may be more volatile than the market prices of other debt securities on which original issue discount or interest accrues that are not subject to such deferrals and may be more sensitive generally to adverse changes in the Issuer's financial condition.

While the deferral of interest payments continues, the Issuer may make payments on any instrument ranking senior to the Notes or on instruments ranking *pari passu* with the Notes in the limited circumstances described in Condition 3.5.

The Notes are long-term securities and therefore an investment in Notes constitutes a financial risk for a long period.

The Notes will mature on 16 September 2075 and, although the Issuer may redeem the Notes in certain circumstances prior to such date, the Issuer is under no obligation to do so. The Holders have no right to call for the redemption of Notes. Therefore prospective investors should be aware that they may be required to bear the financial risks of an investment in the Notes for a long period and may not recover their investment before the end of this period.

The Notes will be subject to optional redemption by the Issuer in certain circumstances and this may limit the market value of the Notes and also a Holder may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return.

Unless previously redeemed or purchased and cancelled, the Issuer will redeem the Notes on 16 September 2075 at their Principal Amount together with any accrued and unpaid interest to such date (including any accrued but unpaid Deferred Interest Payments). However, the Notes may be redeemed, at the option of the Issuer and subject to the relevant provisions in Conditions 4, in whole but not in part on the First Call Date, the First Step-Up Date or any Interest Payment Date falling after the First step-up date, at their Principal Amount together with any accrued and unpaid interest up to (but excluding) such Redemption Date (including any accrued but unpaid Deferred Interest Payments).

In addition, upon the occurrence of a Gross-up Event, a Change of Control Event, a Tax Event, a Rating Agency Event or a Substantial Repurchase Event, and subject to the relevant provisions in Conditions 4, the Issuer shall have the option to redeem, in whole but not in part, the Notes at (i) 101 per cent. of their Principal Amount, together with any accrued and unpaid interest up to (but excluding) the Redemption Date, including any accrued but unpaid Deferred Interest Payments (in the case of a Tax Event or Rating Agency Event only where any such redemption occurs before the First Call Date) or (ii) their Principal Amount, together with any accrued and unpaid interest up to (but excluding) the Redemption Date, including any accrued but unpaid Deferred Interest Payments (in the case of a Gross-up Event, a Change of Control Event or a Substantial Repurchase Event where any such redemption occurs at any time or in the case of a Tax Event or a Rating Agency Event where any such redemption occurs on or after the First Call Date). In the case of a Change of Control Event, if the Issuer does not elect to redeem the Notes, interest payable on the Notes will be increased by 5 per cent. per annum.

The Issuer may be expected to redeem the Notes when its cost of borrowing is lower than the interest payable on them. 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 payable on the Notes 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.

The optional redemption features of the Notes are likely to limit the market value of the Notes.

During any period when the Issuer may elect to redeem the Notes, the market value of the Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true before any redemption period.

There is no limitation on issuing senior or *pari passu* securities.

There is no restriction on the amount of securities or other liabilities which the Issuer may issue or incur and which rank senior to, or *pari passu* with, the Notes. The issue of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Holders on a winding-up of the Issuer and/or may increase the likelihood of a deferral of interest payments under the Notes.

The value of the Notes may be adversely affected by movements in market interest rates.

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

From (and including) the Issue date to (but excluding) the First Call Date, the Notes will bear interest at a fixed interest rate of 5.375 per cent. per annum. During this period, Holders will be exposed to the risk that the price of the Notes falls as a result of changes in the current interest rate on the capital market (the **Market Interest Rate**). The Market Interest Rate typically changes on a daily basis. A change of the Market Interest Rate causes the price of the Notes to change. If the Market Interest Rate increases, the price of the Notes typically falls. If the Market Interest Rate falls, the price of the Notes typically increases. Investors should be aware that movements of the Market Interest Rate can adversely affect the price of the Notes and can lead to losses for the investors if they sell the Notes.

From (and including) the First Call Date to (but excluding) the Maturity Date, the Notes will bear interest at a rate that will be reset for each Reset Period. As such, the Notes are exposed to the risk of fluctuating interest rate levels and uncertain interest income. Fluctuating interest rate levels make it impossible to determine the yield of the Notes in advance for the period from (and including) the First Call Date to (but excluding) the Maturity Date.

The Notes may be subject to withholding taxes in circumstances where the Issuer is not obliged to make gross-up payments and this would result in Holders receiving less interest than expected and could significantly adversely affect their return on the Notes.

<u>Risks related to Portuguese withholding tax</u>

Under Portuguese law, income derived from the Notes 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) are eligible for the debt securities special tax exemption regime which was approved by Decree-Law 193/2005, of 7 November, as amended, (**Decree-Law 193/2005**) 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. 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 6, including failure to deliver or incorrect completion of the certificate or declaration referred to above. Accordingly, Holders must seek their own advice to ensure that they comply with all procedures to ensure correct tax treatment of their Notes.

Withholding under the EU Savings Directive.

Under Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the **Savings Directive**), Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to, or for the benefit of, an individual resident in another Member State or certain limited types of entities established in another Member State.

For a transitional period, Austria instead is required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. (subject to a procedure whereby, on meeting certain conditions and allowing Austrian tax authorities to exchange information with the tax authorities of other Member States pursuant to the Savings Directive, the beneficial owner of the interest or other income may request that no tax be withheld). The transitional period is to terminate at the end of the first full fiscal year subject to 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 adopted similar measures (a withholding system in the case of Switzerland).

On 24 March 2014, the Council of the EU adopted a Council Directive (the **Amending Directive**) amending and broadening the scope of the requirements described above. Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive (this national legislation must apply from 1 January 2017), and if they were to take effect the changes would expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities. The changes would also broaden the definition of “interest payment” to cover additional types of income payable on securities. In addition, they would also expand the circumstances in which payments that are made, directly or indirectly, to a beneficiary that is an individual resident in a Member State must be reported or subject to withholding. This approach would apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the EU.

However, the European Commission has proposed the repeal of the Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent an overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The new regime under Council Directive 2011/16/EU (as amended) is in accordance with the Global Standard released by the Organisation for Economic Co-operation and Development in July 2014. Council Directive 2011/16/EU (as amended) is generally broader in scope than the Savings Directive, although it does not impose withholding taxes. The proposal also provides that, if it proceeds, Member States will not be required to apply the new requirements of the Amending Directive.

If 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 relevant Issuer nor any Paying Agent (as defined in the Conditions of the Notes) nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Savings Directive.

Investors who are in any doubt as to their position should consult their professional advisors.

U.S. Foreign Account Tax Compliance Act Withholding

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (**FATCA**) impose a new reporting regime and, potentially, a 30 per cent. withholding tax with respect to (i) certain payments from sources within the United States, (ii) "foreign passthru payments" made to certain non-U.S. financial institutions that do not comply with this new reporting regime, and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. Whilst the Notes are cleared through Interbolsa, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by Interbolsa (see "*Taxation – Foreign Account Tax Compliance Act*"). However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA), and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The relevant Issuer's obligations under the Notes are discharged once it has paid Interbolsa and the relevant Issuer has therefore no responsibility for any amount thereafter transmitted through Interbolsa and custodians or intermediaries. Further, foreign financial institutions in a jurisdiction which has entered into an intergovernmental agreement with the United States (an **IGA**) are generally not expected to be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments they make.

The Issuer is not obliged to gross up any amounts which may be withheld or deducted pursuant to FATCA.

If an investor holds Notes which are not denominated in the investor's home currency, he will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes.

The Issuer will pay principal and interest on the Notes in euro. 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 euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of euro 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 euro would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

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.

An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell its Notes.

The Notes constitute a new issue of securities by the Issuer. Prior to such issue, there will have been no public market for the Notes. Although applications have been made for the Notes to be listed, there can be no assurance that an active public market for the Notes will develop and, if such a market were to develop and none of the Issuer, the Lead Managers or any other person is under any obligation to maintain such a market. The liquidity and the market prices for the Notes can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Issuer and the Group and other factors that generally influence the market prices of securities.

Credit ratings may not reflect all risks associated with an investment in the Notes.

Moody's, Standard & Poor's and Fitch have assigned a credit ratings to the Notes. Such credit 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 Notes. 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.

In general, European regulated investors are restricted under Regulation (EC) No. 1060/2009, as amended, (the **CRA Regulation**) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended).

The value of the Notes could be adversely affected by a change in law or administrative practice.

Save for Conditions 1 and 2, the form (*representação formal*) and transfer of the Notes, creation of security over the Notes and the Interbolsa procedures for the exercise of rights under the Notes, which are governed by, and shall be construed in accordance with Portuguese law, the conditions of the Notes 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, as the case may be, Portuguese law or administrative practice after the date of this Prospectus and any such change could materially impact the value of any Notes affected by it.

DOCUMENTS INCORPORATED BY REFERENCE

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

(i) the condensed consolidated financial statements of the Issuer for the six month period ended 30 June 2015 and the auditor's limited review report thereon which appear on pages 67-161 and in the Annexes of the Issuer's first half 2015 report;

(ii) the audited consolidated annual financial statements for the financial year ended 31 December 2014 and auditor's report thereon which appear on pages 221-366 and 381-385, respectively, of the Issuer's annual report for the year ended 31 December 2014; and

(iii) the audited consolidated annual financial statements for the financial year ended 31 December 2013 and auditor's report thereon which appear on pages 171-300 and 320-325, respectively, of the Issuer's annual report for the year ended 31 December 2013,

each of which is available at http://www.edp.pt/en/Investidores/publicacoes/relatorioecontas/Pages/RelatorioeContas.aspx.

Any information contained in any of the documents specified above which is not incorporated by reference in this Prospectus is either not relevant to investors or is covered elsewhere in this Prospectus.

Copies of documents incorporated by reference in this Prospectus can be obtained from the registered office of the Issuer and from the specified office of the Principal Paying Agent and the Portuguese Paying Agent.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

TERMS AND CONDITIONS OF THE NOTES

The following, subject to alteration and except for paragraphs in italics, are the terms and conditions of the Notes.

The issue of the €750,000,000 Fixed to Reset Rate Subordinated Notes due 2075 (the **Notes**, which expression shall, unless the context otherwise requires, include any further instruments issued pursuant to Condition 8 and forming a single series with the Notes) of EDP – Energias de Portugal, S.A. (the **Issuer**) was authorised (following a favourable opinion of the General and Supervisory Board) by a resolution of the Executive Board of Directors on 28 April 2015 and a resolution of the General Supervisory Board of the Issuer on 7 May 2015. The Notes are evidenced by entries in the individual securities accounts opened by Holders with the Affiliate Members of Interbolsa (as defined in Condition 12). The statements in these Conditions include summaries of, and are subject to, the detailed provisions of a deed poll (the **Interbolsa Instrument**) dated 16 September 2015 relating to the Notes and made by the Issuer in favour of the Holders and a paying agency agreement (the **Paying Agency Agreement**) dated 16 September 2015 relating to the Notes between the Issuer, Deutsche Bank AG, London Branch as initial principal paying agent (the **Principal Paying Agent**, which expression shall include any successor thereto) and calculation agent (the **Calculation Agent**) and Deutsche Bank Aktiengesellschaft – Sucursal em Portugal as paying agent (the **Portuguese Paying Agent**, which expression shall include any successor thereto, and together with the Principal Paying Agent and any other paying agent as may be nominated under the Paying Agency Agreement from time to time, the **Paying Agents**). Copies of the Interbolsa Instrument and the Paying Agency Agreement are available for inspection during usual business hours at the specified offices of the Principal Paying Agent and the Portuguse Paying Agent. The Holders are entitled to the benefit of, are bound by, and are deemed to have notice of those provisions applicable to them of the Interbolsa Instrument and the Paying Agency Agreement.

1. FORM, DENOMINATION AND TITLE

1.1 Form and Principal Amount

The Notes will be represented in dematerialised book-entry (*escriturais*) and nominative (*nominativas*) form and are issued in the principal amount (the **Principal Amount**) of €100,000.

1.2 Title

Title to the Notes held through Interbolsa will be evidenced by book entries in accordance with the provisions of the Portuguese Securities Code and the applicable CMVM regulations. Each person shown in the book-entry records of a financial institution, which is licensed to act as a financial intermediary and which is entitled to hold control accounts (each such institution an **Interbolsa Participant**), as having an interest in the Notes shall be the holder of the relevant Principal Amount of the Notes.

Title to the Notes held through Interbolsa is subject to compliance with all applicable rules, restrictions and requirements of Interbolsa, CMVM regulations and Portuguese law. No physical document of title will be issued in respect of the Notes.

The Notes will be registered in the relevant issue account of the Issuer with Interbolsa and will be held in control accounts opened by each Interbolsa Participant on behalf of the Holders. The control account of a given Interbolsa Participant will reflect at all times the aggregate Principal Amount of Notes held in the individual securities' accounts of the Holders with that Interbolsa Participant.

1.3 Holder absolute owner

The person or entity recorded in the book-entry registry of the Interbolsa Participants (the **Book-Entry Registry** and each such entry therein, a **Book Entry**) as the holder of any Note shall (except as otherwise required by law) 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 other interest therein).

The Issuer and the Paying Agents may (to the fullest extent permitted by applicable laws) deem and treat the person or entity registered in the Book-Entry Registry as the holder of any Note and the absolute owner for all purposes. Proof of such registration is made by means of a certificate issued by the relevant Interbolsa Participant pursuant to article 78 of the Portuguese Securities Code.

1.4 Transfer of Notes

No Holder will be able to transfer Notes, or any interest therein, except in accordance with Portuguese laws and regulations. Notes may only be transferred in accordance with the applicable procedures established by the Portuguese Securities Code and the regulations issued by the CMVM or Interbolsa, as the case may be, and the relevant Interbolsa Participants through which the Notes are held.

2. STATUS AND SUBORDINATION

2.1 Status

The Notes constitute direct, unsecured and subordinated obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The rights and claims of the Holders are subordinated as described in Condition 2.2.

2.2 Subordination

The claims of the holders in respect of the Notes, including in respect of any claim to Deferred Interest Payments, will, in the event of the winding-up or insolvency of the Issuer (subject to and to the extent permitted by applicable law), rank:

(a) junior to all Senior Obligations of the Issuer;

(b) *pari passu* with each other and with the obligations of the Issuer in respect of any Parity Security; and

(c) senior only to the Issuer's ordinary shares and any other class of share capital of the Issuer that ranks *pari passu* with ordinary shares (the **Issuer Shares**).

2.3 Set-off

To the extent and in the manner permitted by applicable law, no Holder may exercise, claim or plead any right of set-off, counterclaim, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising from, the Notes and each Holder shall, by virtue of its holding of any Note, be deemed to have waived all such rights of set-off, counterclaim, compensation or retention.

3. INTEREST

3.1 Interest

Each Note shall entitle the Holder thereof to receive interest in accordance with the provisions of this Condition 3.

3.2 Rate of Interest

The Notes bear interest at the Rate of Interest on their Principal Amount. Subject to Condition 3.4, such interest shall be payable in arrear on 16 March of each year, except for the last payment of interest (for the period from and including 16 March 2075 to but excluding 16 September 2075), which shall be made on 16 September 2075 (each of such dates, an **Interest Payment Date**). The first payment (for the period from and including the Issue Date to but excluding 16 March 2016 and amounting to €2,672.81 per €100,000 in Principal Amount of Notes) shall be made on 16 March 2016.

Rate of Interest means:

(a) from and including the Issue Date to but excluding 16 March 2021 (the **First Call Date**), 5.375 per cent. per annum;

(b) from and including the First Call Date to but excluding 16 March 2026 (the **First Step-Up Date**), at the relevant Reset Rate of Interest;

(c) from and including the First Step-Up Date to but excluding the Second Step-Up Date, the relevant Reset Rate of Interest plus 0.25 per cent. per annum; and

(d) from and including the Second Step-Up Date to but excluding the Maturity Date, the relevant Reset Rate of Interest plus 1.00 per cent. per annum,

each subject to any applicable increase pursuant to Condition 3.7.

Second Step-Up Date means: (A) if, at any time between the Issue Date and the 30th calendar day preceding the First Call Date, the Issuer is assigned an issuer credit rating of "BBB-" or above by Standard & Poor's and does not, on the 30th calendar day preceding the First Call Date, have an issuer credit rating assigned to it of "BB+" (or such similar nomenclature then used by Standard & Poor's) or below, 16 March 2041; and (B) otherwise 16 March 2036. Unless the Notes are redeemed on or prior to the First Call Date pursuant to Condition 4, the Issuer will notify the Principal Paying Agent, the Calculation Agent and the Holders in accordance with Condition 9 that the Second Step-Up Date is either 16 March 2036 or 16 March 2041, as determined by this definition, by no later than the First Call Date.

Interest payable per Note on the respective Interest Payment Date (the **Interest Amount**) shall be calculated by multiplying the Rate of Interest by the Principal Amount per Note and rounding the resulting figure to the nearest cent, with 0.5 or more of a cent being rounded upwards. If interest is to be calculated for a period of less than one year, it shall be calculated on the basis of the actual number of calendar days in the relevant period, from and including the date from which interest begins to accrue but excluding the date on which it falls due, divided by the actual number of days in the relevant year (365 or 366) in which such Interest Payment Date falls with the relevant year determined for this purpose as a calendar year beginning on and including 16 March in each year (16 March 2015 being the relevant beginning date for the first interest period from and including the Issue Date to but excluding 16 March 2016) and ending on and excluding 16 March of the following year (16 March 2076 being the relevant ending date for the last interest period from and including 16 March 2075 to but excluding 16 September 2075).

3.3 Determination and publication of Reset Rate of Interest

The Reset Rate of Interest for each Reset Period will be determined by the Calculation Agent on the relevant Reset Determination Date and promptly notified by the Calculation Agent to the Issuer, the Principal Paying Agent and, if required by the rules of any stock exchange on which the Notes are listed from time to time, to be notified to such stock exchange and to the Holders in accordance with Condition 9 without undue delay, but, in any case, not later than the relevant Reset Date.

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of these Conditions, whether by the Reference Banks (or any of them) or the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Calculation Agent, the Paying Agents and all Holders and (in the absence of negligence, wilful default or manifest error) no liability to the Issuer or the Holders will attach to the Reference Banks (or any of them) or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

3.4 Interest deferral

The Issuer may determine in its sole discretion not to pay the whole or any part of the Interest Amount otherwise scheduled to be paid on an Interest Payment Date. Interest that the Issuer has elected not to pay shall not be due and payable and shall constitute a **Deferred Interest Payment**. The Issuer shall not have any obligation to pay interest on any Interest Payment Date and any such non-payment of interest shall not constitute a default of the Issuer or any other breach of its obligations under the Notes or for any other purpose.

Additional interest will accrue on each Deferred Interest Payment at the then applicable Rate of Interest, and from (and including) the date on which (but for such deferral) the Deferred Interest Payment would otherwise have been due to (but excluding) the date on which the Deferred Interest Payment is paid, and will be added to such Deferred Interest Payment (and thereafter accumulate additional interest accordingly) on each Interest Payment Date. Deferred Interest Payments (including any additional interest accrued thereon) will be payable in accordance with Condition 3.5.

If the Issuer decides not to pay the Interest Amount on an Interest Payment Date, the Issuer shall notify the Holders in accordance with Condition 9 and the Principal Paying Agent not less than five Business Days prior to such Interest Payment Date.

3.5 Payment of Deferred Interest Payments

(a) The Issuer may settle outstanding Deferred Interest Payments (in whole or in part) at any time on the giving of at least 5 Business Day's prior notice to the Holders in accordance with Condition 9 (which notice shall be irrevocable and will oblige the Issuer to pay the relevant Deferred Interest Payments on the payment date specified in such notice).

(b) Notwithstanding Condition 3.5(a), all outstanding Deferred Interest Payments must be settled (in whole and not in part) on a Payment Reference Date.

Payment Reference Date means the date which is the earlier of:

(i) the date which is 10 Business Days following the occurrence of a Compulsory Payment Event;

(ii) the next Interest Payment Date on which any interest is paid on the Notes;

(iii) the Maturity Date or the calendar day on which the Notes are otherwise redeemed; and

(iv) the calendar day on which an applicable legally binding resolution or order is made for the winding-up, dissolution or liquidation of the Issuer (other than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring while solvent, where the continuing entity assumes substantially all of the assets and obligations of the Issuer).

If any Payment Reference Date would fall on a calendar day which is not a Business Day, the Payment Reference Date shall be postponed to the next calendar day which is a Business Day.

Each of the following is a **Compulsory Payment Event**:

(A) the shareholders of the Issuer validly approve a proposal to pay a dividend, other distribution or payment on any Issuer Shares, other than any payment in kind using Issuer Shares;

(B) the Issuer redeems, or the Issuer or any of its Subsidiaries purchases or otherwise acquires, any Issuer Shares for any consideration, except pursuant to the terms of any instrument which converts into Issuer Shares or in connection with the satisfaction by the Issuer of its obligations under any existing or future buy-back programme, share option or free share allocation plan or employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants;

(C) the Issuer or any of its Subsidiaries makes any payment of interest, dividend or other distribution or payment on any Parity Securities; and

(D) the Issuer redeems, or the Issuer or any of its Subsidiaries purchases or otherwise acquires, any of the Notes or any Parity Securities for any consideration, except pursuant to the terms of any instrument which converts into Issuer Shares or Parity Securities,

provided that, in the case of (C) and (D) above, no Compulsory Payment Event will occur if: (x) the Issuer or any of its Subsidiaries are obliged under these Conditions or under the terms and conditions of such Parity Securities to make such payment, redemption, purchase or other acquisition; or (y) the Issuer or any of its Subsidiaries repurchases or otherwise acquires any Notes or any Parity Securities in an open-market tender offer or exchange offer at a consideration per Note or Parity Security below its respective par value.

3.6 Cessation of interest payments

The Notes shall cease to bear interest from the day on which they are due for redemption. If the Issuer shall fail to redeem the Notes when due, the obligation to pay interest shall continue to accrue at the then applicable Rate of Interest on the outstanding Principal Amount of the Notes (and any Deferred Interest Payments) beyond the due date until (and excluding) the calendar day of actual redemption of the Notes.

3.7 Increase in Rate of Interest

Unless an irrevocable notice to redeem the Notes has been given to Holders by the Issuer pursuant to Condition 4.3 on or before the 55th calendar day following the first occurrence of a Change of Control Event, the Rate of Interest will increase once by 5.00 per cent. per annum with effect from (and including) the 15th Business Day following the date on which that Change of Control Event occurred. The occurrence of the Change of Control Event and of such increase in the Rate of Interest will be notified by the Issuer to the Holders in accordance with Condition 9 and to the Principal Paying Agent by no later than the 15th Business Day following the relevant Change of Control Event. For the avoidance of doubt, the Rate of Interest will not increase by reason of any subsequent Change of Control Event.

A **Change of Control Event** shall occur if a Change of Control results in a Rating Downgrade within the Change of Control Period.

A **Change of Control** shall be deemed to have occurred at each time (whether or not approved by the Executive Board of Directors or General and Supervisory Board) that any person (or persons) (**Relevant Person(s)**) acting in concert or any person or persons acting on behalf of any such Relevant Person(s), at any time directly or indirectly:

(i) acquires, or becomes entitled to exercise, control over the Issuer; or

(ii) acquires or owns, directly or indirectly, more than 50 per cent. of the issued voting share capital of the Issuer,

provided that the foregoing shall not include the control or ownership of issued voting share capital, exercisable by and/or owned by the Portuguese Republic, or by the Portuguese Republic and/or by any entity or entities (together or individually) controlled by the Portuguese Republic from time to time, or in respect of which the Portuguese Republic owns directly or indirectly more than 50 per cent. of the issued voting share capital. A Change of Control shall not be deemed to have occurred if the shareholders of the Relevant Person(s) are also, or immediately prior to the event which would otherwise constitute a Change of Control were, all of the shareholders of the Issuer.

Change of Control Period means the period ending 120 days after the Date of Announcement.

Date of Announcement means the date of the public announcement that a Change of Control has occurred.

Investment Grade Rating means a rating of at least 'BBB-' (or equivalent thereof) in the case of Standard & Poor's or a rating of at least 'BBB-' (or equivalent thereof) in the case of Fitch or a rating of at least 'Baa3' (or equivalent thereof) in the case of Moody's or the nearest equivalent in the case of any other Rating Agency.

Investment Grade Securities means Rated Securities which have an Investment Grade Rating from each Rating Agency that assigns a rating to such Rated Securities.

Rated Securities means: (a) the €750,000,000 2 per cent. Notes of 2015 (ISIN XS1222590488), issued by EDP Finance BV and guaranteed by the Issuer; or (b) such other comparable long-term debt of the Issuer selected by the Issuer from time to time for the purpose of this definition which possesses a rating by any Rating Agency.

Rating Downgrade means either:

(a) within the Change of Control Period:

(i) any rating assigned to the Rated Securities is withdrawn; or

(ii) (if the Rated Securities are Investment Grade Securities as at the Date of Announcement), the Rated Securities cease to be Investment Grade Securities; or

(iii) (if the rating assigned to the Rated Securities by any Rating Agency which is current at the Date of Announcement is below an Investment Grade Rating) that rating is lowered one full rating notch by any Rating Agency (for example from BB+ to BB by Standard & Poor's or Fitch and Ba1 to Ba2 by Moody's or such similar lowering of equivalent rating),

provided that no Rating Downgrade shall occur by virtue of a particular withdrawal of, or reduction in, rating unless the Rating Agency withdrawing or making the reduction in the rating announces or confirms that the withdrawal or reduction was the result, in whole or in part, of the relevant Change of Control; or

(b) if at the time of the Date of Announcement, there are no Rated Securities and either:

(i) the Issuer does not use all reasonable endeavours to obtain, within 45 days of the Date of the Announcement, from a Rating Agency a rating for the Rated Securities; or

(ii) if the Issuer does use such endeavours, but, as a result of such Change of Control, at the expiry of the Change of Control Period there are still no Rated Securities and the Rating Agency announces or confirms in writing that its declining to assign a rating was the result, in whole or in part, of the relevant Change of Control.

4. REDEMPTION AND PURCHASE

4.1 Maturity

Unless redeemed earlier in accordance with these Conditions, the Notes will be redeemed on 16 September 2075 (the **Maturity Date**) at their Principal Amount, together with interest accrued up to (but excluding) the Maturity Date and any outstanding Deferred Interest Payments.

4.2 Early redemption at the option of the Issuer

The Issuer may redeem the Notes (in whole but not in part) on the First Call Date, the First Step-Up Date or on any Interest Payment Date falling after the First Step-Up Date at their Principal Amount, together with any interest accrued up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest Payments, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Holders in accordance with Condition 9 and to the Principal Paying Agent.

4.3 Early redemption due to a Gross-up Event or Change of Control Event

If a Gross-up Event or a Change of Control Event occurs, the Issuer may redeem the Notes (in whole but not in part) at their Principal Amount, plus any interest accrued up to (but excluding) the Redemption Date and any outstanding Deferred Interest Payments, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Holders in accordance with Condition 9 and to the Principal Paying Agent.

In the case of a Gross-up Event:

(a) no such notice of redemption may be given earlier than 90 calendar days prior to the earliest calendar day on which the Issuer would be for the first time obliged to pay the Additional Amounts in question on payments due in respect of the Notes were a payment in respect of the Notes then due; and

(b) prior to the giving of any such notice of redemption, the Issuer shall deliver or procure that there is delivered to the Principal Paying Agent:

(i) a certificate signed by any two duly authorised representatives of the Issuer stating that the Issuer is entitled to effect such redemption and setting out a statement of facts showing that the conditions to the exercise of the right of the Issuer to redeem have been satisfied; and

(ii) an opinion of an independent legal adviser of recognised standing to the effect that the Issuer has or will become obliged to pay the Additional Amounts referred to in the definition of Gross-up Event.

Gross-up Event means that the Issuer has or will become obliged to pay Additional Amounts as a result of any change in, or amendment to, the laws (or any rules or regulations thereunder) of the Portuguese Republic or any political subdivision or any authority of or in the Portuguese Republic, or any change in or amendment to any official interpretation or application of those laws or rules or regulations, provided that the relevant amendment, change or execution becomes effective on or after the Issue Date and provided further that the payment obligation cannot be avoided by the Issuer taking reasonable measures available to it.

In the case of a Change of Control Event, such notice of redemption may only be given simultaneously with or after a notification by the Issuer in accordance with Condition 9 that a Change of Control Event has occurred.

If a Change of Control Event occurs in respect of which the Issuer intends to deliver a notice exercising its right to redeem the Notes, the Issuer intends (without thereby assuming a legal obligation) as soon as reasonably practicable following such Change of Control Event to make an offer to all holders of the Relevant Securities to repurchase their respective securities at the lower of:

(a) *their respective market values; and*

(b) *their respective aggregate nominal amounts together with any distribution accrued until the day of completion of the repurchase.*

The Issuer will make such tender offer in such a way as to ensure that the repurchase of any such Relevant Securities tendered to it will be effected prior to any redemption of the Securities.

"Relevant Securities" means any current or future indebtedness of the Issuer to Senior Creditors in the form of, or represented or evidenced by bonds, notes, debentures or other similar securities or instruments (or a guarantee, keep well agreement or support undertaking in respect thereof) which does not include protection for the holders thereof (for example, in the form of a put option) in the event of a change of control of the Issuer (however defined).

"Senior Creditors" means all unsubordinated creditors, present and future, of the Issuer and all subordinated creditors of the Issuer other than those whose claims (whether only in the event of the winding-up or insolvency of the Issuer or otherwise) rank, or are expressed to rank, pari passu with or junior to the claims of the Holders.

4.4 Early redemption due to a Tax Event or Rating Agency Event

If a Tax Event or a Rating Agency Event occurs, the Issuer may redeem the Notes (in whole but not in part) at:

(a) if such redemption occurs prior to the First Call Date, 101 per cent. of their Principal Amount, plus any interest accrued up to (but excluding) the Redemption Date and any outstanding Deferred Interest Payments; or

(b) if such redemption occurs on or following the First Call Date, their Principal Amount plus any interest accrued up to (but excluding) the Redemption Date and any outstanding Deferred Interest Payments,

on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Holders in accordance with Condition 9 and to the Principal Paying Agent.

In the case of a Tax Event: (i) no such notice of redemption may be given earlier than 90 calendar days prior to the earliest calendar day on which payments by the Issuer on the Notes would no longer be fully deductible for Portuguese corporate income tax purposes were a payment in respect of the Notes then due;

and (ii) prior to the giving of any such notice of redemption, the Issuer shall obtain an opinion from an independent legal adviser or recognised independent tax counsel which states that a Tax Event has occurred and deliver it to the Principal Paying Agent for inspection by Holders during normal business hours.

A **Tax Event** will occur if, as a result of:

(i) any amendment to, or change in, the laws (or any rules or regulations thereunder) of the Portuguese Republic or any political subdivision or any taxing authority thereof or therein, or the way in which the Notes are recorded in the consolidated financial statements of the Issuer due to a change or amendment in applicable accounting standards, which is enacted, promulgated, issued or otherwise becomes effective on or after the Issue Date; or

(ii) any amendment to, or change in, an official and binding interpretation of any such laws, rules or regulations by any legislative body, court, governmental agency or regulatory authority (including the enactment of any legislation and the publication of any judicial decision or regulatory determination) which is enacted, promulgated, issued or otherwise becomes effective on or after the Issue Date; or

(iii) any generally applicable official interpretation or pronouncement that provides for a position with respect to such laws or regulations that differs from the previous generally accepted position which is issued or announced on or after the Issue Date,

payments by the Issuer on the Notes would or will no longer be fully deductible by the Issuer for Portuguese corporate income tax purposes and such risk cannot be avoided by the Issuer taking reasonable measures available to it.

A **Rating Agency Event** shall occur if the Issuer has received confirmation from any Rating Agency that, due to any amendment to, clarification of, or change in the assessment criteria under its hybrid capital methodology or in the interpretation thereof, in each case occurring or becoming effective after the Issue Date, the Notes will no longer be eligible for the same or a higher amount of "equity credit" as was attributed to the Notes as at the Issue Date or, if equity credit is not assigned to the Notes by the relevant Rating Agency on the Issue Date, the date on which equity credit is assigned by such Rating Agency for the first time.

4.5 Purchase of Notes

The Issuer or any Subsidiary may, in compliance with applicable laws, at any time purchase Notes in the open market or otherwise and at any price. Such acquired Notes may be cancelled, held or resold.

In the event that the Issuer and/or any Subsidiary has, severally or jointly, purchased Notes equal to or in excess of 80 per cent. of the sum of the aggregate Principal Amount of the Notes issued at the Issue Date and the aggregate Principal Amount of any Notes issued pursuant to Condition 8 (a **Substantial Repurchase Event**), the Issuer may redeem the remaining Notes (in whole but not in part) at their Principal Amount, together with any interest accrued and outstanding up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest Payments, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Holders in accordance with Condition 9 and to the Principal Paying Agent.

4.6 No Holder right of redemption

A Holder does not have the right to require any Note to be declared due and payable and/or require the Issuer to redeem the Notes.

5. PAYMENTS

5.1 Payments in respect of Notes

The Issuer undertakes to pay, as and when due, principal and interest as well as all other amounts payable on the Notes in euro. Payment of principal and interest in respect of the Notes will be (i) credited, according to the procedures and regulations of Interbolsa, by the Portuguese Paying Agent (acting on behalf of the Issuer) to the TARGET2 payment current accounts held (in the payment system of the Bank of Portugal or otherwise) by the Interbolsa Participants whose control accounts with Interbolsa are credited with such Notes and (ii) thereafter, credited by such Interbolsa Participants from the aforementioned payment current accounts to the accounts of the Holders or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Notes, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be. Payments to the Clearing System or to its order shall, to the extent of amounts so paid and provided the Notes are still held on behalf of the Clearing System, constitute the discharge of the Issuer from its corresponding obligations under the Notes.

5.2 Payments subject to applicable laws

Payments in respect of principal and interest on the Notes (including Deferred Interest Payments) are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 6 and any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 6) any law implementing an intergovernmental approach thereto.

5.3 Payments on Business Days

If the due date for payment of any amount in respect of any Note is not a Business Day, the holder shall not be entitled to payment of the amount due until the next succeeding Business Day and shall not be entitled to any further interest or other payment in respect of any such delay.

5.4 Paying Agents

The names of the Principal Paying Agent and the Portuguese Paying Agent and their specified offices are set out in Condition 12. The Issuer reserves the right at any time to vary or terminate the appointment of, and to appoint additional or other, paying agents provided that there will at all times be (i) a paying agent in Portugal capable of making payment in respect of the Notes as contemplated by these terms and conditions of the Notes, the Paying Agency Agreement and applicable Portuguese laws and regulations and (ii) a paying agent in a Member State of the European Union that is not 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.

Notice of any termination or appointment and of any changes in specified offices will be given to the Holders promptly by the Issuer in accordance with Condition 9.

6. TAXATION AND GROSS-UP

6.1 Additional Amounts

All amounts payable (whether in respect of principal, interest or otherwise) in respect of the Notes by 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 Jurisdiction, unless the deduction or withholding of such taxes or duties is required by law. In that event, the Issuer will pay such additional amounts (**Additional Amounts**) as shall be necessary in order that the net amounts receivable by Holders after such deduction or withholding shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes in the absence of such deduction or withholding; except that no such additional amounts shall be payable in respect of any payment in respect of any Note:

(a) to, or to a third party on behalf of, a Holder or Beneficial Owner who is liable to such taxes or duties in respect of such Note by reason of having some connection with the Relevant Jurisdiction other than the mere holding of the Note; or

(b) to, or to a third party on behalf of, a Holder or Beneficial Owner in respect of whom the information (which may include certificates) required in order to comply with Decree-Law 193/2005 of 7 November, and any implementing legislation, is not received on or earlier than the second Business Day prior to the Relevant Date, or which does not comply with the formalities in order to benefit from tax treaty benefits, when applicable; or

(c) to, or to a third party on behalf of, a Holder or Beneficial Owner resident for tax purposes in the Relevant Jurisdiction, or a resident in a country, territory or region subject to 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 (**tax havens**), issued by the Portuguese Minister of Finance and Public Administration, with the exception of (a) central banks and governmental agencies as well as international institutions recognised by the Relevant Jurisdiction of those tax havens and (b) tax havens which have a double taxation treaty in force or a tax information exchange agreement in force with Portugal; or

(d) to, or to a third party on behalf of, a Holder or Beneficial Owner who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union; or

(e) to, or to a third party on behalf of, a Holder or Beneficial Owner 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; or

(f) to, or to a third party on behalf of: (i) a Portuguese resident legal entity subject to Portuguese corporation tax (with the exception of entities that benefit from an exemption from 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 Notes are attributable (with the exception of entities which benefit from a Portuguese withholding tax exemption); or

(g) where such deduction or withholding is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(h) where such withholding or deduction is required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

Beneficial Owner means the holder of the Notes who is the effective beneficiary of the income attributable thereto.

The **Relevant Jurisdiction** means the Portuguese Republic or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes.

The **Relevant Date** means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Portuguese Paying Agent on or before such due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Holders by the Issuer in accordance with Condition 9.

6.2 References

Any reference in these Conditions to "principal amount" and/or "interest" (including in relation to any Deferred Interest Payments) in respect of the Notes shall be deemed also to refer to any Additional Amounts which may be payable under this Condition 6. Unless the context otherwise requires, any reference in these Conditions to "principal" shall include any instalment amount or redemption amount and any other amounts in the nature of principal payable pursuant to these Conditions and "interest" shall include all amounts payable pursuant to Condition 3 and any other amounts in the nature of interest payable pursuant to these Conditions (including Deferred Interest Payments and additional interest accrued on such Deferred Interest Payments).

7. PRESCRIPTION

Subject to Condition 6, claims for payment in respect of the Notes will become void unless such payment is claimed within 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date.

8. FURTHER ISSUES

The Issuer may from time to time, without the consent of the Holders, issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest, if any) so as to form a single series with the Notes.

9. NOTICES

9.1 Notice to Holders

All notices regarding the Notes will be deemed to be validly given if delivered to the Clearing System for communication by it to the persons shown in its respective records as having interests therein. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed.

9.2 Effectiveness of notices

Any notice will be deemed to have been validly given on the date of first such publication (or, if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers) or, as the case may be, on the second Business Day after the date of such delivery to the Clearing System.

10. EVENTS OF DEFAULT

If any of the events below (an **Event of Default**) occurs and is continuing then Holders holding not less than one quarter of the aggregate Principal Amount of the Notes then outstanding may, by written notice addressed to the Issuer, declare the Notes immediately due and payable, whereupon the Notes shall become immediately due and payable at their nominal amount together with accrued interest thereon and any outstanding Deferred Interest Payments without further action or formality:

(a) upon the initiation of, or consent to, the liquidation, winding-up or dissolution of the Issuer or the Issuer admits in writing its inability to pay its debts as and when the same fall due; or

(b) the application to any court (that remains undischarged for sixty days) for, or the making by any court of, an insolvency order against the Issuer; or

(c) the appointment by any court of an insolvency administrator or other similar officer over all or any part of the Issuer's assets (that remains undischarged for sixty days); or

(d) if default is made in the payment of any principal or interest amount that is due and payable in respect of the Notes or any of them and the default continues for a period of 30 days,

provided that no such event shall constitute an Event of Default if it is being contested in good faith by appropriate means by the Issuer and the Issuer has been advised by recognised independent legal advisers of good repute that it is reasonable to do so.

11. GOVERNING LAW AND JURISDICTION

11.1 Governing law

The Interbolsa Instrument, the Paying Agency Agreement and the Notes, and any non-contractual obligations arising out of or in connection with the Interbolsa Instrument, the Paying Agency Agreement or the Notes, are governed by and shall be construed in accordance with, English law, with the exception of Conditions 1 and 2 which shall be governed by Portuguese law. The form (*representação formal*) and transfer of the Notes, creation of security over the Notes and the Interbolsa procedures for the exercise of rights under the Notes are governed by and shall be construed in accordance with, Portuguese law.

11.2 Meetings

The Paying Agency Agreement contains provisions for convening meetings of the Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Paying Agency Agreement) of a modification of the Notes or any provisions of the Paying Agency Agreement.

11.3 Jurisdiction

The Issuer irrevocably and unconditionally agrees for the exclusive benefit of 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 Notes (including any dispute relating to any non-contractual obligations arising out of or in connection with the Notes) and that accordingly any suit, action or proceedings (together referred to as the **Proceedings**) arising out of or in connection with the Notes may be brought in such courts.

The Issuer irrevocably and unconditionally waives 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 11.3 shall limit any right to take Proceedings against the Issuer 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 if and to the extent permitted by applicable law.

11.4 Process Agent

The Issuer appoints The Law Debenture Corporate Services Limited at its registered office for the time being (being at the Issue Date at Fifth Floor, 100 Wood Street, London EC2V 7EX) as its agent for service of process in England in respect of any Proceedings, and undertakes that, in the event of The 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.

12. DEFINITIONS AND INTERPRETATION

Unless the context otherwise requires, the following terms shall have the following meanings in these Conditions:

Additional Amounts has the meaning specified in Condition 6.1.

Affiliate Member of Interbolsa means each financial institution which is licensed to act as a financial intermediary under the Portuguese Securities Code ("*Código dos Valores Mobilíarios*") and which is entitled to hold control accounts with Interbolsa on behalf of their customers (and includes any depositary banks appointed by Euroclear and/or Clearstream, Luxembourg for the purpose of holding accounts on behalf of Euroclear and/or Clearstream, Luxembourg).

Agent Bank means an independent investment bank, commercial bank or stockbroker appointed by the Issuer;

Book Entry has the meaning specified in Condition 1.3.

Book-Entry Registry has the meaning specified in Condition 1.3.

Business Day means a day on which (a) commercial banks and foreign exchange markets are open for general business in London and Lisbon; and (b) the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System is open.

Calculation Agent means Deutsche Bank AG, London Branch, or any successor entity.

Change of Control has the meaning specified in Condition 3.7.

Change of Control Event has the meaning specified in Condition 3.7.

Change of Control Period has the meaning specified in Condition 3.7.

Clearing System and **Interbolsa** means Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A., as operator of the CVM.

CMVM means the *Comissão do Mercado de Valores Mobiliários*, the Portuguese Securities Commission.

Code has the meaning specified in Condition 5.2.

Compulsory Payment Event has the meaning specified in Condition 3.5.

Conditions means these terms and conditions of the Notes.

CVM means the Central de Valores Mobiliários, the centralised securities system managed by Interbolsa.

Date of Announcement has the meaning specified in Condition 3.7.

Deferred Interest Payment has the meaning specified in Condition 3.4.

Euro Swap Rate means, in relation to a Reset Period and the Reset Determination Date in relation to such Reset Period, the annual swap rate for euro swap transactions with a maturity of five years, expressed as a percentage, which appears on the Reset Screen Page as of 11:00 a.m. (Central European Time) on such Reset Determination Date. If such rate does not appear on the Reset Screen Page on the relevant Reset Determination Date at approximately that time, the Euro Swap Rate will be the Reset Reference Bank Rate as determined by the Agent Bank on such Reset Determination Date.

Event of Default has the meaning specified in Condition 10.

Executive Board of Directors means the executive board of directors of the Issuer.

First Call Date has the meaning specified in Condition 3.2(a).

First Step-Up Date has the meaning specified in Condition 3.2(b).

Fitch means Fitch Ratings Limited (or any of its subsidiaries or any successor in business thereto from time to time).

General and Supervisory Board means the general and supervisory board of the Issuer.

Gross-up Event has the meaning specified in Condition 4.3.

Holders means a holder of Notes in accordance with the Rules.

Interbolsa Instrument has the meaning specified in the preamble to these Conditions.

Interbolsa Participant has the meaning specified in Condition 1.2.

Interest Amount has the meaning specified in Condition 3.2 and shall include any interest accrued on such Interest Amount pursuant to Condition 3.4.

Interest Payment Date has the meaning specified in Condition 3.2.

Investment Grade Rating has the meaning specified in Condition 3.7.

Investment Grade Securities has the meaning specified in Condition 3.7.

Issue Date means 16 September 2015.

Issuer means EDP – Energias de Portugal, S.A.

Issuer Shares has the meaning given to it in Condition 2.2.

Maturity Date has the meaning specified in Condition 4.1.

Moody's means Moody's Investors Service Limited (or any of its subsidiaries or any successor in business thereto from time to time).

Notes has the meaning specified in the preamble to these Conditions.

Rules means the legislation, rules, regulations and operating procedures from time to time applicable to or stipulated by Interbolsa in relation to the CVM.

Parity Security means: (i) any security issued by the Issuer which ranks, or is expressed to rank, *pari passu* with the Notes; and (ii) any security guaranteed by, or subject to the benefit of a keep well agreement or support undertaking entered into by, the Issuer where the Issuer's obligations under the relevant guarantee, keep well agreement or support undertaking rank *pari passu* with the Issuer's obligations under the Notes.

Paying Agency Agreement has the meaning specified in the preamble to these Conditions.

Paying Agent has the meaning specified in the preamble to these Conditions.

Payment Reference Date has the meaning given to it in Condition 3.5.

Portuguese Paying Agent means Deutsche Bank Aktiengesellschaft – Sucursal em Portugal with its specified office at Rua Castilho, 20, 1250-069 Lisbon, Portugal.

Principal Amount has the meaning specified in Condition 1.1.

Principal Paying Agent means Deutsche Bank AG, London Branch with its specified office at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom.

Proceedings has the meaning specified in Condition 11.3.

Rated Securities has the meaning specified in Condition 3.7.

Rate of Interest has the meaning specified in Condition 3.2.

Rating Agency means: (a) for the purposes of Condition 3.7, Moody's, Standard & Poor's or Fitch or any other rating agency of equivalent international standing specified from time to time by the Issuer; and (b) for the purposes of Condition 4.4, any of Moody's, Standard & Poor's or Fitch.

Rating Agency Event has the meaning specified in Condition 4.4.

Rating Downgrade has the meaning specified in Condition 3.7.

Redemption Date means the day on which the Notes become due for redemption in accordance with these Conditions.

Reference Banks means five leading swap dealers in the Eurozone interbank market selected by the Agent Bank after consultation with the Issuer.

Relevant Date has the meaning specified in Condition 6.1.

Relevant Jurisdiction has the meaning specified in Condition 6.1.

Relevant Person has the meaning specified in Condition 3.7.

Reset Date means the First Call Date and each date that falls five, or a multiple of five, years following the First Call Date.

Reset Determination Date means the second Business Day prior to the relevant Reset Date.

Reset Margin means 5.043 per cent. per annum.

Reset Period means the period from and including the First Call Date to but excluding the next Reset Date and each successive period from and including a Reset Date to but excluding the next succeeding Reset Date.

Reset Rate of Interest means, in relation to any Reset Period, the sum of the Euro Swap Rate in relation to that Reset Period (rounded to four decimal places, with 0.00005 being rounded down) and the Reset Margin, as determined by the Calculation Agent on the relevant Reset Determination Date.

Reset Reference Bank Rate means the percentage determined by the Agent Bank on the basis of the mid-market annual swap rate quotations provided by the Reference Banks at approximately 12:00 noon (Central European Time) on the relevant Reset Determination Date. For this purpose, the mid-market annual swap rate means the arithmetic mean of the bid and offered rates for the annual fixed leg, calculated on a 30/360 day count basis, of a fixed-for-floating euro interest rate swap transaction with a five-year term commencing on the first day of the relevant Reset Period and in an amount that is representative for a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market, where the floating leg, calculated on an Actual/360 day count basis, is equivalent to the offered quotation (expressed as a percentage rate per annum) for six-month deposits in euro which appears on the relevant Screen Page as of 11.00 a.m. (Central European Time) on the relevant Reset Determination Date. The Agent Bank will request the principal office of each of the Reference Banks to provide a quotation of its rate. If at least three quotations are provided, the Reset Rate of Interest will be the arithmetic mean of the quotations, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If the Euro Swap Rate cannot be determined in accordance with the foregoing provisions of this paragraph, the applicable Euro Swap Rate shall be equal to the last Euro Swap Rate available on the Reset Screen Page as determined by the Calculation Agent.

Reset Screen Page means Reuters screen "ISDAFix2" or such other page as may replace it on that information service, or on such other equivalent information service as determined by the Calculation Agent, for the purpose of displaying the annual swap rates for euro swap transactions with a five-year maturity.

Second Step-Up Date has the meaning specified in Condition 3.2.

Senior Obligations means all obligations of the Issuer (including any obligation assumed by the Issuer under any guarantee of, or any keep well agreement) other than the obligations of the Issuer in respect of any Parity Security or the Issuer Shares.

Standard & Poor's means Standard & Poor's Credit Market Services France SAS, a Division of the McGraw-Hill Companies Inc. (or any of its subsidiaries or any successor in business thereto from time to time).

Subsidiary means an entity from time to time of which the Issuer (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. of the share capital or similar right of ownership.

Substantial Repurchase Event has the meaning specified in Condition 4.5.

Tax Event has the meaning specified in Condition 4.4.

REPLACEMENT INTENTION

The Issuer intends (without thereby assuming a legal obligation), during the period from and including the Issue Date to but excluding the Second Step-Up Date, that in the event of:

(a) a redemption of the Notes at the Issuer's option pursuant to Condition 4.2;

(b) a redemption of the Notes pursuant to Condition 4.4 (if the Rating Agency Event has arisen due to an amendment to, clarification of, or change in the assessment criteria under the hybrid capital methodology of any Rating Agency other than Standard & Poor's); or

(c) a repurchase of the Notes pursuant to Condition 4.5 of more than: (i) 10 per cent. of the aggregate Principal Amount of the Notes issued on the Issue Date in any period of 12 consecutive months; or (ii) 25 per cent. of the aggregate Principal Amount of the Notes issued on the Issue Date in any period of 10 consecutive years,

if the Notes are assigned an "equity credit" (or such similar nomenclature then used by Standard & Poor's) by Standard & Poor's at the time of such redemption or repurchase, it will redeem or repurchase the Notes only to the extent the Aggregate Equity Credit of the Notes to be redeemed or repurchased does not exceed the Aggregate Equity Credit received by the Issuer or any Subsidiary during the 360 day period prior to the date of such redemption or repurchase from the sale or issuance by the Issuer or the relevant Subsidiary to third party purchasers (other than group entities of the Issuer) of replacement securities (but taking into account any changes in the assessment criteria under Standard & Poor's hybrid capital methodology or the interpretation thereof since the issuance of the Notes) (the **Restrictions**).

For the purpose of the Restrictions, **Aggregate Equity Credit** means:

(x) in relation to the Notes, the part of the aggregate Principal Amount of the Notes that was assigned "equity credit" by Standard & Poor's at the time of their issuance; and

(y) in relation to replacement securities, the part of the net proceeds received from issuance of such replacement securities that was assigned "equity credit" by Standard & Poor's at the time of their sale or issuance (or the "equity credit" Standard & Poor's has confirmed will be assigned by it upon expiry or waiver of issuer call rights which prevent the assignment of "equity credit" by Standard & Poor's on the issue date of such replacement securities).

The intention described above does not apply if on the date of such redemption or repurchase:

i. the rating assigned by Standard & Poor's to the Issuer is at least "BB+" (or such similar nomenclature then used by Standard & Poor's) and the Issuer is of the view that such rating would not fall below such level as a result of any such redemption or repurchase of the Notes; or

ii. the Issuer no longer has a corporate issuer credit rating by Standard & Poor's; or

iii. the Issuer or any Subsidiary of the Issuer has individually or in the aggregate, redeemed, cancelled or purchased the Notes in an amount equal to or in excess of 80 per cent. of the sum of the aggregate Principal Amount of the Notes issued on the Issue Date and the aggregate Principal Amount of any Notes issued pursuant to Condition 8; or

iv. the statements made in the Restrictions set forth hereunder are no longer required for the Notes to be assigned an "equity credit" by Standard & Poor's that is equal to or greater than the "equity credit" assigned by Standard & Poor's on the Issue Date; or

v. such replacement would cause the Issuer's outstanding hybrid capital which is assigned “equity credit” by Standard & Poor’s to exceed the maximum aggregate principal amount of hybrid capital which Standard & Poor’s, under its then prevailing methodology, would assign “equity credit“ to based on the Issuer's adjusted total capitalisation.

USE OF PROCEEDS

The net proceeds of the issue of the Notes will be used for general corporate purposes.

THE ISSUER

OVERVIEW

EDP – Energias de Portugal, S.A. (**EDP** and together with its subsidiaries, the **Group** or the **EDP Group**) is a listed company (*sociedade aberta*), whose ordinary shares are publicly traded on the regulated market of Euronext Lisbon. EDP is established in Portugal as a commercial company under the Portuguese Companies Code, 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 Av. 24 de Julho, 12, 1249 - 300 Lisbon, Portugal, and its telephone number is +351210012500.

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 1991, and Decree-Law no. 78-A/97, of 7 April 1997.

Under Article 3.1 of its Articles of Association, the corporate purpose of EDP is the direct or indirect promotion, development and management of undertakings and activities in the energy sector, both at national and international levels, with the goal of growing and improving the performance of its group's companies.

As a result of the privatisation of EDP's share capital, which has already involved eight phases – the first of which took place in 1997 and the most recent of which was concluded in February 2013 – the most significant shareholdings in EDP's share capital (i.e. shareholdings equal to or higher than 2 per cent.) are, as at 30 June 2015: China Three Gorges (**CTG**), owning 21.35 per cent.; Capital Group Companies, Inc., owning 17.07 per cent.; Oppidum, owning 7.19 per cent.; BlackRock, Inc. owning 5.00 per cent.; Senfora BV owning 4.06 per cent.; Fundação Millennium BCP and BCP Group Pension Fund, owning 2.44 per cent.; Sonatrach owning 2.38 per cent. and Qatar Investment Authority, owning 2.27 per cent.. As of 30 June 2015, EDP has an issued share capital of €3,656,537,715, comprised of 3,656,537,715 shares with a nominal value of €1 per share, all of which have been paid up.

EDP is a vertically integrated utility company and the largest generator, distributor and supplier of electricity in Portugal, the third largest electricity generation company in the Iberian Peninsula, and one of the largest gas distributors in the Iberian Peninsula. EDP maintains significant electricity and gas operations in Spain, and it is one of the largest wind power operators worldwide in terms of electricity generation, with facilities for renewable energy generation in the Iberian Peninsula, the United States, Brazil, Canada, France, Belgium, Italy, Poland and Romania, and is developing wind farms in the United Kingdom and Mexico. It also has electricity distribution, generation and supply activities in Brazil and generates solar photovoltaic energy in the United States, Romania and Portugal.

Historically, EDP's core business has been electricity generation, distribution and supply in Portugal. Given Spain's geographical proximity and its regulatory framework, the Iberian Peninsula's electricity market has become EDP's natural home market and EDP has made this market the primary focus of its energy business. As at the date of this Prospectus, EDP's principal subsidiaries in Portugal include its electrical generation company, 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, EDP Distribuição – Energia, S.A. (**EDP Distribuição**), and its two supply companies EDP SU and EDP Comercial, S.A. (**EDP Comercial**). In Spain, EDP's main subsidiary is HC Energia, S.A. (**Hidrocantábrico**), which operates electricity generation plants and distributes and supplies electricity and gas, mainly in the Asturias region of Spain.

In the gas market, EDP holds significant interests in both Portugal and Spain. In Portugal, EDP holds through EDP Gás Ibéria, a subsidiary of Hidrocantábrico, 72.0 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. In Spain, EDP holds indirectly (through Hidrocantábrico) 95.0 per cent. of Naturgas Energia (**Naturgas**), one of the largest gas distribution companies in the Spanish market in terms of points of supply, mainly in the Asturias and Basque regions. The holding in Naturgas increased from 63.5 per cent. to 95.0 per cent. following the exercise by Ente Vasco De La Energia (**EVE**), in July 2010, of a put option for part of EVE's stake in Naturgas.

EDP has leveraged its strong Iberian renewable energy platform and, following the acquisition of EDPR NA in 2007, and has become one of the largest wind power operators worldwide in terms of electricity generation. Its wind power assets are held through its subsidiary EDP Renováveis, of which it holds a 77.5 per cent. stake (62.0 per cent. directly and 15.5 per cent. through Hidrocantábrico). EDP Renováveis has been listed on the regulated market of

Euronext Lisbon since its IPO on 4 June 2008. EDP Renováveis has built significant growth platforms in the European and U.S. markets for the development and operation of power plants that generate electricity using renewable resources, mainly wind. EDP Renováveis currently operates 8.3 GW of generation assets, comprising on-shore wind farms in Spain, Portugal, the United States, Brazil, Canada, France, Belgium, Italy, Romania and Poland. EDP Renováveis has various wind projects in different stages of construction and development in these countries as well as in Mexico and the United Kingdom. At present, EDP Renováveis is seeking to expand its activities into other countries.

In Brazil, in addition to a renewable energy generation business, EDP has significant electricity generation and distribution businesses in the states of São Paulo, Espírito Santo, Tocantins, Ceará and Mato Grosso do Sul through its 51.1 per cent. stake in EDP Brasil, a company listed on the São Paulo Stock Exchange. In July 2011, EDP sold 21.9 million shares of EDP Brasil in a secondary distribution offer (reducing its stake from 64.8 per cent. to 51.0 per cent.), at a price per share of R$37.00, resulting in receipt of gross proceeds of approximately R$811 million. EDP Brasil holds the majority of EDP's investments in the Brazilian electricity industry, including its distribution subsidiaries Empresa Bandeirante de Energias, S.A. (**Bandeirante**) and Espírito Santo Centrais Eléctricas (**Escelsa**), its generation subsidiaries Energest S.A. (**Energest**), EDP Lajeado Energia S.A. (**EDP Lajeado**), Enerpeixe S.A. (**Enerpeixe**), its subsidiary Porto do Pecém Geração de Energia S.A. (**Pecém**), and its investments in Companhia Energética de Jari-Ceja (**Jari**), Empresa de Energia Cachoeira Caldeirão, S.A. (**Cachoeira Caldeirão**) and Energia São Manoel, S.A. (**São Manoel**), and its supply subsidiary EDP – Comercializadora de Energia S.A. (**EDP Comercializadora**). EDP Brasil holds 100.0 per cent. of each of these companies apart from EDP Lajeado and Enerpeixe, in which it holds 55.9 per cent. and 60.0 per cent., respectively; Jari and Cachoeira Caldeirão, in which it holds 50.0 per cent; and São Manoel, in which it holds 33.334 per cent. Additionally, EDP Lajeado holds a 73.0 per cent. stake in Investco S.A. (**Investco**). Investco owns the Lajeado hydroelectric plant in Tocantins, Brazil.

STRATEGY

Overview

EDP's business strategy is based on balance between focused growth and financial deleverage and aims to address key challenges such as: (i) continuing to grow; (ii) maintaining a financial deleveraging path; (iii) preserving a low risk business profile; (iv) improving efficiency and (v) delivering attractive returns.

Growth

EDP intends to increase installed capacity by 18 per cent. between 2013 and 2017, mainly driven by the hydro projects in Portugal and Brazil and wind in United States of America and Latin America. Organic growth will be focused on CO_2 free technologies, which should lead to a position where clean energies (wind and hydro) will represent 75 per cent. of the portfolio by 2017.

In Portugal, EDP is currently building two new hydroelectric power plants with pumping and repowering two hydroelectric plants (all with pumping) with a total capacity of 1,368 MW, that are expected to be completed in 2015-2016, and which already have 91 per cent. of capital expenditure incurred. The increased share of wind power in the Iberian Peninsula's power generation mix and more uncertainty as to annual hydroelectric output (depending on weather conditions) will result in an increasingly volatile market where pumping is an extremely important value added feature. By 2017, 40 per cent. of EDP's overall hydro capacity will have pumping. This new hydro capacity prompts a 5-year extension of residual life on our overall hydro portfolio, to 35 years in 2017.

In Brazil, EDP's main investments in Brazilian electricity generation are (i) the 219 MW Cachoeira Caldeirão hydropower plant, concession rights to which were acquired in the A-5 auction of 14 December 2012, and with start of operations expected for January 2017; and (ii) the São Manoel hydropower plant, concession rights to which were acquired in the A-5 auction of 13 December 2013, and for which operations are planned to start in May 2018. EDP Brasil holds a 50 per cent. share of Cachoeira Caldeirão (the remaining 50 per cent is owned by China Three Gorges) and a 33.334 per cent. share of São Manoel (the remaining is held by China Three Gorges, owning a 33.333 per cent. share, and by Companhia Furnas Centrais Elétricas S.A., owning a 33.333 per cent. share).

EDP plans to continue developing new wind power capacity as part of its targeted growth plan. EDP believes that it is one of the largest wind power operators worldwide with 8.3 GW of wind and solar power capacity installed by June 2015. This growth was not based on just execution, but also on strong competitive advantage in terms of the core competence that we have in terms of all the operational variables: availability, costs and load factor. EDP expects to grow about 500MW/year and more than 90 per cent. of this additional capacity has already been awarded PPAs. The

United States of America will be the key market with 60 per cent. of new capacity, emerging markets (Brazil and Mexico) will represent 20 per cent. and Europe will represent 20 per cent.

Maintaining Financial Deleveraging

In Portugal, hydropower plants under CMEC will be gradually transferred from long term contracted generation to a liberalised market and will be exposed to price and volume volatility from 2017 onwards. This will likely cause a decrease of our exposure to regulated activities from around 85 per cent. in 2013 to 70 per cent. in 2017. Since EDP continues to be strongly committed to its financial deleverage process, an improvement of credit ratios will mitigate increase of business risk. Thus, the ratios that EDP is committing to are to reach at least net debt adjusted by regulatory receivables/EBITDA of 3x by 2017.

A key element in our deleveraging process is fulfilling the partnership with China Three Gorges. In the wake of the privatisation process, EDP and CTG established a strategic partnership based on three main pillars: (i) CTG has committed to invest €2.0 billion in the acquisition of minority stakes and co-investment in some of EDP's renewable projects, of which €1 billion has already been concluded and a Memorandum of Understanding has been signed envisaging the sale of 49 per cent. of EDPR's 40 per cent. stake in ENEOP EÓLICAS DE Portugal, S.A. (**ENEOP**) consortium; (ii) a Chinese financial institution has committed to provide a credit facility of up to €2 billion to EDP for up to 20 years, of which €1.0 billion was signed on 20 August 2012 and drawn on 27 August 2012; and (iii) EDP and CTG will jointly develop new growth opportunities worldwide.

Another important element will be EDP Renováveis' asset rotation. The risk/return from new projects is expected to be more attractive than disposal of minority stakes in existing projects. EDP expects to reach €700 million of asset rotation in 2015-2017, and more than 70 per cent. of this objective was achieved by June 2015.

As EDP Renováveis keeps developing additional growth opportunities in its current and new geographies, EDP Renováveis is contemplating a new and complementary asset rotation programme intended to preserve EDP's strategic balanced approach between growth and financial deleverage whilst respecting EDP's key financial targets for 2017. As such, in June 2015, EDP Renováveis mandated two investment banks to perform a study on alternative ways to monetise and rotate its assets, focusing in particular on the possibility of establishing a YieldCo composed of European wind generation assets.

The reduction of capital expenditures plan is supporting the deleverage process since all of the hydro projects under construction in Portugal will be finished by the end of 2016, triggering a major reduction of capital expenditure mainly in 2016 and 2017.

Preserving Low Risk Business Profile

EDP seeks to maintain diversification in terms of markets and regulatory environments, keeping a relatively low exposure to market volatility.

EDP aims to limit the risk exposure of its cash flows by proactively managing the major risks that affect its operations, in particular, regulatory, commodity, market and financial risk. A significant part of EDP's business portfolio involves either long-term contracted activities or regulated activities, where revenues are dependent on the outcome of regulatory decisions by governments and other authorities. As a result, EDP is in regular contact with regulatory authorities in order to seek and ensure that it receives accurate and appropriate regulatory treatment, namely regarding the level of returns EDP receives on capital employed.

Some of EDP's operations are exposed to liberalised energy markets, which are subject to fluctuations in energy demand, supply and prices both in EDP's core markets and in other related international markets. In order to reduce its exposure to these sources of volatility, EDP runs an integrated generation and supply model and maintains a hedging strategy that allows it to lock in pricing for a significant portion of its fuel needs and electricity and gas sales in the liberalised markets for between 12 and 18 months.

Sustainability continues to be a key component of EDP's strategy and EDP aims to maintain a leadership position in terms of sustainability best practices. EDP has one of the highest weights of hydro and wind portfolios in Europe and will continue to invest in technologies with low exposure to CO_2 and other environmental risks.

With respect to financial risk, EDP's funding strategy aims to maintain access to diversified sources and ensuring funding needs can be met 12 to 24 months in advance.

Efficiency

EDP recognises the importance of regularly implementing new initiatives to improve the efficiency of its operations and is committed to extending the OPEX programme which focuses on reducing the operating costs of its activities worldwide, up to €180 million/year by 2017, and to go down from the 28 per cent. net OPEX over gross margins to 26 per cent. The savings will primarily result from headcount reduction in Iberia mostly driven by retirements, corporate and support functions optimisation and an OPEX evolution below inflation in Brazil. EDP wants to maintain a leading position in efficiency and lean operations.

Profitability and Shareholder Returns

EDP maintains an attractive and stable dividend policy, committed to the maintenance of a €0.185 dividend per share per year as a floor.

Basically, EDP's strategy should lead to growth, financial deleverage, keeping the low risk profile and attractive returns allowing it to have a distinctive profile amongst European utilities.

INVESTMENTS/DIVESTMENTS

EDP Group's total capital expenditure increased 12 per cent. year-on-year to €741 million in the six-month period ended 30 June 2015. Maintenance capital expenditure was 9 per cent. lower year-on-year, at €237 million in the six-month period ended 30 June 2015. Expansion capital expenditure totalled €505 million in the six-month period ended 30 June 2015, mainly devoted to the construction of new hydro and wind capacity.

The capital expenditure in hydro capacity under construction in Portugal totalled €137 million in the six-month period ended 30 June 2015, comprising two new plants and the repowering of two other hydroelectric power plants: 142MW which start up is on hold subject to an increase of reservoir levels, 207MW expected to start up in the second half of 2015, 756MW expected to start up in early 2016 and 263MW due in the second half of 2016.

The capital expenditure relating to new wind and solar capacity, at EDP Renováveis level, totalled €322 million in the six-month period ended 30 June 2015, mostly allocated to the 556MW of capacity under construction (56 per cent. in US, 22 per cent. in Brazil and 25 per cent. in Europe), the recently commissioned capacity and the enhancements in capacity already in operation.

In Brazil, capital expenditure totalled €45 million in the six-month period ended 30 June 2015 and was mostly devoted to maintenance capital expenditure at our distribution business. Even though EDP Brasil has 2 new hydro projects under construction (Cachoeira Caldeirão hydro plant with 219MW due in January 2017 and São Manoel hydro plant due in May 2018), these investments are accounted for in accordance with the equity method following the conclusion of the sale to CWE Investment Corporation (**CWEI**), a 100 per cent. owned China Three Gorges subsidiary, of a 50 per cent. equity stake in Cachoeira Caldeirão hydro project and a 33.333 per cent. equity stake in São Manoel hydro project.

Overall, EDP continues to execute its low-cost, CO_2-free pipeline, having so far spent €2.1 billion on 1.9GW of new generation capacity under construction.

Net financial divestments totalled €520 million in the six-month period ended 30 June 2015. Financial divestments amounted to €662 million in the six-month period ended 30 June 2015 and include: i) €241 million resulting from the sale to Redexis of EDP's gas distribution assets in Spain; ii) €339 million resulting from EDP Renováveis´s disposal to Fiera Axium of a minority stake in a wind farm portfolio of 1,101MW located in the US and of a minority stake in a 30MW-solar PV park; and iii) €79 million resulting from the conclusion of EDP Renováveis's sale of a minority stake in wind farms located in Brazil to CWEI Brasil, a CTG subsidiary. Financial investments in the six-month period ended 30 June 2015 amounted to €141 million, of which €91 million refer to the acquisition of Eneva's 50 per cent. stake in Pecém I coal facility and €43 million refer to EDP Brasil's equity contributions to Cachoeira Caldeirão and São Manoel hydro projects.

EDP'S KEY BUSINESSES

Historically, electricity has been EDP's core business. Its operations encompass significant electricity generation, distribution and supply activities in the Iberian Peninsula, along with facilities for renewable energy generation in Europe, North America and Brazil. It also has electricity generation, distribution and supply activities in Brazil.

Additionally, EDP believes that it is one of the largest companies in the natural gas distribution market in the Iberian Peninsula.

Electricity Generation in the Iberian Peninsula

As the largest generator, distributor and supplier of electricity in Portugal in terms of GWh of electricity generated, distributed and supplied, respectively, EDP currently holds the leading position in the Portuguese domestic electricity market, according to *Entidade Reguladora dos Serviços Energéticos* (**ERSE**). As at 30 June 2015, the EDP Group accounted for 52 per cent. of the installed capacity in the Portuguese National Electricity System (**SEN**) and 99 per cent. of the electricity distribution network in mainland Portugal.

In mainland Portugal, total electricity consumption in the six-month period ended 30 June 2015 reached 24.7 TWh, representing a year-on-year increase of 1.2 per cent. (although there is no year-on-year change when adjusted for temperature and working days).

Portugal's public electricity system is powered by a number of different forms of ordinary regime and special regime generation. In the six-month period ended 30 June 2015, the most significant sources of ordinary regime power generation in Portugal were hydroelectric (5,531 GWh) and coal (6,449 GWh), representing 22.4 per cent. and 26.1 per cent. of Portugal's total electricity demand, respectively, while electricity generation from CCGT plants accounted for only 6.5 per cent. (1,596 GWh) in the same period. The contribution made by special regime generation reached 43.5 per cent. in the six-month period ended 30 June 2015, totalling 10,771 GWh.

In the first six months of 2015, Portugal's energy trade balance with Spain favoured importation of electricity, totalling 1,064 GWh, versus 1,081 GWh of electricity exported in the same period in the previous year.

Based on *Red Eléctrica de España S.A.* (**REE**) reports, total electricity consumption in mainland Spain reached 123.5 TWh in the six-month period ended 30 June 2015, representing a year-on-year increase of 1.9 per cent. (when adjusted for temperature and working days, the increase is only of 0.5 per cent.).

In mainland Spain, hydroelectric power generation totalled 15,917 GWh in the six-month period ended 30 June 2015, representing 12.9 per cent. of Spain's total electricity demand in the period. Nuclear power generation in Spain reached 28,407 GWh, contributing to 23.0 per cent. of Spain's total electricity consumption. Coal generation totalled 22,992 GWh while generation from CCGT plants reached 11,079 GWh in the first six months of 2015, representing 18.6 per cent. and 9.0 per cent. of total electricity consumption in the country, respectively.

Special regime generation in Spain totalled 52,719 GWh in the six-month period ended 30 June 2015, a 2.8 per cent. decrease compared to the same period in the previous year, representing 42.7 per cent. of Spain's total electricity demand. Of this amount, 27,314 GWh was generated from wind power, which decreased 5.3 per cent. year-on-year, representing 22.1 per cent. of total electricity demand.

In the six-month period ended 30 June 2015, Spain's cross-border energy trade favoured exportation, totalling 1,943 GWh (compared to 2,448 GWh of exports in the first six months of 2014), which reflected a decrease of 20.6 per cent. compared to the same period in the previous year.

Ordinary generation

Portugal

Through its subsidiary EDP Produção, the EDP Group has a strong presence in ordinary regime electricity generation. In addition, EDP holds an 11.1 per cent. interest in Tejo Energia, S.A., a company that holds the Pego power plant in Portugal, which also participates in ordinary regime generation.

As at 30 June 2015, EDP Produção's generating facilities in Portugal, excluding special regime generation, had a total maximum capacity of 8,609 MW, 62.6 per cent. of which was represented by hydroelectric facilities, 23.7 per cent. by natural gas facilities and 13.7 per cent. by coal-fired facilities. EDP does not own or operate any nuclear-powered facilities in Portugal.

EDP's current hydroelectric portfolio in Portugal includes over 41 facilities and each facility is categorised into one of three generating centres, which generally correspond to the three regional locations in Portugal where these facilities are located. In addition, these facilities in Portugal consist of 100 operating groups, a separate categorisation based on the number and types of turbines operated at these facilities that provide EDP with flexibility to reduce the number of turbines needed to meet demand. These operations are controlled from a remote command centre, located in Peso da Régua, Portugal.

In April 2008, EDP paid €759 million for concession rights after the end of CMECs for the 4,094 MW hydroelectric power plants currently under this regime, formalising the concession rights, on average, for an additional period of 26 years.

On 18 September 2013 the European Commission (the **EC**) issued a press release stating that it had opened an in-depth state aid inquiry into water resources concessions granted by Portugal to EDP for electricity generation and would also inquire into the situation in other Member States. As with any state aid investigation, such proceedings are solely conducted between the EC and the Member State concerned (in this case, Portugal). The decision to initiate the procedure and the invitation to third parties to submit their observations on the case were published in the Official Journal of the EU on 16 April 2014, following which EDP submitted its comments as an interested party.

In 2008, EDP won the international tender for the concession in relation to the Foz Tua (263 MW) and Fridão & Alvito (466 MW) hydroelectric power plants in Portugal, against a payment of €53 million for a 75-year term and €231.7 million for a 65-year term, respectively. In 2007, EDP Produção formalised the sub-concession to operate the hydroelectric power stations at Alqueva (256 MW under ordinary regime generation) for a period of 35 years, thereby implementing a right granted in the 1970s and compensating EDIA, the manager of the Alqueva water system, in an upfront amount of €195 million. At the end of 2011, the repowerings of Picote (246 MW) and Bemposta (191 MW) were commissioned, and, at the end of 2012, the repowering of Alqueva (256 MW) was commissioned. The new Ribeiradio hydro plant (74 MW) and Baixo Sabor downstream plant (30 MW) were commissioned during the first six months of 2015. EDP is currently building four hydroelectric power plants: the Salamonde hydro plant repowering (207 MW), which is expected to start up in the second half of 2015; Baixo Sabor upstream plant (142 MW), the starting up of which is delayed subject to an increase in the reservoir level; and the Venda Nova hydro plant repowering (756 MW), expected to become operational in early 2016; and Foz-Tua new hydro plant (263 MW), with commissioning currently expected during the second half of 2016.

EDP's thermal infrastructure and operations in Portugal consist of four power plants, the largest being the coal-fired power station in Sines, with an installed capacity of 1,180 MW under CMECs until 2017. The remaining power plants are CCGT facilities located in Carregado (Ribatejo CCGT) and in Figueira da Foz (Lares I and II CCGT). Lares CCGT entered into service with its two generating units in October and November of 2009 with an installed capacity of 863 MW. In 2010, EDP started the decommissioning of its oil-fired power stations. The Barreiro oil-fired power station (56 MW) was decommissioned in 2010 and the Carregado oil-fired power station (710 MW) ceased operations in April 2012, having started the first phase of its decommissioning process at the end of the year. In January 2013, the oil-fired power plant in Setúbal was decommissioned. Additionally, the Tunes oil-fired power station (165 MW) was shut down in December 2013.

To reduce the emissions from its existing thermal plants, EDP installed DeSOx and DeNOx equipment in Sines. EDP is also currently evaluating new CO_2 sequestration technologies.

Performance in the Iberian Peninsula's electricity market is managed centrally by the Energy Management Business Unit, which monitors the financial position of the region's electricity power plants, as well as short and medium-term risk profiles. Apart from plants in the deregulated segment, this oversight also involves management of power plants covered under the CMECs, both in terms of managing sales of energy generated in the market and supplying fuel to these power stations.

Spain

In the six-month period ended 30 June 2015, net electricity generation from Hidrocantábrico reached 5,530 GWh under the ordinary regime, which represented a year-on-year increase of 47.4 per cent.. The total net ordinary generation in the Spanish mainland market in the six-month period ended 30 June 2015 was 72,679 GWh.

In terms of sources of electricity generation in the six month period ended 30 June 2015 by the EDP Group in Spain, (i) hydroelectric power generation totalled 620 GWh, a 8.9 per cent. decrease versus the same period in the previous year, (ii) coal generation totalled 4,030 GWh, a 69.1 per cent. increase versus the same period in the previous year, (iii) gas combined cycle reached 333 GWh, a 110.0 per cent. increase versus the same period in the previous year and (iv) nuclear power generation reached 546 GWh, a 3.2 per cent. increase versus the same period in the previous year.

As at 30 June 2015, Hidrocantábrico had a total installed capacity of 3,743 MW under the ordinary regime, with approximately 39.1 per cent. corresponding to coal-fired facilities, 45.4 per cent. to CCGT facilities and 11.4 per cent. to hydroelectric facilities. Hidrocantábrico 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 net capacity of 1,003 MW. Hidrocantábrico's installed capacity represents 6 per cent. of Spain's mainland electricity generation capacity under the ordinary regime (special regime facilities are excluded).

To reduce the emissions from its existing thermal plants, approximately 72 per cent. of the coal portfolio will have DeSOX/DeNOX equipment, used to control emissions from operations, as of 2017. The Soto2 coal plant will be decommissioned in December 2015.

Special regime generation – excluding wind power

Portugal

EDP's special regime generation (excluding wind power) in Portugal is carried out by EDP Produção, which operates the mini hydro power plants of Pebble Hydro and the cogeneration power plant of Fisigen. As at 30 June 2015, the EDP Group had a special regime generation installed capacity of 188 MW (wind power excluded), 87.1 per cent. of which was represented by the mini hydroelectric power plants of (164 MW) and 12.9 per cent. by Fisigen's cogeneration facility, plus 32 MW accounted for in accordance with the equity method through its 50 per cent. interest in EDP Produção – Bioeléctrica S.A. (**EDP Bioeléctrica**), which is responsible for biomass power plant development.

In January 2013, EDP Produção sold its 82 per cent. share in Soporgen, S.A. (which operates a cogeneration power plant with a capacity of 67 MW), to the other shareholder, Soporcel, S.A., for €5 million, as a result of the exercise of a call option by Soporcel on the terms set forth in the shareholders' agreement.

In January 2014, Energin's cogeneration plant (44 MW, in which EDP Produção holds a 65 per cent. share) ceased its operations following the shut down of the plant of its main client (Solvay).

The current special regime generation hydroelectric portfolio is made up of 69 generating groups, across 40 power plants.

Spain

As at 30 June 2015, Hidrocantábrico operated 25 MW of installed capacity in Spain, 78.0 per cent. of which was represented by waste to energy facilities and 22.0 per cent. by cogeneration facilities.

In Spain, net generation under the special regime (excluding wind power) amounted to 25,405 GWh for the six-month period ended 30 June 2015, representing a year-on-year decrease of 0.1 per cent..

Electricity and natural gas distribution in the Iberian Peninsula

The EDP Group engages in electricity and natural gas distribution activity through EDP Distribuição and EDP Gás Distribuição in Portugal and Hidrocantábrico and Naturgas Energía in Spain.

In the Iberian Peninsula's natural gas market, consumption had increased by 6.4 per cent. year-on-year to 185,540 GWh as at 30 June 2015, due to a 36.8 per cent. increase in consumption from CCGTs, as a result of higher utilisation rates, and a 2.0 per cent. rise in conventional demand on the back of harsher winter temperatures in the first half of 2015 compared with the same period in the previous year.

In Portugal the demand for electricity generation for the six-month period ended 30 June 2015 increased 401.4 per cent. year-on-year to 3,455 GWh, while the conventional demand for the six-month period ended 30 June 2015 stood almost flat year-on-year to 20,732 GWh. Natural gas demand in Portugal for the six-month period ended 30 June 2015 totalled 24,187 GWh (a 13.3 per cent. increase year-on-year). In Spain, natural gas demand in the first half of 2015 amounted to 161,353 GWh, representing a 5.4 per cent. year-on-year increase. For the six-month period ended 30 June 2015, the conventional market reached 134,847 GWh (representing a 2.3 per cent. year-on-year increase) and consumption of natural gas for the power sector reached 26,505 GWh (representing a 25.0 per cent. year-on-year increase).

Portugal – electricity distribution

EDP Distribuição is EDP's regulated Portuguese electricity distribution company acting under a public service concession.

In its distribution activities, EDP Distribuição carries out approximately 99 per cent. of Portugal's local electricity distribution. Currently, it has over 224,000 kilometres of grid and, in the six-month period ended 30 June 2015, EDP Distribuição distributed 22,368 GWh of electricity to a total of 6.1 million supply points.

Service quality

The quality of EDP's technical service is measured by the indicator "Interruption Time Equivalent to Installed Capacity" (**TIEPI**), which measures the specific amount of interruption time within the company's control. In the six-month period ended 30 June 2015, TIEPI decreased by 9 minutes year-on-year to 26 minutes reflecting unfavourable weather conditions in 2014.

EDP has continued to invest in the maintenance of its systems and is continuing to undertake new technical and organisational initiatives, which have allowed its grid to perform adequately despite adverse weather conditions. EDP is specifically targeting Portuguese regions that recorded comparatively lower service quality levels with specific improvement plans that include maintenance, restructuring and reinforcement of the grids.

InovGrid

EDP believes that smart grids have the potential to help Distribution System Operators address the technical challenges posed by new technologies, such as dispersed generation and electric vehicles, while contributing to the ever-present challenges of efficiency and quality of service. The evolution towards a smarter grid is an increasingly important part of EDP Distribuição's strategy and this transformation process is affecting a large number of different areas within the company. InovGrid is EDP Distribuição's umbrella project for smart grids, providing an integrated approach to the ongoing change process.

InovGrid's first significant milestone was the completion of a smart city pilot in the municipality of Évora in 2011. The pilot comprised the deployment of smart meters to 30,000 customers and the demonstration of several smart grids functionalities and benefits, including a positive impact of 3.9 per cent. in energy efficiency. The Évora pilot attracted significant international recognition, including the choice by the Joint Research Center (JRC) of the European Commission of InovGrid to use the pilot as the single case study on which to base the development of "*Guidelines for Conducting a Cost-Benefit Analysis of Smart Grid Projects*" [Report EUR 25246 EN].

Following the Évora trial, EDP Distribuição has worked with manufacturers to improve the technology and broaden the equipment supply market and has conducted an extended pilot in six additional municipalities (100,000 smart meters). As of 2015, EDP Distribuição is conducting a progressive smart meter deployment with national reach, focused on high-benefit customers. The company has also decided to stop installing conventional meters and start using smart meters in all business-as-usual processes.

Beyond smart metering, EDP Distribuição is developing other aspects of its smart grid vision, with projects such as the deployment of remote metering to all transformer sites and public lighting circuits and the installation of Distribution Transformer Controller devices to monitor the grid in important low voltage substations (around 10,000 sites).

EDP Distribuição participates in a large number of European projects, actively collaborating with peers, industry, academia and policy-makers to share knowledge and advance the smart grids vision.

Efficiency of operations

Increases in operational efficiency at EDP Distribuição have enabled more customers to be served and more energy distributed with fewer employees. At EDP Distribuição, the ratio of supply points per employee, often used as a measure of productivity in distribution companies, increased from 1,053 in 2004 to 1,838 as at 30 June 2015. At the same time, the indicator for energy distributed per employee more than doubled between the first half of 2004 (3 GWh) and the first half of 2015 (6.7 GWh).

Portugal – natural gas distribution

In Portugal, EDP operates in the natural gas distribution market through its indirect ownership of 72.0 per cent. of Portgás, acquired in 2004. Portgás services 29 municipalities in the northern coastal region of Portugal.

In addition, EDP holds through EDP Gas Iberia, S.L. a 19.8 per cent. stake in Setgás – Sociedade de Produção e Distribuição de Gás S.A. (**Setgás**), the natural gas distribution company for the Setúbal region in Portugal.

As at 30 June 2015, Portgás had 323,481 supply points and 4,705 kilometres of distribution grid. Gas volumes distributed rose by 1.1 per cent. year-on-year to 3,670 GWh, in line with the 3.3 per cent. growth in the number of supply points compared to the same period in the previous year, prompted by the systematic effort to achieve client connection to existing grid in the region operated by EDP.

Spain – electricity distribution

Hidrocantábrico has an electricity network infrastructure that covers the regions of Asturias (accounting for the large majority of its network), Madrid, Valencia, Cataluña and Aragon, totalling 20,325 kilometres. Electricity distributed in the six-month period ended 30 June 2015 through Hidrocantábrico's own network amounted to 4,630 GWh, a 0.2 per cent. year-on-year increase.

Distribution in the high and medium-voltage sector amounted to 3,472 GWh in the six-month period ended 30 June 2015, a 2.7 per cent. year-on-year increase, while in the low-voltage sector the total amount distributed in the first six months of 2015 reached 1,159 GWh, representing a 6.6 per cent. year-on-year decrease.

As at 30 June 2015, Hidrocantábrico's distribution business had 659,044 supply points, stable year-on-year.

Service quality

The investments carried out in recent years, as well as good working practices, allowed interruption to supply to continue to decrease. Despite the unfavourable topographical features in most of its market, Hidrocantábrico continues to lead the quality of service in the Spanish electricity system. Nonetheless, in the six-month period ended 30 June 2015, TIEPI increased by 8 minutes year-on-year to 21 minutes due to unfavourable weather conditions in the first quarter of 2015.

Efficiency of operations

The results of Hidrocantábrico's distribution network show the company's continuous efforts to maintain a high level of efficiency. In the electricity distribution area, staff productivity in the first half of 2015 remained high, with 15.5 GWh distributed per employee, and 2,212 supply points per employee. Furthermore, Hidrocantábrico has maintained high network availability levels, as shown by the above mentioned TIEPI.

Spain – natural gas distribution

In Spain, EDP operates in the natural gas market through its ownership of Naturgas, held through Hidrocantábrico. Naturgas activities include the distribution of gas over three regions: the País Vasco, Asturias and Cantabria, being one of the largest gas distribution companies in Spain, with 913,219 supply points and 7,692 kilometres of grid as at 30 June 2015.

In July 2012, Naturgas agreed to sell its gas transmission assets (approximately 450 kilometres of pipeline mainly located in the País Vasco) to Enagas (90 per cent.) and Ente Vasco de la Energía (10 per cent.). The completion of the transaction occurred in February 2013 with an agreed transaction price that represented an enterprise value of €258 million.

In December 2014, Naturgas reached an agreement with Redexis Gas, S.A. (**Redexis**), a Spanish gas transmission and distribution company held by Goldman Sachs Infrastructure Partners, for the sale of assets in Murcia and in other regions owned by EDP Group in Spain. The transaction perimeter comprises mainly gas distribution assets held by Gas Energía Distribucion Murcia as well as in other Spanish regions (mainly in Extremadura and Gerona), which are not contiguous to Naturgas' existing operations (mostly located in the País Vasco, Cantabria and Asturias regions), where Naturgas will retain approximately 900,000 connection points and will continue developing its business. The transaction scope includes approximately 117,000 gas connection points. In June 2015, Naturgas concluded the sale to Redexis of gas distribution assets in the Murcia region held by Gas Energía Distribucion Murcia as well as in other Spanish regions (mainly in Extremadura and Gerona) for a total amount of €241 million.

Gas volumes distributed in Spain during the first six months of 2015 amounted to 15,756 GWh, a 36.7 per cent. year-on-year decrease, due to the disposal of some gas distribution assets in Spain (excluding the impact of this disposal, gas distributed rose by 5 per cent.).

Electricity and natural gas supply in the Iberian Peninsula

In the Iberian activity of electricity and natural gas supply, the EDP Group is present in the regulated and liberalised market in both geographies. In Portugal, EDP supplies electricity and natural gas to customers both in the liberalised market through EDP Comercial and EDP Gás.com and in the regulated market through EDP SU and EDP Gás Serviço Universal. In Spain, the liberalised market supply is done through Hidrocantábrico and Naturgas Energía, whilst last resort customers are supplied by HC CUR.

Supply in the regulated market

Portugal

The Portuguese government has enacted Decree-Law no. 66/2010, of 11 June, and Decree-Law no. 104/2010, of 29 September, establishing the end of last resort supply tariffs for large natural gas and electricity clients (with an annual gas consumption greater than 10,000 m3 and supplied in very high, high, medium and special low voltage) from 2010 and 2011 onwards, respectively. Since then, a transitory last resort supply tariff has been available for these clients in order to encourage Portuguese customers to switch to the liberalised natural gas and electricity market, a process that was also applied to small natural gas and electricity clients (customers with an annual gas consumption lower than 10,000 m3 and supplied in low voltage), starting from the second half of 2012 (Decree-Law no. 74/2012 and 75/2012, both of 26 March). Recently, Decree-Law no. 15/2015, of 30 January, and Ministerial Order no. 97/2015, of 30 March, have determined that the last resort supplier must continue to supply natural gas and electricity customers who have not yet migrated to the liberalised market, and therefore maintains the application of the respective transitory last resort supply tariff until 31 December 2017.

Electricity supplied by the regulated market fell from 5.2 TWh in the first six months of 2014 to 3.2 TWh in the first six months of 2015 essentially due to the switch of consumers to the liberalised suppliers.

Total clients supplied by EDP SU declined 36.9 per cent. year-on-year to 2,000,098, and its market share (in terms of volumes supplied) in Portuguese electricity supply fell from 24 per cent. in the first six months of 2014 to 14 per cent. in the first six months of 2015, mainly due to the switch of consumers to the liberalised suppliers.

EDP Gás Serviço Universal is a company 100 per cent. owned by Portgás and is the last resort supplier for the concession area, being responsible for the supply of natural gas in the regulated market. As at 30 June 2015, EDP Gás Serviço Universal had 74,444 customers and supplied 270 GWh (a decrease of 33.3 per cent. year-on-year).

Spain

As a result of the process of liberalising the electricity sector, since July 2009 low voltage customers with power less than or equal to 10 kW can receive power by contract or through a reference supplier, where HC CUR is included, at a tariff determined by the Spanish government called the Voluntary Price for the Small Consumer (**VPSC**).

As at 30 June 2015, HC CUR had 243,205 customers. These customers consumed 261 GWh of electricity for the six-month period ended 30 June 2015, representing a 6.0 per cent. year-on-year decrease. The figure is continuously decreasing as more customers migrate to the liberalised market.

As for gas supply activity, EDP's efforts to move customers from the regulated to the liberalised market were effective (only a small percentage still remain on the last resort tariff system in the liberalised market) when gas retail tariffs ended in Spain in June 2008. Hence, in the first six months of 2015, gas volumes supplied by HC CUR decreased 4.8 per cent. year-on-year to 187 GWh.

Supply in the liberalised market

Portugal

EDP Comercial retained its liberalised market leadership in Portugal both by number of clients and volume of electricity supplied, despite a strong increase in competition. Currently, the company segments its marketing strategy in two main areas: one focused on companies and institutions (**B2B**), and one targeting residential and small business customers (**B2C**).

The 19.2 TWh of electricity supplied during the six-month period ended 30 June 2015 in the liberalised market represented 85.7 per cent. of the total electric energy supplied in Portugal during this period, which compares to 76.2 per cent. for the same period in the previous year. The electricity sold by EDP Comercial in the six-month period ended

30 June 2015 amounted to 8,653 GWh, representing 45.1 per cent. of the total electricity sold in the liberalised market in Portugal in the period, while in the six-month period ended 30 June 2014 this figure totalled 7,555 GWh, representing then 45.3 per cent. of the liberalised supply. Despite the tough competition in the liberalised market, especially in the industrial segment, and the challenging market conditions in the residential segment compared to regulated tariffs, this increase in market share reflects EDP's strategy to focus on more attractive segments.

By 30 June 2015, EDP Comercial supplied about 3,460,000 customers (or approximately 85 per cent. of total customers in the liberalised market, 99 per cent. of whom were connected at standard low voltage). This represents a strong 38 per cent. year-on-year increase (2,509,000 customers by the end of June 2014), mainly driven by residential clients switching from the last resort supplier. The pace of growth accelerated significantly in late 2012 (which mainly resulted from some B2C mass marketing campaigns – for example, EDP Continente, Home/Business dual offer – together with the phase out process of the B2C regulated tariffs scheduled for 31 December 2012), leading to significant net additions in client portfolio during the first halves of 2014 (598,000 customers) and 2015 (404,000 customers).

The natural gas marketed by EDP in Portugal in the six-month period ended 30 June 2015 was 2,394 GWh, representing a 22.3 per cent. year-on-year increase, reflecting volume increase in the residential segment following the gas market liberalisation. The strong pace of gas supply liberalisation, along with EDP's successful dual offer (electricity and gas) to B2C clients prompted an increase in the number of clients from 315,966 in June 2014 to 452,202 in June 2015, sustaining EDP as a major player in the liberalised market with a market share by number of clients of 50 per cent. as at 30 June 2015.

Companies and institutions (B2B)

Since the beginning of the deregulation process for electricity in Portugal, the liberalised market has been competing with the tariffs in the regulated market. This resulted in periods of steady market growth, but also other periods of strong market retraction. This was the case in 2008, when prices in the liberalised market were unable to compete against the regulator defined tariffs. This resulted in the massive switching of almost all B2B liberalised customers back to the regulated market. In contrast, in 2009 and 2010, due to more favourable tariff and market price conditions, supply in the liberalised market became competitive once again, namely in the B2B segment. On 29 September 2010, the Portuguese government enacted Decree-Law no. 104/2010 extinguishing with effect from 1 January 2011 the regulated tariffs for B2B clients and introducing a transitory last resort tariff that includes a premium component to allow for these clients to gradually switch to the liberalised market. In addition, as of the enactment of this Decree-Law, any client who opts out of the regulated market cannot return to it and is bound to be permanently supplied in the liberalised market by one of the existing supply companies. As a result, about 91 per cent. of B2B electricity clients (representing 98 per cent. of the total B2B electricity market volume) are now in the liberalised market. The scenario is similar In the B2B gas market.

At the end of June 2015, the B2B electricity business of EDP Comercial had a client portfolio amounting to 121,293 facilities, compared to 83,057 one year earlier, to which it had supplied 4,126 GWh by the end of June 2015, which compares to 4,280 GWh for the same period in the previous year. EDP Comercial has a 46 per cent. liberalised market share in terms of clients and a 27 per cent. liberalised market share in terms of volumes supplied at the end of June 2015.

Residential and small business customers (B2C)

The standard low voltage segment was fully opened to the liberalised market on 4 September 2006, marking the beginning of the final stage in the liberalisation of the Portuguese electricity market. Since then, around 6 million customers have been free to choose their electricity supplier.

Pursuant to the Memorandum of Understanding entered into by the Portuguese government, the EU, the International Monetary Fund and the European Central Bank, the Resolution of the Council of Ministers no. 31/2011, dated 23 July 2011, approved the calendar for the elimination of regulated tariffs and the introduction of transitory tariffs for standard low voltage electricity consumers. Subsequently to this, the regulator established in 2014 that all remaining consumers with regulated tariffs must gradually move to the free market. The regulator has the ability to apply quarterly increases which would encourage a full switch to the free market by 31 December 2017.

By the end of June 2015, the B2C electricity business of EDP Comercial had a client portfolio amounting to 3.3 million residential and small business customers, compared to 2.4 million by the end of June 2014 (a 37.6 per cent.

increase), to which it supplied 4,527 GWh in the six-month period ended 30 June 2015, which accounts for a 38.2 per cent. year-on-year increase. Since 2006, EDP Comercial has remained the most active B2C supplier in the liberalised market, with market shares in this segment by June 2015 of 85 per cent. in terms of number of clients and 80 per cent. in terms of energy supplied.

Energy services

Additionally, the management of EDP considers that its energy services business will play an increasingly important role in retaining customers and strengthening their long term partnership bond with EDP.

This area's activity consists of designing and implementing value added energy solutions, for both B2B and B2C customers, ranging from energy efficiency and micro-generation, to electricity quality monitoring and electric equipment maintenance. It is also through this services activity that EDP deploys its initiatives under the Plan for Promoting Consumption Efficiency (PPEC), an ambitious energy efficiency plan promoted by the regulator.

Spain

As at 30 June 2015, the total number of electricity customers in the liberalised market supplied by Hidrocantábrico and Naturgas was 744,138 (excluding reference suppliers) and these customers were invoiced for 7,271 GWh of electricity supplied in the first six months of 2015, a 16.2 per cent. year-on-year decrease. The energy sold represents 8 per cent. of the total energy sold in the liberalised market in Spain for this period.

For the six-month period ended 30 June 2015, the B2B segment recorded sales of 6,278 GWh (7,743 GWh in the six-month period ended 30 June 2014), a year-on-year decrease of 18.9 per cent. in line with EDP's strategy to focus on the most attractive customer segments.

Within the B2C operation, sales of 993 GWh were achieved in the first six months of 2015, representing a year-on-year increase of 5.9 per cent. The strategy in this segment has been focused on portfolio analysis in order to attract profitable customers and gain their loyalty. On the other hand, a campaign was carried out to protect the dual domestic customer segment by means of the Fórmula Ahorro (Savings Formula) plan. This promotional offer included electricity and gas supply and a maintenance service through the Funciona programme, resulting in 466,226 contracts as at 30 June 2015, 458,154 of which used electronic invoicing.

Natural gas marketed by Naturgas in the six-month period ended 30 June 2015 was 13,189 GWh, representing a 21.6 per cent. year-on-year decrease, to a total of 770,844 clients reflecting fewer and less appealing trading opportunities in the wholesale market and EDP's strategy of focusing on the most attractive customer segments. The gas sold in the B2B segment amounted to 10,554 GWh, and the remaining 2,635 GWh were sold in the B2C segment.

EDP Renováveis

EDP Renováveis is a global leader in renewable energy, with its revenue mostly derived from wind energy activities. It develops, builds and operates renewable energy assets in Europe (Portugal, Spain, France, Belgium, Poland, Romania, Italy and UK), North America (United States, Canada and Mexico) and Brazil.

EDP Renováveis is a publicly traded company, listed on Eurolist by Euronext Lisbon, following its successful IPO in June 2008.

Business Overview

As at 30 June 2015, EDP Renováveis managed a global portfolio of 9,141 MW spread over 10 countries, of which 8,254 MW fully consolidated and with an additional 886 MW accounted for in accordance with the equity method (533 MW related to EDP Renováveis interest in the ENEOP Eólicas de Portugal, S.A. (**ENEOP**) consortium and 353 MW related to EDP Renováveis equity stakes in Spain and in the United States). The overall installed capacity of EDP Renováveis was spread between Europe (4,944 MW), North America (4,113 MW) and Brazil (84 MW), reflecting a total of 105 MW of new capacity added to its portfolio since December 2014 and 542 MW installed since June 2014. As of 30 June 2015, EDP Renováveis had 556 MW under construction.

From the total 8,254 MW of its fully consolidated capacity, 91 per cent. are remunerated according with long-term contracts and regulated frameworks, and only 9 per cent. are exposed to US spot wholesale electricity markets (although partly covered by short-term hedges) and to the Spanish spot wholesale electricity market.

The ENEOP's consortium includes, besides EDP Renováveis, the wind power operators Enel Green Power, Generg Group and Enercon, which signed a contract in 2006 for the development of 1,200 MW (which has expanded to 1,335 MW) following a competitive public tender by the Portuguese government. As originally intended, ENEOP is currently in a formal split of assets process, pursuant to which the Portuguese Competition Authority has confirmed that it does not oppose EDP Renováveis having exclusive control over certain assets of ENEOP amounting to 613 MW. The final financial agreements of the asset split process are ongoing and expected to be completed over the next months. In 2012, EDP Renováveis entered the solar photovoltaic (**PV**) segment with the commissioning of a 39 MW solar farm in Romania. It also completed its first wind farm (40 MW) in Italy and opened its largest wind farm to date, the 215 MW Marble River wind farm, in the state of New York. In December 2013, EDP Renováveis started up its first wind project in Canada with an installed capacity of 30 MW. In April 2014, EDP Renováveis entered the Mexican wind energy market, establishing an agreement with Industrias Peñoles, a leading Mexican mining company, for an Electricity Supply Agreement under self-supply regime for the energy produced by a wind farm currently designed for 180 MW, expected to be installed in 2016.

Regarding the efficiency of its global wind assets, in the first six months of 2015, EDP Renováveis delivered a 31.0 per cent. load factor (33.6 per cent. for the same period in the previous year). EDP Renováveis's balanced portfolio and solid wind assessment know-how allowed it to maximise output even in periods with lower wind resource, reflecting the benefits of a balanced portfolio across different geographies and EDP Renováveis wind farms' intrinsic quality on the back of a unique wind assessment know-how.

EDP Renováveis continues to leverage on its diversified portfolio to mitigate wind volatility. In Europe, EDP Renováveis achieved a 29.0 per cent. load factor in the first half of 2015 (30.4 per cent. in the first half of 2014) reflecting the lower wind resource year-on-year in Spain and Portugal, along with higher installed capacity in the rest of Europe.

In North America, average load factor decreased from 37.3 per cent. in the first half of 2014 to 33.3 per cent. for the same period in 2015, due to lower wind resource.

In Brazil, the average load factor was 26.0 per cent. versus 28.3 per cent. in the same period of the previous year.

The positive effect from the capacity additions over the last twelve months was offset by a lower year-on-year load factor performance, due to the outstanding wind resource in the first half of 2014. Hence, electricity output in the first six months of 2015 decreased 1.1 per cent. year-on-year, totalling 10,842 GWh. In North America, electricity output in the first six months of 2015 decreased by 1.7 per cent. year-on-year to 5,562 GWh as the positive effect of capacity additions was impacted by a lower wind resource in the first half of 2015. In Europe, in the first six months of 2015, electricity generation remained stable year-on-year totalling 5,186 GWh (this performance was supported on the 23.7 per cent. output growth in rest of Europe, on the back of capacity additions and stronger wind resource in the period). In Brazil, energy output in the first six months of 2015 decreased by 8.4 per cent year-on-year to 94 GWh due to lower wind resource.

In line with EDP Renováveis's growth strategy, the asset rotation which includes the sale of minority stakes and the reinvestments in projects with higher returns, is expected to increase the value of EDP Renováveis by allowing it to maintain a self-funding strategy which at the same time takes advantage of additional market opportunities.

Europe

In the twelve months ended 30 June 2015 EDP Renewables Europe (**EDPR EU**) increased its installed capacity by 114 MW (50 MW relating to ENEOP), ending the period with 4,944 MW (533 MW relating to ENEOP and 174 MW related to other farms accounted for in accordance with the equity method), spread over seven countries: Spain, Portugal, France, Belgium, Italy, Poland and Romania.

Electricity generation in the first six months of 2015 remained roughly stable year-on-year, reaching 5,186 GWh as the capacity increase during the period was offset by lower wind resources year-on-year. The average load factor in Europe in the first six months of 2015 fell 145 basis points year-on-year to 29.0 per cent., driven by lower load factors in Spain (29.2 per cent. in the first half of 2015 versus 31.7 per cent. in the first half of 2014) and in Portugal (29.8 per cent. in the first half of 2015 versus 34.4 per cent. in the first half of 2014). In the rest of Europe the average load factor increased from 25.7 per cent. in the first half of 2014 to 28.2 per cent. in the first half of 2015.

As at 30 June 2015, EDP Renováveis had 136 MW under construction in Europe.

Spain

In Spain, EDP Renováveis's installed wind capacity as at 30 June 2015 amounted to 2,194 MW fully consolidated plus 174 MW equity consolidated, stable period-on-period.

EDP Renováveis's load factor in Spain decreased from 31.7 per cent. in the first half of 2014 to 29.2 per cent. in the first half of 2015, but was still higher than the expected for an average half year, and delivered once again a premium over the Spanish market average (2 per cent.) according to EDP Renováveis's reports. Electricity output decreased by 7 per cent. year-on-year in the first six months of 2015, amounting to 2,727 GWh due to outstanding wind resource in the first half of 2014.

As at 30 June 2015, EDP Renováveis had 2 MW of wind onshore under construction in Spain.

Portugal

In Portugal, EDP Renováveis's installed wind capacity as at 30 June 2015 totalled 630 MW of consolidated capacity plus 533 MW accounted for in accordance with the equity method through its interest in the ENEOP consortium. In the twelve months ended 30 June 2015 EDP Renováveis added 58 MW of installed capacity in Portugal (50 MW attributable to ENEOP and 8 MW related to overpowering of an existing wind farm).

EDP Renováveis's load factor in Portugal in the first six months of 2015 reached 29.8 per cent., a decrease from 34.4 per cent. for the same period in the previous year, due to the outstanding wind resource in the first quarter of 2014 (43.4 per cent.). In this period, the electricity output decreased 13 per cent. year-on-year to 807 GWh.

In June 2013, EDP Renováveis completed the sale of a 49 per cent. equity shareholding and 25 per cent. of the outstanding shareholders' loans in EDPR PT to China Three Gorges International (Hong Kong) Company Limited, a wholly owned subsidiary of CTG, for a total consideration of €368 million. This transaction was agreed pursuant to the EDP/CTG strategic partnership established in December 2011 and that came into effect in May 2012.

Also within the scope of the EDP/CTG strategic partnership, in December 2013, EDP Renováveis signed a Memorandum of Understanding with CTG and CWEI (Hongkong) Company Limited, a subsidiary of CTG, envisaging the sale of 49 per cent. of the equity and shareholder loans directly or indirectly owned by EDPR Europe in ENEOP consortium. Considering the envisaged formal asset splitting process of ENEOP's assets, the agreed transaction is expected to occur in 2015, after the respective regulatory approvals.

Rest of Europe

As at 30 June 2015, EDP Renováveis had 1,413 MW of capacity installed in the rest of Europe, installed as follows: Romania 521 MW (of which 50 MW are solar PV), Poland 392 MW, France 340 MW, Belgium 71 MW and Italy 90 MW. 56 MW of wind energy capacity were added in the twelve months ended 30 June 2015. By June 2015, a total of 135 MW were under construction in the rest of Europe: 77 MW in Poland, 48 MW in France and 10 MW in Italy.

The average load factor in the first six months of 2015 reached 28.2 per cent., an increase from 25.7 per cent. for the same period in the previous year, benefiting from a higher wind resource in the second quarter of 2015.

The electricity output increased by 24 per cent. year-on-year to 1,651 GWh in the first six months of 2015, on the back of capacity additions and stronger wind resource in the period.

North America

In North America, EDP Renováveis's wind installed capacity as at 30 June 2015 totalled 4,083 MW (of which 179 MW was equity consolidated) spread across 11 different states plus 30 MW of solar PV in California. 398 MW of wind energy capacity plus 30 MW of a solar PV in California were added in the twelve months ended 30 June 2015. As at 30 June 2015, EDP Renováveis had 300 MW under construction in North America comprising two wind farms with PPAs already secured: the Waverly wind farm project (200 MW in the state of Kansas); and the Arbuckle wind farm project (100 MW in the state of Oklahoma).

The average load factor in the first six months of 2015 was 33.3 per cent. versus 37.3 per cent. for the same period in the previous year, which implied a year-on-year electricity output decrease of 1.7 per cent. (5,562 GWh for the six-month period ended 30 June 2015 versus 5,658 GWh in the six-month period ended 30 June 2014).

Brazil

EDP Renováveis's installed wind capacity in Brazil totalled 84 MW by 30 June 2015, with no year-on-year change. All of the company's installed capacity in Brazil benefits fully from incentive programmes for renewable energy development. This provides long-term visibility through long-term contracts to sell the electricity produced for 20 years, which translates into stable and visible cash flow generation throughout the projects' life.

The average load factor in the first six months of 2015 reached 26.0 per cent. versus 28.3 per cent. for the same period in the previous year.

Electricity output decreased 8.4 per cent. year-on-year to 94 GWh in the first six months of 2015, due to lower wind resource.

Within the scope of EDP/CTG strategic partnership, in May 2015, EDP Renováveis completed the sale to CWEI (Brasil) Participações Ltda (**CWEI Brasil**), a subsidiary of CTG, of minority interests in 84 MW of wind farms in operation and 237 MW of wind farms under development, all of which are in Brazil. CWEI Brasil will invest a total of R$386 million, including equity contributions for the projects currently under construction and development (in accordance with the terms of the agreement signed in December 2014).

As at 30 June 2015, EDP Renováveis had 120 MW under construction, related to Baixa do Feijão project, which has a secured PPA for a period of 20-years with start of operations planned to January 2016 and a price set at R$97/MWh, indexed to the Brazilian inflation rate.

In addition, EDP Renováveis has 117 MW under development in Brazil awarded at the energy generation auctions with PPA's for a period of 20-years with start of operations planned to January 2018 and the price set at R$109/MWh (price to be inflation updated over the PPA period), which clearly reinforces EDP Renováveis's presence in a market with a low risk profile, attractive wind resources and strong growth prospects.

EDP's energy business in Brazil

Generation (excluding wind power)

EDP Brasil generation activities include the management of hydroelectric power stations and mini-hydro power stations located in the states of Espírito Santo, Mato Grosso do Sul, Tocantins, Santa Catarina, Rio Grande do Sul and Ceará. As at 30 June 2015, EDP Brasil's generating facilities, excluding wind, had a total installed capacity of 2,517 MW fully consolidated and an additional 187 MW accounted for in accordance with the equity method through its interest in Jarí hydro power plant (corresponding to 50 per cent. of 373 MW total installed capacity). 1,797 MW of its fully consolidated capacity is represented by hydroelectric facilities and the remaining 720 MW relate to Pecém coal thermal plant.

615 MW of the 720 MW installed capacity in Pecém I was sold in the energy generation auction held by the Electric Energy Trading Chamber (**CCEE**), in October 2007. The price reached at the auction was R$125.95/MWh, for a 15-year contract.

Santo Antônio do Jari HPP has an installed capacity of 373 MW with an average contracted capacity of 210.9 MW, of which 190 average MW were sold in the energy generation auction of December 2010 for a period of 30 years ending 31 December 2044 (expiration date of the concession), and 20.9 MW were sold in the energy generation auction of December 2012 for a period of 28 years ending 31 December 2044. Santo Antônio do Jari HPP was initially expected to start-up in January 2015 but started commercial operations ahead of schedule (the first generating unit started in September 2014 and by the end of 2014, all generating units were operational).

The total volume of energy sold by EDP's fully consolidated plants in Brazil in the first six months of 2015 reached 4,998 GWh, a 21 per cent. increase versus the previous year, which includes 679 MWh from Pecém coal thermal plant.

The entire installed capacity of EDP Brasil is contracted under PPAs with prices adjusted for inflation and an average maturity of 15 years.

Generation projects under construction

In December 2012, EDP Brasil acquired Cachoeira Caldeirão HPP, located at Amapá state, in Araguari river, with an installed capacity of 219 MW, of which 129.7 average MW were sold in the energy generation auction for a period of 30 years. Cachoeira Caldeirão HPP is expected to start-up in January 2017.

In December 2013, within the scope of the Brazilian energy generation auction carried out by the Brazilian Electricity Regulatory Agency (**ANEEL**), the Terra Nova Consortium, constituted by EDP Brasil (66.6 per cent.) and Furnas (33.4 per cent.), obtained the concession for the São Manoel hydro plant. This hydro plant, which is expected to have an installed capacity of 700 MW, is being built on the border of the Mato Grosso and Pará states, in the Teles Pires river. The conditions of the contracted PPA in the electricity auction include the sale of 409.5 average MW for a 30-year term starting in May 2018.

In December 2013, the EDP Group entered into certain agreements pursuant to the EDP/CTG Strategic Partnership established in December 2011. In particular, EDP Brasil signed with CWEI, a fully owned subsidiary of CTG, a Memorandum of Understanding that establishes the key guidelines of a partnership aiming at future co-investments between EDP Brasil and CWEI and governs the participation of the parties thereto in joint energy projects in Brazil. In this context, CWEI signed an agreement to: (i) acquire a 50 per cent. stake in the company holding the rights to develop the Cachoeira Caldeirão hydro power plant project (219 MW) by reimbursing 50 per cent. of the respective costs incurred so far and assuming future equity commitments throughout the construction period; and (ii) to acquire a 50 per cent. stake in the company holding the rights to develop the Jari hydro power plant project (373 MW). The transaction was concluded in June 2014. On 15 May 2015, and subsequent to the information released to the market on 9 December 2014, EDP Brasil announced the conclusion of the acquisition of 50 per cent. of the total and voting capital of Pecém I held by Eneva. With the conclusion of this transaction, EDP Brasil now owns 100 per cent. of the total and voting capital of Pecém I adding 360MW of installed capacity to the Group. Additionally, in February 2014 and pursuant to the Memorandum of Understanding, EDP Brasil signed a Purchase and Sale Agreement with CWEI Brasil, a subsidiary of CWEI, to sell 50 per cent. of its 66.67 per cent. stake in the company holding the rights to develop the São Manoel hydro power plant to CWEI Brasil. The transaction was concluded in November 2014.

Distribution

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 free customers, who choose a different electricity supplier and pay the distributor only for the use of the distribution network.

The distribution activities are currently developed by two concessionaires, which secure 3.2 million customers, in regions where the total population is approximately 8.4 million people:

- EDP Bandeirante – Supplies energy to approximately 1.8 million customers in 28 municipalities at the regions of Alto Tietê, Vale do Paraíba and Litoral Norte from the state of São Paulo, where approximately 4.8 million people live. The area has a large concentration of companies from important economic sectors, such as aviation, paper and pulp manufacture.
- EDP Escelsa – Delivers services to a population of approximately 3.6 million inhabitants in 70 of the 78 municipalities from the state of Espírito Santo, supplying electricity to approximately 1.5 million customers. The main economic activities of the region are metallurgy, iron mining, production of paper, oil and gas.

The volume of electricity sold to final customers increased by 0.3 per cent. in the first six months of 2015 compared to the same period in the previous year. In the residential, commercial and other segments, the volume sold in the first six months of 2015 rose 2.3 per cent. year-on-year, justified by a wider client base. In the industrial segment, the volume of electricity sold fell by 6.4 per cent. in the first six months of 2015 compared to the same period in 2014 due to lower national industrial production.

The volume of electricity distributed totalled 13.1 TWh in the six-month period ended 30 June 2015, representing a 0.5 per cent. year-on-year decrease, driven by lower demand from the industrial segment in the free market, and partly offset by higher demand in the rural segments on dry weather. The volume distributed to large industrial clients in the free market fell by 2.2 per cent. to 4.8 TWh in the first half of 2015, reflecting the cooling of the industrial production in São Paulo, mainly in the metal products, metallurgy and rubber sectors. Already in the Escelsa concession area, the negative effect of the expansion of self-production from an important customer of the non-metallic minerals industry affected the volume distributed.

Supply

EDP Comercializadora is responsible for energy commercialisation activities and rendering services to the liberalised market, both inside and outside the concession areas of the two distributors of EDP Brasil that operate in the regulated market.

EDP Comercializadora presented a decrease in the volume of energy supplied in the first six months of 2015, trading 5,209 GWh, which was 18 per cent. lower than the volume traded in the same period in 2014, reflecting a decrease in market liquidity. Thus, EDP Comercializadora ranks as the third largest private sector electricity energy commercialisation company in Brazil.

EDP'S OTHER ACTIVITIES

EDP also has financial interests in other energy and non-energy related assets, namely a 3.5 per cent. stake in REN, the electricity transmission company in Portugal, and a 10.6 per cent. indirect interest in Companhia de Electricidade de Macau – CEM, S.A. (**CEM**), the utility which acts as exclusive concessionaire for transmission, distribution and commercialisation of electricity in Macau Special Administrative Region (**MSAR**) since 1985.

In December 2014, EDP agreed and concluded, within the context of the EDP/CTG Strategic Partnership, with ACE Asia – an entity participated by CWEI Hong Kong Company Limited (**CWEI HK**), a fully-owned subsidiary of CTG – the sale of a 50 per cent. stake in its subsidiary EDP Ásia – Investimento e Consultoria, Limitada which holds a 21.2 per cent. stake in CEM.

REGULATORY FRAMEWORK

Iberian Peninsula

MIBEL Overview

Since 1 July 2007, the electricity wholesale market in the Iberian Peninsula has been operated as a single and integrated electricity market for Portugal and Spain within the wider context of the European single electricity market, which is provided for in EU directives. This integrated market for Portugal and Spain is known as Mercado Ibérico de Electricidade (**MIBEL**) and is the result of the successive international agreements entered into by the governments of Portugal and Spain since 1998 (the **MIBEL Agreements**).

Under the MIBEL Agreements, MIBEL's purpose is to be the common electricity trading platform in Portugal and Spain. The MIBEL Agreements set out a framework that creates: (1) organised and non-organised markets in which transactions or electricity agreements are entered into; and (2) markets in which financial instruments relating to such energy are traded. The creation of MIBEL required both countries to acknowledge a single market in which all agents have equal rights and obligations and in which all agents have to comply with principles of transparency, free competition, objectivity and liquidity.

MIBEL operates with an electricity spot market, which includes daily and intraday markets that are managed by Spanish market operator - Operador del Mercado Ibérico de Energía, Polo Español, S.A., (**OMEL**) and an electricity forward market that is managed by Operador do Mercado Ibérico de Energia – Pólo Português, S.A. (**OMIP**). In addition, electricity transactions may also be negotiated through bilateral contracts with terms of at least one year. The MIBEL Agreements also specify that the existence of two market operators, OMEL and OMIP, is temporary and that OMEL and OMIP will eventually merge into a single market operator, the Iberian Market Operator (**OMI**).

Pursuant to the provisions of the MIBEL agreements, which entered into force on 1 July 2011, the segregation process affecting OMEL has been completed. This has involved the transfer of a section of OMEL's business, which involved the operation of the electricity market and other energy-based products, to OMI Polo español, S.A. (**OMIE**).

Further to this transfer, as from 1 July 2011, OMIE assumed the management of the bidding system for the purchase and sale of electricity on the spot market within the sphere of MIBEL, whilst OMEL has become a holding company, owning 50 per cent. of each of OMIE and OMIP and 10 per cent. of the Portuguese parent company, OMIP – Operador do Mercado Ibérico (Portugal), SGPS, S.A. (**OMIP, SGPS**). OMIP SGPS also holds 50 per cent. of each of OMIE and OMIP and has diversified its shareholder base in October 2011, by reduction of the Portuguese Transmission System

Operator (**TSO**) stake from 90 per cent. to 35 per cent. by sale to several market agents.

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 used a common trading platform for spot energy that is managed by OMIE, 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 prices in each country depend on (1) supply and demand in each country and (2) the available interconnection capacity between each country. It is expected that as interconnection capacity between Portugal and Spain increases, the MIBEL spot market will evolve to a single market system.

On 1 July 2007, EDP began to sell electricity generated under the ordinary regime in Portugal through the spot market managed by OMIE, as a result of the early termination of its PPAs, as further described below.

Managing Emissions

Emission allowances for the 2013-2020 are mainly allocated by auction, in accordance with Directive 2009/29/EC, which amended Directive 2003/87/EC of the European Parliament and the Council, and aims to improve and extend the greenhouse gas emissions allowance trading scheme.

Decree-Law no. 38/2013, of 15 March, establishes a new approach for licensing, harmonised at the EU level, that sets up a transitional regime for the allocation of free allowances. In 2013, free allocation was initially 80 per cent. of the allowances available, determined by applying a harmonised methodology. This percentage will decrease annually, to a 30 per cent. free allocation in 2020, until the free allocation is eliminated in 2027. The global amount of emission allowances available at the EU level was determined by Commission Decision no. 2010/634/EU of 22 October 2010, subsequently amended by Commission Decision no. 2013/448/EU of 5 September 2013, and the methodology allocation was set by Commission Decision no. 2011/278/EU of 27 April 2011, later amended by Commission Decisions no. 2011/745/EU of 11 November 2011, no. 2012/498/EU of 17 August 2012 and no. 2014/9/EU of 18 December 2013.

From 1 January 2013, emission allowances that are not allocated free of charge are subject to an auction. 80 per cent. of the revenues from the auction in each year must be used to promote renewable energy by offsetting part of the special regime generation overcosts. Additionally, if unused emission allowances allocated for 2008 to 2012 are auctioned, 70 per cent. of the proceeds will also be used to promote renewable energy by offsetting part of the special regime generation overcost. At the level of the EU ETS, the European Commission produced an impact assessment report on the measures previously designed to prevent the surplus of emission allowances on the market and the consequent reduction in the price of CO2 per ton. The purpose of the report was to analyse the functioning of the market and to identify the need for regulatory action in this field.

Ministerial Order no. 3-A/2014, enacted on 7 January 2014 and amended by Rectification no. 15/2014 of 6 March 2014, established a set of procedures governing the determination of the amount of revenues to be used in the promotion of renewable energies, including an annual plan for the use of revenues and the collaboration of the Portuguese Carbon Fund with other agencies in the allocation and use of revenues from the auctioning of allowances for greenhouse gas emissions, as well as the amounts to be deducted from the global use tariff of the National Electric System (NES).

Reducing Emissions

Apart from CO2, the major waste products of electricity generation using fossil fuels are sulphur dioxide, nitrogen oxide, and particulate matter, such as dust and ash. Several bodies of legislation have been approved at a European level to address this situation.

The EU Large Combustion Plant (LCP) Directive 2001/80/EC, of the European Parliament and of the Council of 23 October 2001, as amended by Directives 2006/105/EC of the Council, of 20 November 2006, and 2009/31/EC of the European Parliament and of the Council, of 23 April 2009 (the **LCP Directive**), regulates industrial pollution and aims to reduce emissions of acidifying pollutants, particles and ozone precursors. By 2016, the LCP Directive will be replaced by Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 (Directive 2010/75/EU) on industrial emissions.

Additionally, Directive 2008/1/EC of the European Parliament and the Council of 15 January 2008, concerning integrated pollution prevention and control (the **IPPC Directive**), aimed to reduce pollution from various industrial sources throughout the EU. The IPPC Directive was also replaced by Directive 2010/75/EU. Directive 2010/75/EU recasts seven existing Directives related to industrial emissions into a single clear and coherent legislative instrument. The recast includes the then-existing IPPC Directive, the LCP Directive, the Waste Incineration Directive, the Solvents Emissions Directive and three Directives on Titanium Dioxide.

Renewable Energy

The promotion of electricity from renewable sources is a priority in the EU for purposes of security and diversification of energy supply, environmental protection and social and economic development. The EU's renewable energy strategy was set forth in general regulation that supports all forms of renewable energy generation and in specific regulations that support specific renewable energy technologies. These regulations target the generation of certain percentages of EU electricity and energy from renewable sources in order, among other objectives, to achieve the greenhouse gas emission reductions required by the Kyoto Protocol, to which the EU (and its Member States) became a signatory on 31 May 2002.

The European Council Meeting of March 2007 reaffirmed the EU's commitment to the EU-wide development of energy from renewable sources beyond 2010. It endorsed a mandatory target, including two requirements, which are that by 2020: (1) 20 per cent. of EU-wide energy consumption will be generated from renewable sources and (2) at least 10 per cent. of transport petrol and diesel consumption in each Member State will be originated from bio fuels.

Furthermore, in January 2008, the EU proposed specific binding targets for each Member State. On 23 January 2008, the EC established a framework (COM (2008) 30 final) to ensure a sufficient level of investments and support in order to achieve an 11.5 per cent. increase in the share of renewable energy as a proportion of total energy consumption in the EU, which will in turn ensure that the European Council's target of 20 per cent. by 2020 is met. The EC further highlighted the projected decrease in the relative cost of renewable energy due to the cost of EU ETS allowances (a scheme that allows companies to trade allowances for the right to produce CO_2 emissions) and rising prices for oil and gas. Furthermore, the EC reinforced the strong renewable energy allocation and flexibility methodology adopted by the European Council.

In light of the positions taken by the EU, the European Parliament and the European Council adopted a new Directive, Directive 2009/28/EC of the European Parliament and the Council of 23 April 2009, which amended and subsequently replaced Directives 2001/77/EC and 2003/30/EC (the **Renewable Energy Directive**). The Renewable Energy Directive was designed to promote the use of renewable energy with the general objectives set out at the European Council Meeting of March 2007, as described above. The Renewable Energy Directive was later amended by Council Directive 2013/18/EU of 13 May 2013.

To ensure those objectives are achieved, the Renewable Energy Directive established a common framework for the promotion of energy from renewable sources. It also set mandatory national targets for the overall share of energy and for the share of transport energy from renewable sources. In addition, it lays down rules relating to statistical transfers between Member States, joint projects between Member States and with third countries, guarantees of origin, administrative procedures, information and training and access to the electricity network for energy from renewable sources. Finally, the Renewable Energy Directive establishes sustainability criteria for biofuels and bioliquids.

As part of international commitments to reducing greenhouse gases emissions, the 2012 United Nations Climate Change Conference held a meeting in Doha (Qatar) that concluded with an extension of the Kyoto Protocol (set to expire in 2012) until 2020, with 37 countries (representing around 15 per cent. of worldwide emissions) agreeing to binding greenhouses gas reduction targets. In 2015, a new treaty with binding obligations for all parties should be ready so it can be operational by 2020. Negotiations will proceed to reach a comprehensive and binding treaty for a larger number of countries, including, perhaps, the United States (which never ratified the Kyoto Protocol) and developing countries such as China, India and Brazil. With respect to the EU's renewable energy policy, on March 2012, the European Parliament voted in favour of setting a binding renewable energy target for 2030. In December 2012, European energy ministers gave a mandate to the EC to start working on a post-2020 renewable energy policy framework. The EC adopted a Communication on 22 January 2014 that provides a policy framework for climate and energy for the period 2020-2030. This Communication proposes a binding greenhouse emissions reduction target of 40 per cent. and a binding target of 27 per cent. for the market share of renewable energy sources. On 5 February 2014, the European Parliament voted in favour of the following three binding targets for emissions reductions, renewable energy sources and energy efficiency: (i) at least a 40 per cent. decrease in greenhouse gases when compared with 1990 levels, (ii) generation of at least 30 per cent. of energy from renewable sources, and (iii) a 40 per cent. improvement in energy efficiency by 2030. The European Renewable Energy Council has endorsed a binding 45 per cent. renewable energy minimum target for 2030.

On 23 October 2014, EU leaders agreed on a domestic 2030 greenhouse gas reduction target of at least 40 per cent., compared to 1990 levels, together with the other main building blocks of the 2030 policy framework for climate and energy, as proposed by the European Commission in January 2014.

This 2030 policy framework aims to make the EU's economy and energy system more competitive, secure and sustainable and also sets a target of at least 27 per cent. for renewable energy. The European Council endorsed this target, which is binding only at EU level.

Furthermore, the European Commission proposed a 30 per cent. energy savings target for 2030. The proposed target builds on the achievements already reached: new buildings use half the energy they did in the 1980s and industry is about 19 per cent. less energy intensive than in 2001. The European Council, however, endorsed an indicative target of 27 per cent. to be reviewed in 2020, having in mind a 30 per cent. target and energy savings by 2030.

Also in 2014, the EU issued the Communication 2014/C 200/01 containing guidelines on state aid for environmental protection and energy for 2014-2020, aiming to ensure that support schemes for renewable energy are in accordance with the EU rules on state aid. This Communication presents a new trend to progressively abandon the feed-in tariff support scheme and proposes alternative support schemes which may subject renewable energy promotors to increasing market exposure, therefore reducing investments predictability.

In 2015, the European Union approved the framework strategy Resilient Energy Union with a Forward-Looking Climate Change Policy (approved by Communication (2015) 80 final, of 25 February 2015) and has initiated a public consultation process on the new energy market design (Communication (2015) 340 final, of 15 July 2015), where one of the main concerns is the reform of the energy market so as to eventually allow investment in new renewable energy capacity to be driven by the market and, in the meantime, be supported, if necessary, through market-based schemes in line with the state aid guidelines.

Portugal

Evolution of the Portuguese Electricity System

The Portuguese electricity system (the **Portuguese Electricity System**) has changed significantly in recent years. Until 1999, the generation, transmission, distribution and supply components of the electricity industry in Portugal were united in the EDP Group. Since 2000, the regulation of the electricity industry in Portugal has been subject to significant changes, such as the unbundling of the power transmission network and the liberalisation of power generation and supply. The current organisation of the Portuguese energy sector is mostly the result of a significant restructuring initiated pursuant to the National Strategy for the Energy Sector (the **NSE**) established firstly by Resolution of the Council of Ministers no. 169/2005, of 24 October 2005, as later amended and updated by Resolution of the Council of Ministers no. 29/2010, of 19 March 2010, which also formally replaced Resolution of the Council of Ministers no. 169/2005, of 24 October 2005. Currently, the NSE is established by Resolution of the Council of Ministers no. 20/2013, of 10 April 2013, which replaced the Resolution of the Council of Ministers no. 29/2010, of 19 March 2010, and sets two main policy plans regarding the energy sector: the National Plan of Action for Energy Efficiency 2013-2016 (the **PNAEE 2016**) and the National Plan of Action for Renewable Energies 2013-2020 (the **PNAER 2020**). These plans of action are intended to be tools for better energy planning by establishing the means of achieving international goals and commitments assumed by Portugal in matters of energy efficiency and the use of renewable resources, without losing sight of economic rationality and the need to ensure adequate levels of energy prices, which do not prejudice the competitiveness of Portuguese companies or the minimum living standards of the general population. The said plans focus primarily on the reduction of the country's energy dependence, the increase of energy generation using renewable resources and the promotion of energy efficiency and sustainable development, namely by (i) ensuring the continuance of measures that guarantee the development of an energy model with economic rationality, which provides sustainable energy costs, (ii) ensuring a substantial improvement of the country's energy efficiency, and (iii) maintaining the reinforcement to diversify primary energy sources, revaluating the investments made in renewable technologies and presenting a new remuneration model for more efficient and prominent technologies.

The PNAEE 2016 and PNAER 2020 have the following five major objectives:

- To comply with the commitments assumed by Portugal with greater economical rationality;
- To significantly reduce greenhouse gas emissions;

- To reinforce primary energy sources diversification, thus contributing to the enhancement of Portugal's safety of supply;
- To improve the energy efficiency of Portugal's economy, particularly in the public sector, thus reducing public spending and promoting an efficient use of available resources;
- To improve economic competitiveness by reducing consumption and costs related to the companies functioning and household economy management, freeing resources to boost internal demand and new investments.

In relation to measures enacted to address climate change, Resolution of the Council of Ministers no. 56/2015, of 30 July, approved the Strategic Framework for Climate Policy, the Climate Change National Programme and the National Strategy for Climate Change Adjustment. This Resolution, amongst other things, also determined that Portugal must reduce its greenhouse gas emissions from 18 per cent. to 23 per cent. in 2020 and from 30 per cent. to 40 per cent. in 2030, *vis-à-vis* 2005 levels, contingent on the results of European negotiations.

Also, Decree-Law no. 127/2013, which implemented Directive 2010/75/EU into Portuguese national law, established an industrial emissions regime aiming for integrated prevention and control of pollution, as well as rules to prevent and reduce air, water and soil emissions and waste generation in order to achieve a high level of protection of the environment as a whole.

EU Directive no. 2003/54/EC of the European Parliament and of the Council of 26 June 2003 (the **Electricity Directive**), which defined new strategic objectives, principles and general guidelines, was transposed into Portuguese national law by Decree-Law no. 29/2006, of 15 February 2006 (**Decree-Law no. 29/2006**). The Electricity Directive established common rules for the generation, transmission and distribution of electricity in Member States, and it instituted rules relating to the organisation and functioning of the electricity sector, access to the market, the criteria and procedures applicable to calls for tenders and the granting of authorisations and the operation of systems.

The national law followed the Electricity Directive and established the new legal framework for the Portuguese electricity sector. Decree-Law no. 172/2006, of 23 August 2006 (**Decree-Law no. 172/2006**), as amended, further developed this legal framework (together with Decree-Law no. 29/2006 the **Electricity Framework**) and established rules for activities in the electricity sector.

Following implementation of this new Electricity Framework, the former organisation of the Portuguese Electricity System was 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 or simple registration in the case of the liberalised supply. However, the transmission and distribution components of the electricity industry continue to be regulated activities provided through the award of public concessions.

Decree-Law no. 319/2009, of 3 November 2009, while transposing Directive no. 2006/32/EC of the European Parliament and of the Council, of 5 April 2006, established the indicative objectives and the institutional, financial and legal framework necessary to eliminate the current market deficiencies and obstacles that prevent the efficient use of electricity, and created the conditions for the development and promotion of an energy services market and of other measures of improvement of energy efficiency. This legislation, applicable, among others, to electricity distributors, suppliers and certain types of consumers, also set out a general indicative objective for energy economy of 9 per cent. to be achieved by 2016, such energy economy to be reached through the use of energy services and through the improvement of energy efficiency. In 2015 Decree-Law no. 319/2009, of 3 November 2009, was revoked by Decree-Law no. 68-A/2015, of 30 April 2015 (**Decree-Law no. 68-A/2015**), amended by Rectification no. 30-A/2015, of June 26, save for certain provisions.

Notwithstanding all the efforts at European level to create an energy common market, there are still obstacles to the sale of electricity on equal terms and without discrimination or disadvantages in the EU. Therefore a third legislative package was proposed in 2007 by the EC, and adopted in 2009 by the European Parliament and European Council. This legislative package includes Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009, concerning common rules for the internal market in electricity, which replaced Directive 2003/54/EC (**Directive 2009/72/EC**), Regulation (EC) No 713/2009 of the European Parliament and of the Council of 13 July 2009 establishing an Agency for the Cooperation of Energy Regulators (**Regulation (EC) 713/2009**), and Regulation (EC) No 714/2009 of the European Parliament and of the Council of 13 July 2009, on conditions for access to the network for cross-border exchanges in electricity, which replaces Regulation (EC) No 1228/2003 (**Regulation (EC) 714/2009**). Regulation (EC) 713/2009 was last amended by Regulation (EC) 347/2013, of 17 April 2013, which also amended Regulation (EC) No 714/2009, the latter having been amended by Commission Regulation (EU) no. 543/2013 of 14 June 2013.

Directive 2009/72/EC focuses on common rules relating to the organisation and functioning of the electricity sector, open access to the market, the criteria and procedures applicable to calls for tenders and the granting of authorisations and the operation of systems, along with rules concerning universal service obligations and the rights of electricity consumers.

Regulation (EC) 713/2009 establishes an Agency for the Cooperation of Energy Regulators with the general purpose of assisting the national regulatory authorities and, where necessary, coordinating their actions.

Regulation (EC) 714/2009 aims at: (1) setting fair rules for cross-border exchanges in electricity, thus enhancing competition within the internal market in electricity, taking into account the particular characteristics of national and regional markets, and (2) facilitating the emergence of a well-functioning and transparent wholesale market with a high level of security of supply in electricity, providing mechanisms to harmonise the rules for cross-border exchanges in electricity.

Directive 2009/72/EC was partially transposed into Portuguese national law by Decree-Law no. 78/2011, of 20 June (**Decree-Law no. 78/2011**), which amended Decree-Law no. 29/2006 and introduced changes in the Electricity Framework.

Following the amendments introduced by Decree-Law no. 78/2011, the Electricity Framework now adopts a regime of stricter separation between the entities acting in the generation and supply of energy and the transmission and distribution system operators, by attributing new powers to the national energy regulator and reinforcing the protection rights of consumers.

In 2012, the sector's framework laws were once more amended in order to complete the implementation of the Directive 2009/72/EC. Decree-Laws no. 215-A/2012 and 215-B/2012, of 8 October 2012, were published, introducing new modifications to Decree-Law no. 29/2006 and to Decree-Law no. 172/2006, respectively. Important modifications introduced included: (i) special regime generation can now also be remunerated through market schemes, and is no longer distinguished from ordinary regime generation exclusively by the fact that it has special remuneration schemes under pro-investment policies; (ii) requirements related to the independence and legal separation and ownership unbundling of the transmission network operator were reinforced (in consequence, also, of the challenges created by the privatisation process); (iii) regarding the distribution network operator, the legal separation requirements were also clarified, with the aim of assuring the independence and eliminating the network access discrimination risk; (iv) concerning the supply activity, they provided that the supplier of last resort maintains the obligation of acquiring the special regime generated power, but only when the generation benefits from a guaranteed feed-in-tariff, and the creation of the figure of the Market Facilitator Aggregator, to which will be attributed the responsibility of acquiring special regime generation without a guaranteed feed-in-tariff. ERSE has incorporated the above changes into the applicable regulations.

The Current Portuguese Electricity System

Under the Electricity Framework, the Portuguese Electricity System is divided into six major functions: (i) generation, (ii) transmission, (iii) distribution, (iv) supply, (v) operation of the electricity market and (vi) the logistical operations that facilitate switching electricity suppliers for consumers. Subject to certain exceptions, each of these functions must be operated independently, from a legal, organisational and/or decision-making standpoint.

The electricity sector activities are required to be developed in accordance with the principles of rationality and efficiency in the use of necessary resources and in accordance with the principles of competition, environmental sustainability and consumer protection, with the purpose of increasing competition and efficiency in the Portuguese Electricity System, in the context of the creation of the internal energy market.

Decree-Law no. 138/2014 of 15 September 2014 introduced a legal framework to safeguard strategic assets essential to ensure national defence and security and to guarantee the supply of services fundamental to the public interest related to the energy, transport and communications sectors. Under the new legal framework, a change in EDP's control structure involving direct or indirect control by a person or persons from a country that is not a member of the EU or the EEA may be denied by the Portuguese government under certain circumstances if there are real and serious reasons to believe that national defence and security or the safety of supply of energy are at risk.

Electricity generation

Electricity generation is subject to licensing and is carried out in a competitive environment. Electricity generation is divided in two regimes: an ordinary regime and a special regime. The special regime relates to the generation activity subject to special legal regimes, such as electricity generation through cogeneration and endogenous resources (renewable or non-renewable), small generation (e.g. microgeneration and minigeneration) and generation without network injection, as well as generation of electricity using endogenous resources, either renewable or non-renewable, which is not subject to a special legal regime. Generation which falls outside the scope of these criteria is included in the ordinary regime generation.

Decree-Law no. 141/2010, of 31 December 2010 (later amended by Decree-Law no. 39/2013, of 18 March 2013 and Decree-Law no. 68-A/2015), which transposes the Renewable Energy Directive, established that, as an indicative objective, the use of renewable energy sources must represent at least 31 per cent. of end-use electricity consumption by 2020. Decree-Law no. 39/2013 of 18 March 2013, which amends Decree-Law no. 141/2010, established national targets for renewable energy in gross final consumption of energy and for the share of energy from renewable sources in transport. Decree-Law no. 39/2013 also defined the methods to calculate the share of energy from renewable energy sources and established a mechanism for issuing guarantees of origin for electricity obtained from renewable energy sources. The main changes introduced by this Decree-Law are: i) the possibility to achieve the national targets for use of renewable energy through statistical transfers between Member States and joint projects with public authorities or private operators from other Member States or third countries, and ii) the obligation to develop actions to disseminate the advantages of using renewable energy sources.

Decree-Law no. 153/2014 of 20 October 2014 (**Decree-Law no. 153/2014**) concerning the generation for own consumption and the small power generation legal framework entered into force on 18 January 2015 and part of its legal framework has been further regulated by Ministerial Orders nos. 14/2015 and 15/2015 of 23 January 2015 and no. 60-E/2015 of 2 March 2015. Decree-Law no. 34/2011 of 8 March 2011 and Decree-Law no. 363/2007 of 2 November 2007, as amended, were replaced by Decree-Law no.153/2014, which sets out a unitary legal framework for all small power generation activities, including microgeneration and minigeneration. Also small hydro infrastructure saw its established special arrangements with the publication of the Decree-Law no. 49/2015, of 10 April 2015, rectified by the Rectification no. 26/2015, of 9 July 2015.

Decree-Law no. 153/2014 also includes the rules applicable to small power generation activities serving, either with or without connection to the public service electricity network, the consumption needs of a facility connected to a generation plant, which can use either renewable or non-renewable generation technologies.

Ordinary Regime

On 30 June 2007, all of the long term PPAs that had been previously executed by EDP during the 1990s were terminated early pursuant to Decree-Law no. 240/2004, and accordingly, the power facilities that generated electricity for those agreements are now operated under market conditions.

In addition, EDP has regularised the status of the water concessions for its hydropower plants in accordance with Decree-Law no. 226-A/2007, of 31 May 2007, last amended by Law no. 17/2014, of 10 April 2014. As a result, EDP has retained the rights to operate 26 hydropower plants under market conditions (with 4.094 MW of installed capacity), whose average term of operation is until 2047.

Ministerial Order no. 765/2010, of 20 August 2010 (**Ministerial Order no. 765/2010**), established a new regime applicable to generators operating in the liberalised market, providing that remuneration may be awarded to generators that provide generation capacity guaranteed to be used in connection with the technical management of the national electricity transmission network, under similar conditions to those that, since 2007, have been available for generation companies in Spain. In addition, the provision of an investment incentive for a period of ten years, amounting to €20,000 per MW installed was established, to be used in generation capacity in the ordinary regime (not less than 50 MW). Power plants that used to benefit from PPAs early terminated in 1 July 2007 and that are currently subject to a stranded costs compensation mechanism, designated as the CMEC mechanism, had been excluded from such incentive benefits. New capacity increases of hydro power plants with reversible systems were also covered by this measure. The availability incentive provided for a payment for the availability of certain generation capacity in a predetermined timeframe equal to or less than one year, in an amount to be defined by the member of the Portuguese government responsible for the energy sector. These capacity payments to generators were to be made and managed by the system operator and supported by the electricity tariffs as set in the Tariff Regulation enacted by the Portuguese

Energy Services Regulatory Authority (Entidade Reguladora dos Serviços Energéticos, **ERSE**), an autonomous public entity.

Following the Memorandum of Understanding on Specific Economic Policy Conditionality entered into by the Portuguese State with the International Monetary Fund, the EU and the European Central Bank (the **Financial Assistance Programme**), the Portuguese capacity remuneration mechanism was reviewed. In fact, Ministerial Order no. 139/2012, of 14 May 2012, revoked Ministerial Order no. 765/2010 and terminated, with effect as from 1 June 2012, the capacity remuneration mechanism as described above, establishing the new guiding principles of the substitute regulatory regime. Consequently, the availability incentive and the investment incentive previously established by Ministerial Order no. 765/2010 ceased to be applicable. Ministerial Order no. 251/2012 of 20 August 2012 introduced new availability and investment incentives applicable to thermal and hydro power plants, respectively. In this respect, despite the fact that the generators encompassed by this measure have not, as of yet, received any amounts corresponding to such availability incentive, the respective right to receive the payments has arisen and the respective receivables have been accruing since January 2015. The annual reference value of the availability incentive for thermal power plants shall correspond to €6,000/MW per year. On the other hand, the investment incentive for new hydro power plants shall take effect, if granted, as from the month which follows the request for eligibility and shall be attributed for a period of 10 years, in an amount calculated on the basis of the current criteria for national supply coverage set out in Ministerial Order no. 251/2012 and regulations. The annual reference values of the investment incentive shall correspond to the amounts set out in the Annex to Ministerial Order no. 251/2012.

On 29 April 2015 the European Commission issued a decision initiating a state aid sector inquiry on capacity mechanisms in the electricity sector which will focus on 11 countries, among which Portugal. The European Commission will invite comments on initial findings by the end of 2015, with the final report expected to be published in the summer of 2016.

Special Regime

Under Portuguese law, special regime generation governs the generation activity subject to special legal regimes, such as electricity generation through cogeneration and endogenous resources (renewable or non-renewable), small generation (e.g. microgeneration and minigeneration) and generation without network injection, as well as generation of electricity using endogenous resources (renewable or non-renewable), which is not subject to a special legal regime. Generation which falls outside the scope of the referred criteria is included in the ordinary regime generation.

The Portuguese legal provisions applicable to the generation of electricity based on renewable resources and to cogenerators (special regime generation) are primarily governed by Decree-Law no. 172/2006, of 23 August 2006 (**Decree-Law no. 172/2006**), amended with the entry into force of Decree-Law no. 215-B/2012, of 8 October 2012. Special regime generation is also governed by Decree-Law no. 29/2006, as this sets out the principles for the organisation and functioning of the Portuguese Electricity System.

The statutory and regulatory regime applicable to special regime generation differs from that applicable to the ordinary regime generation in relation to licences, tariffs and electricity sale rights. In addition, Decree-Law no. 23/2010, of 25 March 2010 (**Decree-Law no. 23/2010**), as amended by Law no. 19/2010, of 23 August 2010 (**Law no. 19/2010**) and by Decree-Law no. 68-A/2015, provides for a new cogeneration regime in respect of, among others, licensing and tariffs. The specific terms of the reference tariff remuneration regime were defined by the Ministerial Order no. 140/2012, as amended by Ministerial Order no. 325-A/2012.

Licences

The licensing regime applicable to power plants included in the special regime generation is governed by Decree-Law no. 172/2006, Ministerial Order no. 237/2013, of 24 July 2013 and Ministerial Order no. 243/2013, of 2 August 2013, amended by Rectification no. 38-A/2013, of 1 October 2013 and Ministerial Order no. 133/2015, of 15 May 2015. The construction and operation of a power plant included in the special regime generation requires a network interconnection point to be allocated by the Portuguese State Energy Department (Direcção Geral de Energia e Geologia, **DGEG**), on the request of the promoter selected upon the conclusion of a public tender procedure or proceeding which allows any interested parties which comply with the applicable requirements to be established, as per equatitative and transparent criteria, determined by the Ministry responsible for the energy sector (such as Order no. 14704/2014 of 4 December 2014). The licensing process begins with a request to DGEG to assess the capacity of the network to receive the electricity generated at a determined network interconnection point. If such capacity exists, DGEG may allocate a network interconnection point to the requesting party upon conclusion of a public tender procedure. The competing entities must comply with certain requirements in order to be granted the right to a network interconnection point. The entities to which the interconnection point has been allocated must then obtain a generation licence from DGEG before beginning construction of the power plant. Once construction is completed, an operation licence must also be obtained. The DGEG licensing process operates in parallel with a local licensing process administered by the municipalities in which the power plant is to be located. In particular, the requesting party must obtain local construction and operation licences for the power plant. In some instances, an environmental impact evaluation may be required, and a favourable environmental impact declaration must be issued by the Environmental Impact Authority. This favourable environmental impact declaration, when applicable, is a condition precedent for the issuance of the generation licence. Also, in cases where installations are to be located within the National Ecologic Reserve territory, depending on the specific circumstances, additional permits or a special Ministerial Order recognising the public interest of the project may be required.

Ministerial Order no. 237/2013 establishes the regime for the prior communication procedure regarding the installation of power plants under the special regime, which do not require a generation license and Ministerial Order no. 243/2013, of 2 August 2013 establishes the licensing regime for power plants under special regime which require a generation license. The need for a power plant under special regime to obtain a generation license is determined in accordance with article 33-E of Decree-Law no. 172/2006, as amended.

Tariffs

Decree-Law no. 189/88 of 27 May 1988 (**Decree-Law no. 189/88**), and the amendments thereto, including Decree-Law no. 313/95, of 24 November 1995, Decree-Law no. 168/99, of 18 May 1999, Decree-Law no. 312/2001, of 10 December 2001, Decree-Law no. 339-C/2001, of 29 December 2001, Decree-Law no. 33-A/2005, of 16 February 2005 (**Decree-Law no. 33-A/2005**), Decree-Law no. 225/2007, of 31 May 2007 and Decree-Law no. 35/2013, of 28 February 2013, (**Decree-Law no. 35/2013**), set out a specific formula for calculating the tariffs to be paid to generators for the electricity generated by power plants using renewable energy (excluding large hydropower plants) that initiated their licensing procedure prior to the entering into force of Decree-Law 215-B/2012. With the publication of Decree-Law no. 35/2013, as previously envisaged in Decree-Law no. 215-B/2012, a new remuneration regime came into force for wind farms licensed after the entry into force of Decree-Law no. 33-A/2005 but before the entry into force of Decree-Law no. 215-B/2012. However, wind farms licensed before the entry into force of Decree-Law no. 33-A/2005 maintain their right to have their electricity remunerated in accordance with the formula set out in accordance with Schedule II of Decree-Law no. 189/88, as amended by Decree-Law no. 339-C/2001, of 29 December 2001. As a consequence of the entry into force of Decree-Law no. 215-B/2012, there is currently no remuneration regime applicable to new renewable energy projects, which, according to Decree-Law no. 215-B/2012 and Ministerial Order no. 243/2013, shall be defined by a Ministerial Order yet to be published.

Decree-law no. 35/2013, also established the possibility of special regime generators to adhere to certain alternative remuneration mechanisms which, generally, allow for the extension of the period by which such special regime generators receive a special tariff or guarantee remuneration. It also sets a deadline for the maintenance of the remuneration conditions applied to small hydro plants (PCH) subject to a special remuneration regime.

Regarding wind farms, upon entry into force of Decree-Law no. 35/2013, wind farms that were already in operation as of 17 February 2005 sell their electricity at a set price, dependent on generation hours, for a period of 15 years after entry into force of Decree-Law no. 33-A/2005; all other wind farms which fall under the transitory regime approved by article 4 of Decree-Law no. 33-A/2005 sell their electricity at a set price, dependent on generation, for period of fifteen years as of the date of attribution of the operation licence. After such period, the wind farms that benefit from a remuneration regime prior to entry into force of Decree-Law no. 33-A/2005 may choose (i) to benefit, for an additional five years, from a tariff which shall be determined by the member of the government responsible for the energy area, or (ii) to adhere, to an alternative remuneration regime, against payment of annual compensation to the SEN of €5,000 or €5,800 per MW of installed capacity for a period of eight years between 2013 and 2020.

The alternative remuneration regime (ii) above offers generators the possibility of receiving the amount corresponding to the set market price, with the advantage that a floor (of €74 MWh) and a cap (of €98 MWh), or just a floor (of €60 MWh), is established. This means that, if market prices fall below or rise above such amounts (in the first case), or fall below such amount (in the second case), the generators shall receive the cap or the floor value, irrespective of the set market price.

If generators choose to pay the compensation of €5,000 per MW of installed capacity to the SEN, they shall be entitled to benefit from the alternative remuneration regime they choose for a period of five years, upon the conclusion of the initial fifteen year term. If generators choose to pay the compensation of €5,800 per MW of installed capacity to SEN, they shall be entitled to benefit from the alternative remuneration regime for a period of seven years, upon the conclusion of the initial fifteen year term.

Wind farms licensed after 17 February 2005 and which do not fall under the transitory regime approved by Decree-Law no. 33-A/2005 sell their first 33 GWh of electricity at a price based on a formula set out in Decree-Law no. 33-A/2005, for a period of 15 years counting from the date of attribution of the operation license. After the 33 GWh limit is exceeded, electricity in excess of 33 GWh and, in any case, after the 15 years as from the attribution of the operation license have elapsed, all electricity generated on those wind farms will be sold at the then-existing market price, plus the price received from the sale of green certificates, if any. Provided that certain legal requirements are met, some of these windfarms may alternatively adhere to (i) an extension of the guaranteed remuneration up to 44 GWh and, in any case, up to 20 years as from the start of supply of energy to the grid or to (ii) an alternative remuneration regime corresponding to the set market price, with the advantage that a floor (of €74 MWh) and a cap (of €98 MWh), or just a floor (of €60 MWh), is established, against payment of annual compensation to the SEN of €5,000 or €5,800 per MW of installed capacity for a period of eight years. The cost of providing such remuneration to the generators is allocated in accordance with Decree-Law no. 90/2006, of 24 May 2006. Additionally, Decree-Law no. 172/2006, of 23 August 2006, establishes the obligation of the operators of the public service electricity network, such as REN—Rede Eléctrica Nacional, S.A., in its capacity as operator of the national transmission network and EDP Distribuição, in its capacity as operator of the national distribution network, to receive in first place the electricity generated using renewable energy sources except for hydroelectric power plants with an installed capacity greater than 30 MW.

On 7 April 2015, the Ministerial Order no. 102/2015 was published, which established the procedures for the placement of additional energy and for the repowering authorisation of wind farms in the terms established in general by Decree-Law 94/2014, of 24 June 2014. The main measures introduced by this legislation were: (i) the energy produced by repowering wind farms (increasing the number of wind turbines in existing wind farms) is remunerated at a fixed rate of 60€/MW; (ii) the energy corresponding to the difference between installed capacity and the injected energy in the network is remunerated at 60€/MW; and (iii) recognition of the wind farms repowering as an independent generator.

Regarding PCH, Decree-Law no. 35/2013 imposes a term of 25 years after the allocation of the operation license, subject to the limits imposed by the licence of water resources' usage, for the maintenance of remuneration conditions established under the Decree-Law no. 33-A/2005, February 16 2005. Before this date, the remuneration scheme would be valid during the period foreseen in the licence of water resources' usage.

The legal regime of the generation of electricity through microgeneration units and "mini" generation has changed with the publication of Decree-Law no. 25/2013, of 19 February 2013, establishing that the supplier of last resort is required to purchase electricity from these units, regardless of the remuneration arrangements (subsidized or general scheme).

DGEG Order of 26 December 2013 provides that the value of the reference tariff for all photovoltaic solar generation technologies in 2014 is €218/MWh during the first 8-year period and €115/MWh during the second period of 7 years. In the case of micro generation units using solar photovoltaic technology, the reference tariff in 2014 is €66/MWh during the first period of 8 years and €145/MWh during the second period of 7 years. Regarding "mini" generation, it was determined that the value of the reference rate to be applied in 2014 is €159/MWh for all technologies other than solar PV. For units of "mini" generation using solar photovoltaic technology, the reference rate to be applied is €106/MWh. Following the publication of Decree-Law no. 153/2014, which revoked Decree-Law no. 25/2013, of February 2013 and provided as well for a new tariff regime, DGEG Order no. 3/SERUP/DGEG/2015 has detailed the rules applicable to the operation of the Electronic Registry System of Generation Units and the adaptation of microgeneration units and “mini” generation to the referred new legal framework and functioning of this electronic registry system.

Generators under the special generation regime which do not benefit from a guaranteed remuneration shall nevertheless have the right to sell the energy generated to the Market Facilitator Aggregator (this entity is yet to be licenced).

Electricity sale

The Portuguese special generation regime provides that generators who benefit from a guaranteed remuneration under law may sell electricity to last resort suppliers who are required to purchase electricity under the special regime pursuant to article 55 of Decree-Law no. 172/2006. However, neither the right of the special regime generator, nor the correspondent obligation of the last resort supplier, limits the ability of the special regime generator to sell electricity to other suppliers of electricity operating in the market. When the special regime generator sells the electricity to the last resort supplier, it will receive an amount corresponding to the tariff applicable to the respective generation technology.

Cogeneration

Decree-Law no. 23/2010, as amended by Law no. 19/2010, which transposes Directive 2004/8/EC of the European Parliament and Council of 11 February 2004 (subsequently repealed by Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012), as amended by Decree-Law no. 68-A/2015, recently rectified by the Rectification no. 30-A/2015, of 26 June 2015, establishes a legal framework applicable to the generation of electricity through cogeneration. This framework sets out a more expeditious regime for obtaining a licence for generation of electricity through cogeneration and a new form of calculation of the tariff payable to cogenerators. The new remuneration mechanism is based on two methods subject to the choice of the cogeneration generator: a general regime whose compensation is defined by market value plus a transitory market participation premium and a special regime that is only available for generators with installed capacity less than or equal to 100 MW, defined by a temporary reference tariff plus an efficiency premium. During a transitory period, generators with a 15-year operation period or less are able to choose between the previous and the new regime.

The terms of calculation of the new reference tariff and the specific characterisation of the transitory remuneration scheme were enacted by the Ministerial Order no. 140/2012, of 14 May 2012, as amended by Ministerial Order no. 325-A/2012, of 16 October 2012. Pursuant to Decree-Law no. 68-A/2015, a new reference tariff has been enacted as well as the rules on the transitory remuneration scheme. Recently, the DGEG Dispatch no. 12/2015, of 15 July 2015, establishes new values for the third quarter of 2015.

Early termination of the PPAs

Until 1 July 2007, electricity generated by EDP Produção’s power plants and other power plants was sold under PPAs to REN—Rede Eléctrica Nacional, S.A. (acting as a single buyer), allowing these power plants to achieve a return on assets of 8.5 per cent. in real pre-tax terms. The price of electricity provided for in each PPA consisted of capacity and energy charges, together with other costs associated with the generation of electricity, such as self-generation and generation facilities’ operations and maintenance costs. The capacity and energy charges were passed through to the final tariff paid by customers.

The Portuguese government set out the framework for the early termination of the PPAs in laws and decree-laws promulgated in 2004 and 2007. These laws provide for changing the single buyer status of REN—Rede Eléctrica Nacional, S.A. and defining compensatory measures for the respective contracting parties through the passing on of charges to all electrical energy consumers as permanent components of the Global Use of the System Tariff (**UGS Tariff**). The market reference price for the calculation of the compensation payable to the generators was revised in 2007 from €36/MWh to €50/MWh. The conditions precedent for early termination of the PPAs set forth in the various laws and decree-laws, as well as in the PPA termination agreements entered into between EDP Produção and REN—Rede Eléctrica Nacional, S.A. on 27 January 2005, were met in 2007, and the PPAs to which EDP Produção was a party were terminated on 1 July 2007 and replaced with the CMEC mechanism.

The amount of the initial global gross compensation due to EDP Produção as a result of the early termination of the PPAs is €833.5 million. The amount of compensation is capped at a maximum set for each generator and is subject to an annual review during the first ten years of the CMEC, during which such compensation amounts are paid, along with a final review at the end of the 10-year 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, thereby protecting generators from market risk during the 10-year period. The initial global gross compensation due to EDP Produção is reflected in the electricity tariffs paid by all consumers in Portugal as a separate component of the UGS Tariff, designated as *"Parcela Fixa"* ("Fixed Charge"), and 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 those adjustments are to EDP Produção's benefit, they shall be due from all consumers in Portugal as a separate component of the UGS Tariff, designated as *"Parcela de Acerto"* ("Variable Charge").

On 27 February 2013, the Ministerial Order no. 85-A/2013 was published, approving the interest rate applicable to the yearly fixed amount of the costs for maintenance of the contractual balance (through the CMEC), setting the rate at 4.72 per cent. This rate is applicable between 1 January 2013 and 31 December 2027 and reflects a costs reduction for the system of approximately €13 million per year, which corresponds to a present value of €120 million.

Electricity Transmission

Electricity transmission is carried out through the national transmission network, under an exclusive concession granted by the Portuguese government. Presently, the exclusive concession for electricity transmission is awarded to REN - Rede Eléctrica Nacional, S.A. under article 69 of Decree-Law no. 29/2006, following the concession already awarded to REN - Rede Eléctrica Nacional, S.A. under article 64 of Decree-Law no. 182/95, of 27 July, as amended and republished by Decree-Law no. 56/97, of 14 March.

Under the concession, REN - Rede Eléctrica Nacional, S.A. is responsible for the planning, implementation, and operation of the national transmission network and the related infrastructure, as well as all of the relevant interconnections and other facilities necessary to operate the national transmission network. The concession also provides that REN - Rede Eléctrica Nacional, S.A. must coordinate the Portuguese Electricity System infrastructures to ensure the integrated and efficient operation of the system, as well as the continuity and security of electricity supply.

The activities of the transmission system operator (or the concessionaire for the electricity transmission network) must be independent, both legally and organisationally, from other activities in the electricity sector. The minimum criteria for ensuring this independence are set out in the New Electricity Framework and include, among others, restrictions on the possibility of exercising control over the transmission system operator or by the transmission system operator in other companies operating in the generation or supply of electricity, including restrictions in the appointment of corporate bodies in or by the transmission system operator and restrictions on the ownership of the transmission system operator's share capital. No person or entity may directly or indirectly hold more than 25 per cent. of the concessionaire's share capital. The limitations are not applicable to the Portuguese State, or entities controlled by the Portuguese State, nor does it prevent the development of a dominant position with respect to the holding company of the group in which the concessionaire is integrated as of May 2012.

EDP holds 3.5 per cent. and EDP Pension Fund holds an additional 1.5 per cent. of the share capital of REN, which is the holding company that controls REN - Rede Eléctrica Nacional, S.A. and the concessionaires of regulated assets in the Portuguese gas business (REN – Gasodutos, S A., REN Armazenagem, S.A. and REN Atlântico, S.A.).

The Electricity Framework also establishes a certification procedure for the transmission system operator, which is carried out by ERSE. On 9 September 2014, ERSE issued a decision certifying that REN – Rede Eléctrica Nacional, S.A. complies with the relevant legal requirements to be considered a full ownership unbundling transmission system operator, subject to the conditions set out therein.

Electricity Distribution

Electricity distribution under the Electricity Framework occurs through the national distribution network, consisting of a medium and high voltage network, and through the low voltage distribution networks.

Currently, the national distribution network is operated through an exclusive concession granted by the Portuguese State. This exclusive concession for the activity of electricity distribution in high and medium voltage levels is held by EDP's subsidiary EDP Distribuição, pursuant to article 70 of Decree-Law no. 29/2006, as a result of converting the licence held by EDP Distribuição under the former regime into a concession agreement, which was signed on 25 February 2009, for a 35-year term. The terms of the concession are set forth in Decree-Law no. 172/2006.

The low voltage distribution networks continue to be operated under concession agreements. Although the existing concession agreements were maintained pursuant to Decree-Law no. 172/2006, the new concessions will have to be entered into after a competitive procedure to be implemented by the relevant municipalities.

Entities carrying out electricity distribution activities must be independent from entities carrying out activities unrelated to the distribution of electricity, from a legal, organisational and decision-making standpoint. The minimum criteria for ensuring this independence are set out in the Electricity Framework and include, among others, restrictions aimed at ensuring that the entities carrying out electricity distribution activities have an independent and effective decision making power and obligations ensuring that their respective trademark and communications are distinct from the trademark and communications of all the other entities acting in the energy sector. Operators of distribution networks at low voltage who supply less than 100,000 customers are obliged to have separate accounts for such network but are not subject to a full ownership or legal unbundling obligation. Also, they must ensure that their respective trademarks and communications are distinct from the trademark and communications of all the other entities acting in the energy sector.

Entities carrying out electricity distribution activities which supply more than 100,000 customers and who are vertically integrated as a company or a group shall be legally independent from the rest of the company and must establish and implement a compliance programme, subject to prior approval by ERSE, which sets out the measures taken in order to ensure that discriminatory conduct is excluded and that compliance with the programme is adequately monitored.

Electricity Supply

Electricity supply is open to competition, subject only to a prior registration regime. Suppliers may freely buy and sell electricity. For this purpose, they have the right of access to the national transmission and distribution networks upon payment of the access tariffs set by ERSE.

The Electricity Framework sets out certain public service obligations for suppliers to ensure the quality and continuity of supply, as well as consumer protection with respect to prices, access tariffs and access to information in simple and understandable terms.

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

As required by the Electricity Directive, the Electricity Framework also establishes a last resort supplier that is subject to licensing by DGEG and regulation by ERSE. The last resort supplier is responsible for the purchasing of all electricity generated by special regime generators which benefit from a guaranteed remuneration scheme and for the supply of electricity to customers who purchase electricity under regulated tariffs and is subject to universal service obligations. The last resort supplier is expected to exist until the free market is fully competitive, as provided for in the Electricity Directive.

Since 1 January 2007, the role of last resort supplier has been undertaken by an independent entity, from an organisational and legal standpoint, EDP SU, created for this purpose by EDP's subsidiary EDP Distribuição, and also by local low voltage distribution concessionaires with less than 100,000 clients, and is expected to continue to be undertaken by these entities until the free market is fully efficient and until the respective concession contracts have expired.

Pursuant to amendments introduced by Decree-Law no. 264/2007, the last resort supplier is further required to buy forward energy in the markets managed by OMIP and OMI Clear in the quantities and at auctions defined by DGEG. Purchases of energy in the market managed by OMIP include 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 resort supplier must manage the different forms of contracts in order to acquire energy at the lowest cost. All unneeded surplus electricity acquired by the last resort supplier is resold on the organised market.

Electricity supply activities are required to be separate from an organisational and legal perspective in relation to all other activities in the electricity sector.

Operation of the Electricity Markets

The organised market corresponds to a system with different methods of contracting that allow supply and demand orders of electricity to be met, and encompasses the forward, daily (comprising bulk energy transactions to be delivered on the day after the contract date that must be physically settled) and intra-daily markets (comprising transactions that must be physically settled).

The operation of organised forward markets for electricity is subject to joint authorisation from the Minister of Finance and the Minister responsible for the energy sector. The entity managing such organised markets is also subject to authorisation from the Minister responsible for the energy sector and, when required by law, from the Minister of Finance. Organised electricity markets should be integrated into any organised electricity markets established between Portugal and other EU Member States. Generators operating under the ordinary regime and suppliers, among others, can become market members.

Since 1 July 2007, MIBEL has been fully operational, with daily transactions from both Portugal and Spain, including a forward market that has operated since July 2006. MIBEL has at present two market operators: (1) OMIE, which is the current market operator of the Spanish market, manages MIBEL's spot transactions market; and (2) OMIP, which is presently managed from Portugal, manages MIBEL's forward transactions market.

The Portuguese operators OMIP and OMI Clear are the Portuguese entities responsible for the functioning of the MIBEL forward market. Specifically, this covers transactions of bulk energy to be delivered on the day after the contract date, settled either by physical delivery or by differences. In order to allow the physical delivery of electricity inherent to positions held on the forward market and to allow the exchange of information between markets, an interconnection agreement between OMIP and OMIE was signed in April 2006. The non-organised markets consist of bilateral contracts between the entities of MIBEL, settled either by physical delivery or by differences and are subject to approval by ERSE in Portugal.

Logistics for Switching Suppliers

Under market conditions, consumers are free to choose their electricity supplier and are exempt from any payment when switching suppliers. Switching suppliers should not take more than three weeks, and there is no limitation on the number of switches.

Although a logistic operator for switching suppliers has not yet been set up, Decree - Law no. 172/2006, allows for a new entity, whose activity would be regulated by ERSE, to be created with the purpose of overseeing the logistical operations that facilitate switching suppliers for consumers.

Accordingly, ERSE has determined that until a switching operator is created, management of the logistics for switching suppliers shall be conducted by the operator of the medium and high voltage distribution network, which currently is EDP Distribuição.

Electricity Tariffs

The prices that EDP charges for electricity and access to the networks are subject to extensive regulation. In February 1997, ERSE was appointed as the electricity regulator (ERSE came to stand for Entidade Reguladora dos Serviços Energéticos, as its scope had widened to the energy sector in general, including gas and electricity). ERSE sets tariffs for the electricity supplied to customers remaining in the regulated market and access tariffs for all consumers, whether in the regulated or the liberalised market. Final customer tariffs applicable to the regulated market are differentiated by voltage level, tariff option and the period of electricity consumption, and access tariffs are differentiated by voltage level and the period of electricity consumption. These tariffs, when set, should be uniform throughout mainland Portugal within each level of voltage, subject to specified exceptions based on volume.

Currently, the overall transitory electricity tariff applicable to the regulated market comprises charges for energy, transmission, distribution, commercialisation and policy costs. In the regulatory period 2002 to 2004, ERSE applied a four-rate tariff price structure related to the time of day applicable to medium, high and very high voltage consumers. ERSE also introduced some adjustments on the structure of tariffs, both for the published tariffs to final customers and access tariffs paid by market agents, with the intention of introducing more transparency in 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 MIBEL, ERSE determined that the subsequent regulatory period should be transitory and have a one-year duration (2005), during which the system used in the previous regulatory period continued to apply.

The regulatory period of 2006 to 2008 brought little change in the method of tariff calculation. However, further legislation was published in 2006 and in the first half of 2007 to establish a framework in line with the enactment of MIBEL, which has been delayed from the original starting date due to technical and regulatory issues. New regulation was also published to comply with EU open market requirements. During this period, the decree-law defining the basis for the new energy sector organisation was published, as well as the decree-law determining a new reference price for the calculation of the compensation due to the termination of the PPAs, and the decree-law setting the full separation of distribution and regulated commercialisation (the last resort supplier), which had been combined in a single company until then. This change formally took effect on 1 January 2007.

In 2006 and 2007, a "tariff deficit" was generated, which meant that the final customer tariffs charged by the last resort supplier (EDP SU in 2007 and EDP Distribuição in 2006) were not covering all the costs of the system, generating a loss for the last resort supplier and for the transmission system operator ("REN"). This deficit resulted from two different decree-laws: Decree-Law no. 187/95, of 27 July 1995, amended by Decree-Law no. 157/96, of 31 August 1996, and Decree-Law no. 44/97, of 20 February 1997, which provided that the low voltage tariffs could not rise above the expected rate of inflation in 2006; and Decree-Law no. 237- B/2006, of 18 December 2006, which set a maximum 6 per cent. rise in tariffs for residential customers (normal low voltage) in 2007. These deficits are expected to be fully recovered in ten years, beginning in 2008, through annual rises in access tariffs.

On 1 September 2007 and as a result of the early termination of EDP's PPA's, ERSE also adjusted the last resort supplier’s tariffs to final customers and access tariffs.

When ERSE established the tariffs for 2009, another, and significantly larger, tariff deficit was generated, mainly due to increasing electricity costs in wholesale markets. Given the need to regulate the creation of these deficits and to clarify how they could be recovered, Decree-Law no. 165/2008, of 21 August 2008 (**Decree-Law no. 165/2008**) defined the rules applicable to tariff adjustments referring to electric energy acquired by the last resort supplier in exceptional cost situations, as well as to tariff repercussions of certain costs related to energy, sustainability and general economic interest policy measures. Namely, this decree-law stated that every tariff deficit generated thereon on these conditions, such as the case of the deficit generated in 2009, must be recovered over a 15 year period, which means that an instalment worth 1/15 of the total deficit plus the corresponding interest would be added to the tariffs each year, beginning in 2010.

Towards the end of 2010, two relevant pieces of legislation were enacted with respect to tariffs: Decree-Law no. 110/2010, of 14 October 2010 (**Decree-Law no. 110/2010**), which determined the termination of hydraulicity correction mechanism; and Decree-Law no. 138-A/2010, of 28 December 2010, as amended by Decree-Law no. 172/2014, of 14 November 2014 (**Decree-Law no. 138-A/2010**), which created the social tariff and its respective legal framework. In order to protect vulnerable electricity clients, the Portuguese government through the Decree-Law no. 138/2010, regulated by Ministerial Order no. 278-C/2014, of 29 December 2014, has established the electricity social tariff, providing a percentage discount applied to the low voltage access tariff. Another support mechanism was implemented through Decree-Law no. 102/2011, of 30 September 2011, later amended by Decree-Law no. 172/2014, of 14 November 2014, and regulated by Ministerial Orders no. 275-A/2011 and no. 275-B/2011, of 30 September 2011, establishing an extraordinary social support mechanism for energy clients (**ASECE**), corresponding to a percentage discount applied to the invoice without VAT or other taxes.

For the regulatory period 2012-2014, ERSE made some important improvements to the regulatory framework regarding distribution activities and last resort supply of electricity. In respect of the electricity distribution activities, CAPEX is no longer contained in the price cap mechanism, but is now valued autonomously and adjusted at real values two years after it has been incurred. The stability afforded to permitted revenues as a result of this improvement was also seen in OPEX, where only 40 per cent. of the variable component of the price cap is now dependent on electricity consumption, compared with 100 per cent. in previous years. In respect of last resort supply activity, and based on a cost incentive form of regulation, ERSE has reviewed the structure of OPEX in terms of fixed and variable components (now calculated on a 50 per cent./50 per cent. basis, rather than the previous 20 per cent./80 per cent. split) and introduced a new factor for this component, the number of services, in addition to the existing factor, number of customers.

For the regulatory period 2015-2017, in respect of the electricity distribution, the most important features were the introduction of an incentive mechanism on smart grid investments and the introduction of the grid extension as a new driver in exchange with the injected energy, representing 15 per cent. of the variable component. In terms of last resort supply activity, the variable component return to a one driver factor (number of customers), representing 75 per cent.. Also, it should be noted for both activities, the change to the indexation of the remuneration rate, which is no longer indexed to the five year CDS of the Portuguese Republic, becoming, instead, indexed to the 10 year Portuguese government treasury bond yield.

In 2011, to ensure a sustainable electricity sector in Portugal, a rule was established in Decree-Law 29/2006 for the deferral of overcosts with the acquisition of electricity under the special regime generation, which was mandatory for the 2012 overcosts and optional until 2015, over a period of five years. As such, in 2012, ERSE has deferred for a five year period the recovery of the special regime generation overcosts forecasted for that year. For the special regime generation overcosts in respect of 2013, 2014 and 2015, ERSE has made use of the faculty attributed to it by number 2 of article 73-A of Decree-Law 29/2006 and has applied the same methodology, which means that such overcost amounts where deferred for a period of five years and will be recovered in the tariffs between 2013 to 2017, 2014 to 2018 and 2015 to 2019, respectively. According to Decree-Law no. 109/2011, of 18 November to prevent an increase of the electricity tariffs, the Portuguese government has exceptionally deferred the annual adjustments of the CMEC from 2010. This exception has once more been applied to the annual adjustments of the CMEC on the year of 2011 and 2012, in accordance with Decree-Law no. 256/2012, of 29 November and Decree-Law no. 32/2014, of 28 February.

Ministerial Order no. 145/2013 of 9 April 2013 approved an annual rate of return of 5 per cent. applied to the deferral of additional costs with CMEC and CAE (*Contratos de Aquisição de Energia*).

Ministerial Order no. 332/2012, of 22 October 2012 (the **Ministerial Order no. 332/2012**), establishes several criteria to ensure a differentiated impact of certain general economic interest costs (Custos de Interesse Económico Geral or **CIEG**), which are included in the UGS Tariff, on several activities of the SEN, particularly considering voltage levels and type of supply.

Due to a change in the consumption profile between and in each voltage level, Ministerial Order no. 332/2012 was recently amended by Ministerial Order no. 212-A/2014, of 14 October 2014 and by Ministerial Order no. 251-B/2014 of 28 November 2014, in order to adapt the above mentioned criteria related with the policy costs included in the CIEG's and received through the UGS Tariff.

The Ministerial Order no. 146/2013 of 11 April 2013 established the methodology for calculating the rate of return applied to the future transfers of allowed revenues related to additional costs associated with the purchase of special regime electricity, subject to five yearly revisions. Also, this statute defines the remuneration factor applied to the smoothing of allowed revenues for a period of five years in the year 2013 (the final values of the parameters were set by ERSE through Directive no. 7/2013 of 8 May 2013). The ERSE Directive no. 7/2014, of 10 February 2014, set the remuneration factor applicable to the five-years smoothing of allowed revenues associated with the purchase of special regime electricity in the year 2014.

In order to move forward in ensuring the sustainability of the national electricity system and to mitigate the continued increase of the tariff deficit, Decree-Law no. 32/2014 of 28 February 2014 proceeded to the deferral in the electricity tariffs for 2014 of the annual adjustment of the year 2012 related to the compensation paid for the early termination of the PPAs. Thus, it was determined that the amount in debt will be reflected in equal parts in the allowed revenues for 2017 and 2018 of the distribution network operator. The Decree-Law also foresees the payment of compensation for this deferral, according to a remuneration fixed by Ministerial Order no. 500/2014, of 16 June 2014, with the parameters being established by the Dispatch no. 9480/2014, of 11 July 2014.

Decree-Law no. 74/2013, of 4 June 2013, provides for the establishment of a mechanism designed at ensuring a balance on the competition of the wholesale electricity market in Portugal, in particular by allocating the CIEG between participants in the electricity system.

This Decree-Law was further complemented with the publication of the Ministerial Order no. 288/2013, of 20 September 2013, which establishes the procedures to study the impact of extra market measures and events registered within the EU and the redistributive effects impacting on electricity tariffs, complementing the definition of Decree-Law no. 74/2013. It also establishes the partitioning of CIEG payable by generators of electricity in the ordinary regime and other generators that are not included in the guaranteed remuneration regime, and the deduction of these amounts in CIEG to pass each year in the overall system usage rate.

Ministerial Order no. 288/2013, of 20 September 2013 was recently amended by Ministerial Order no. 225/2015, of 30 July 2015, which, inter alia, establishes formulae for: (i) the calculation of the value to be paid by the generators of electricity encompassed by Decree-Law no. 74/2013 pursuant to the abovementioned mechanism of partitioning of CIEG; and (ii) the value of the impact in the partitioning of CIEG in the formation of average wholesale electricity prices in Portugal.

The government budget for 2014, approved by Law no. 83-C/2013, of 31 December 2013, created an extraordinary contribution to the energy sector (**CESE**), with the aim of funding mechanisms that promote systemic sustainability in the energy sector and to contribute to the reduction of the tariff debt of the National Power System. CESE focuses on the assets' value by reference to the first day of financial year 2014 (1 January 2014) with respect, cumulatively, to tangible assets, intangible assets (with the exception of elements of industrial property) and financial assets assigned to concessions or licensed activities. In the case of regulated activities, CESE focuses on the value of regulated assets (i.e. the amount recognised by ERSE for the calculation of allowed revenues as at 1 January 2014) if it is higher than the value of those assets as calculated above.

Consequently, Decree-Law no. 55/2014, of 9 April 2014, created the Systemic Sustainability Fund for the Energy Sector (FSSSE), with the goal of creating policies in the energy sector of a social and environmental nature related to energy efficiency measures, and the reduction of tariff debt by deducting the revenues to the costs of general economic interest to reflect each year in the overall system usage rate.

Law no. 82-B/2014, of 31 December 2014, approved the Portuguese State Budget for 2015 and maintained the CESE in 2015. Subsequently, Law no.33/2015, of 27 April 2015, amended Law no. 83-C/2013, of 31 December 2013 as well as the legal framework applicable to the CESE contained therein.

Order no. 12597-A/2014, of 13 October 2014 and published on 14 October 2014, established that the amounts paid by generators to the transmission system operator for the transfer of the public hydric domain's rights of use shall be deducted from the CIEGs, particularly from the amount to be recovered by the transmission system operator through the UGS Tariff related with the overcosts of the PPAs.

At the same time, Order no. 12597-B/2014, of 13 October 2014 and published on 14 October 2014, established that the sum obtained with the CESE shall be allocated to cover the costs resulting from the reduction of SEN's tariff deficit, particularly through its deduction from the amount to be recovered by the transmission system operator through the UGS Tariff related with the overcosts of the PPA's.

Phasing out of end-user regulated tariffs

Through Decree-Law no. 104/2010, of 29 September 2010 (**Decree-Law 104/2010**), the Portuguese government determined the termination procedures in relation to the regulated end-user tariff for large clients (very high, high, medium and special low voltage) starting at the beginning of 2011. During 2011, a transitory regulated end-user tariff for large clients was available. The end of this transitory regulated end-user tariff (for all segments except normal low-voltage) was scheduled to occur on 1 January 2012, but, nevertheless, a transitory regulated tariff continued to be applied in 2012 and Decree-Law no. 256/2012, of 29 November 2012, extended its application until 31 December 2013. Decree-Law no. 13/2014, of 22 January 2014, extended the period of application of the regulated transitory end-user tariff for large clients until such date to be defined through Order of the member of the government responsible for the energy sector. This extension is only applicable to clients supplied in high, medium and special low voltage, thus excluding the clients supplied in very high voltage. Order no. 27/2014, of 4 February, established 31 December 2014 as being the date until which the regulated transitory end-user tariff for large clients should continue to apply.

On 28 July 2011, pursuant to the Memorandum of Understanding underwritten by the Portuguese government, the EU, the International Monetary Fund and the European Central Bank, a Resolution of the Council of Ministers no. 34/2011, of 1 August 2011 (**Resolution of the Council of Ministers 34/2011**), approved the calendar for termination of the regulated end-user tariff and the introduction of a transitory regulated end-user tariff for standard low voltage electricity consumers and set the beginning of December 2011 as the deadline for the enactment of all necessary legislation to enforce this measure. The Resolution of the Council of Ministers no. 34/2011 provided for the end of the regulated end-user tariff for the electricity supplied to standard low voltage electricity consumers with contracted power equal to or under 41.4 kVA and equal to or higher than 10.35 kVA by 1 July 2012 and consumers with contracted power under 10.35 kVA by 1 January 2013.

Materialising this Resolution of the Council of Ministers 34/2011, Decree-Law no. 75/2012, of 26 March 2012, established the removal of the electricity regulated end-user tariff for the electricity supplied to standard low voltage consumers and approved the application of an aggravating factor to encourage the transition to the liberalised market. The process of removing regulated tariffs must be completed by 31 December 2014 or 31 December 2015, in respect of customers that have contracted power equal or higher than 10.35 kVA or lower than 10.35 kVA, respectively.

The Decree-Law no. 15/2015, of 30 January, and Ministerial Order no. 97/2015, of 30 March 2015, have determined that the Last Resort Electricity Supplier must continue to supply electricity consumers who have not yet migrated to the liberalised market, and therefore maintains the application of the respective transitory end-user regulated tariff, until 31 December 2017.

The current Natural Gas System

The general basis, principles and model of organisation of the Portuguese natural gas system (the **Portuguese Natural Gas System**) were established through Decree-Law no. 30/2006, of 15 February 2006 (**Decree-Law no. 30/2006**), and Decree-Law no. 140/2006, of 26 July 2006 (**Decree-Law no. 140/2006**, together, the **Natural Gas Framework**), both amended by Decree-Law no. 66/2010, of 11 June 2010 (**Decree-Law no. 66/2010**) and the former amended by Decree-Law no. 77/2011, of 20 June 2011.

The Portuguese Natural Gas System is now divided into seven major components: reception, storage and regasification of LNG; underground storage of natural gas; transportation of natural gas; distribution of natural gas; supply of natural gas; operation of the natural gas market; and logistic operations for switching suppliers of natural gas.

The Natural Gas Framework establishes an integrated Portuguese Natural Gas System, in which the supply of natural gas and the management of the organised markets are competitive and only require compliance with a licensing or authorisation process for the start-up of operations. The liberalisation of the supply of natural gas commenced on 1 January 2007 (with respect to power generators) and was extended to consumers of over one million cubic metres of natural gas per year on 1 January 2008, and to consumers of over 10,000 cubic metres of natural gas per year in 2009. By 1 January 2010, the supply of natural gas was fully open to all natural gas clients.

The sector's framework laws were amended, completing the transposition of the Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 (**Directive 2009/73/EC**). Thereafter, Decree-Laws no. 230/2012 and 231/2012, of 26 October 2012 (**Decree-Law no. 230/2012** and **Decree-Law no. 231/2012**, respectively), were published, introducing new modifications to Decree-Law no. 30/2006, of 15 February 2006, and to Decree-Law no. 140/2006, of 26 July 2006 respectively. These acts introduced important modifications: (i) the requirements related to the independence and legal separation and ownership unbundling of the transmission network operator were reinforced; (ii) with the aim of assuring the independence and eliminating the network access discrimination risk, the legal separation requirements were equally clarified for all the remaining operators in the gas sector (LNG terminal, underground natural gas storage and distribution network operators); (iii) the statutes of the supplying players were clarified, with particular reference to the suppliers of last resort playing in the Natural Gas National System.

Activities relating to the reception, storage and regasification of natural gas; underground storage of natural gas; and natural gas transportation, continue to be, with the exception of some underground storage capacity, regulated activities and are provided through the award of public service concessions. Natural gas distribution is carried out through the award of public service concessions or licences.

Natural Gas Transportation

Natural gas transportation activities are carried out under an exclusive 40-year concession granted by the Portuguese government to the system operator REN Gasodutos. The granting of the natural gas transportation network (**RNTGN**) concession to REN Gasodutos followed the decision to separate the activity of natural gas distribution from that of transportation. The terms of the concession contract were established by the Council of Ministers Resolution no. 105/2006, of 23 August 2006, and REN Gasodutos was awarded the concession in September 2006. The Natural Gas Framework also establishes a certification procedure for transmission system operators, which is carried out by ERSE. On 9 September 2014, ERSE issued a decision certifying that REN Gasodutos complies with the relevant legal requirements to be considered a full ownership unbundling transmission system operator, subject to the conditions set out therein.

Natural Gas Distribution

Natural gas distribution is carried out through concessions or licences granted by the Portuguese government and involves the distribution of natural gas through medium and low-pressure pipelines. The entities operating the natural gas distribution network at the date of enactment of Decree-Law no. 30/2006 will continue operating the natural gas distribution network as concessionaires or licensed entities under an exclusive territorial public service regime pursuant to article 66 of Decree-Law no. 30/2006. Natural gas distribution activities are required to be independent, from a legal, organisational and decision-making standpoint, from other activities unrelated to the distribution activity, unless the concessionaires or licensed distributors serve fewer than 100,000 customers. The relevant concessionaires are required to ensure third party access to the natural gas distribution networks at tariffs applicable to all eligible customers, including supply companies, which are required to be applied objectively and without discrimination between users.

The distribution network is composed of medium and low pressure pipelines and serves the residential, commercial and small and medium-sized industrial sectors. The natural gas supply activities formerly developed by these companies migrated to last resort supply companies, fully detained by the distribution concessionaires and responsible for the supply of natural gas to non-eligible customers and to customers who decided to continue to be supplied under regulated tariffs. Regulated supply tariffs are defined and published by the regulator, ERSE.

EDP is the concessionaire for the distribution of natural gas in the North Coastal region of Portugal, through its subsidiary Portgás, and EDP also has a minority stake in Setgás, which is the concessionaire for the distribution of natural gas in the South of Lisbon region.

Natural Gas Supply

Under the Natural Gas Framework, natural gas supply is open to competition, subject only to prior registration addressed to DGEG. Suppliers may openly buy and sell natural gas. For this purpose, they have the right of access to the natural gas transportation and distribution networks upon payment of the access tariffs set by ERSE.

Under market conditions, consumers are free to choose their supplier, without any additional fees for switching suppliers. Although a specific logistic operator for switching suppliers has not yet been set up, Decree-Law no. 140/2006 allows for a new entity, whose activity would be regulated by ERSE, to be created with the purpose of overseeing the logistical operations that facilitate switching suppliers for consumers and determines that this logistic operator for switching suppliers should be the same entity for the Portuguese Electricity System and for the Portuguese Natural Gas System. Currently, the logistic activities for switching suppliers are attributed to REN Gasodutos by ERSE, on a transitional basis.

The Natural Gas Framework enumerates certain public service obligations for suppliers to ensure the quality and continuity of supply, as well as consumer protection with respect to prices, access tariffs and access to information in simple and understandable terms.

Natural gas supply activities are required to be legally separated from all other activities in the Portuguese Natural Gas System.

EDP's licensed suppliers of natural gas for the liberalised market are its subsidiaries, EDP Comercial and EDP Gás.Com.

The Natural Gas Legal Framework also establishes the existence of a gross last resort supplier and of retail last resort suppliers, subject to regulation by ERSE and to a licensing process. Under article 40 of Decree-Law no. 140/2006, this role of retail last resort suppliers is undertaken by natural gas distributors, within their respective concessioned or licensed areas.

Last resort suppliers are required to be legally separated from all other activities in the Portuguese Natural Gas System, unless they serve fewer than 100,000 clients. EDP's last resort supplier activity is undertaken by its subsidiary EDP Gás Serviço Universal in the concession areas of its gas distribution companies EDP Gás Distribuição/Portgás.

The role of the retail last resort suppliers has been revised by Decree-Law no. 231/2012, which updates Decree-Law no. 140/2006, so these suppliers can serve consumers with a consumption equal or under 10,000 m3 per year during a transitional period up to 2015. From that moment on, they can only supply economically vulnerable consumers, as they are defined in Decree-Law no. 231/2012.

Natural Gas Tariffs

Since 2007, ERSE has set natural gas tariffs according to ERSE's Tariff Regulations, on the activities of reception, storage and regasification of LNG, underground storage, global technical management system and transportation of natural gas. From 2008, in addition to access to high pressure infrastructure, ERSE also sets distribution networks' access tariffs and end-user tariffs.

Phasing out of end-user regulated tariffs

Through Decree-Law no. 66/2010, of 11 June 2010, (**Decree-Law 66/2010**), the Portuguese government determined termination procedures in relation to the regulated end-user tariff for large clients (with an annual gas consumption greater than 10.000 m^3) starting 1 July 2010. A transitory regulated end-user tariff for large clients was available until 31 March 2011. Although the end of this transitory regulated end-user tariff was scheduled to occur on 2011, a transitory regulated tariff continued to be applied in 2012 and Decree-Law no. 15/2013, of 29 January 2013, extended the application until a date to be defined through an order of the member of the government responsible for the energy sector. Through Ministerial Order no. 59/2013, of 11 February 2013, the Portuguese government determined that termination of end-user tariffs for large clients would occur on 30 June 2014, or before, if the number of clients in the liberalised market rose above 90 per cent. Having achieved this date with a considerable number of customers still in the regulated market, Ministerial Order no. 127/2014, of 25 June 2014, amended Ministerial Order no. 59/2013, of 11 February 2013 and determined that termination of the end-user tariffs for large clients would occur on 30 June 2015.

Through Decree-Law no. 74/2012, of 26 March 2012, (**Decree-Law 74/2012**), the Portuguese government determined termination procedures in relation to the regulated end-user tariff for clients with annual gas consumption smaller than 10.000 m^3 as of (i) 1 July 2012, regarding clients with an annual consumption greater than 500 m^3 and (ii) 1 January 2013, regarding clients with an annual gas consumption equal to or smaller than 500 m^3. Without prejudice to the termination of the end-user tariffs on 1 July 2012 and on 1 January 2013, the Portuguese government defined a transitory period during which clients that have not migrated to the liberalised market may still benefit from transitory end-user regulated tariffs until 31 December 2014 and until 31 December 2015 respectively.

Also in the gas sector, the Decree-Law no. 15/2015, of 30 January, and Ministerial Order no. 97/2015, of 30 March 2015, have determined that the last resort gas suppliers must continue to supply natural gas consumers which have not yet migrated to the liberalised market, and therefore maintains the application of the respective transitory end-user regulated tariff, until 31 December 2017.

In order to protect economically vulnerable natural gas clients, the Portuguese government, through Decree-Law no. 101/2011, of 30 September 2011, established the gas social tariff, providing a percentage discount applied to the low pressure access tariff. Another support mechanism was implemented through Decree-Law no. 102/2011, of 30 September 2011, last amended by Decree-Law no. 172/2014, of 14 November 2014, and regulated by Ministerial Orders no. 275-A/2011 and no. 275-B/2011 of 30 September 2011, which in turn were amended by Ministerial Order no. 278-B/2014, of 29 December 2014, which established an extraordinary social support mechanism for energy clients (ASECE), corresponding to a percentage discount applied to the invoice without VAT or other taxes. Recently, the Dispatch no. 3687-A/2015, of the Secretary of State of Energy, of 10 April 2015, determined the social tariff variation for gas concerning years 2015-2016.

Exceptionally, economically vulnerable clients were granted the right to choose whether to continue to be supplied by the last resort supplier or by a regular supplier, in any case, maintaining the right to benefit from the legally established tariff discounts for these cases.

The Ministerial Order no. 108-A/2015, of 14 April 2015, defined the mechanism of the aggravating factor to be applied to the transitory natural gas tariffs to final clients. Pursuant to this legal disposition, the Directive no. 7/2015 of ERSE, of 29 April 2015, established the transitory natural gas tariffs to be effective between 1 May and 30 June 2015.

The transitory natural gas tariffs to final clients for the year gas 2015-2016 (July 2015 - June 2016) were approved by the Directive no. 10/2015 of ERSE, of 22 June 2015.

The extraordinary contribution to the energy sector created in December 2013, as referred to above, saw the definition of the parameters needed for the calculation for the gas sector with the publication of the Ministerial Order no. 157-B/2015, of 28 May 2015.

The third regulatory period of natural gas started in July 2013. This new regulatory period has been preceded by a general revision of all applicable regulations that were published on 16 April 2013: the Quality of Service Regulation was updated by Regulation no. 139-A/2013, the Infrastructure Operation Regulation was updated by Regulation no. 139-B/2013, the Access to the Networks, Infrastructure and Interconnections Regulation was updated by Regulation no. 139-C/2013, the Commercial Relations Regulation was updated by Regulation no. 139-D/2013 and the Tariff Regulation was updated by Regulation no. 139-E/2013, and amended by ERSE Directive 10/2014, of 12 June 2014 and Directive no.12/2014, of 14 July 2014.

For the regulatory period 2013-2016, ERSE made some important changes to the regulatory framework regarding distribution activities and last resort supply of gas.

In respect of gas distribution activities, ERSE increased the efficiency factor from the 0.5 per cent. considered in the previous regulatory period to 1.5 per cent. The structure of OPEX was kept in 40 per cent. fixed and 60 per cent. variable, but the weight of the component consumption was reduced to 25 per cent, while the number of supply points increased its weight to 75 per cent.

The regulated asset base remuneration is set outside the price cap mechanism and it is valued autonomously according to a rate of return defined by the regulator that consists of a pre-tax nominal rate of 9 per cent, to be adjusted each year based on the evolution of Treasury Bonds for Portuguese debt with an average maturity of 10 years limited to a floor of 7.83 per cent. and to a cap of 11 per cent.

In respect of last resort supply activity, and based on a cost incentive form of regulation, ERSE kept the efficiency factor in 3 per cent. and the structure of OPEX in 20 per cent. fixed and 80 per cent. variable components, being the variable component of the price cap dependent only on the number of costumers (in the previous regulatory period, consumption was also considered).

Market regulators

Responsibility for the regulation of the Portuguese energy sector is shared between DGEG, ERSE and the Portuguese Competition Authority, according to their respective functions and responsibilities.

DGEG

DGEG has primary responsibility for the conception, promotion and evaluation of policies concerning energy and geological resources and has the stated aim of assisting the sustainable development and the security of energy supply in Portugal. In particular DGEG is responsible for: (1) assisting in defining, enacting, evaluating and implementing energy policies; (2) identifying geological resources in order to ensure that their potential uses are properly evaluated; (3) promoting and preparing the legal and regulatory framework underlying the development of the generation, transmission, distribution and consumption of electricity; (4) promoting and preparing the legal and regulatory framework necessary for the promulgation of policies relating to research, usage, protection and assessment of geological resources; (5) supporting the Ministry of the Economy at international and European level; (6) supervising compliance with the legal and regulatory framework that underpins the Portuguese energy sector (particularly in connection with the electricity transmission network, the electricity distribution network and the quality of service provided to energy consumers); (7) providing sector-based support to the Portuguese government in crisis and emergency situations; (8) approving the issuance, modification and revocation of electricity generation licences; and (9) conducting the public tender procedure for the attribution of network interconnection points in the renewable energy sector. While carrying out its responsibilities, the DGEG must consider the following national objectives: (1) safety of supply; (2) energy diversification; (3) energy efficiency; and (4) the preservation of the environment.

DGEG is also responsible for the proposal of regulations applicable to the Portuguese Electricity System, such as:

- The Distribution Network Regulation

The Distribution Network Regulation identifies the assets of the distribution network and sets out the conditions for its operation, in particular regarding the control and management of the network, maintenance of the network, technical conditions applicable to the installations connected to the network, support systems and reading and measurement systems. The Distribution Network Regulation was approved by Ministerial Order no. 596/2010.

- The Transmission Network Regulation

The Transmission Network Regulation identifies the assets of the transmission network and sets out the conditions for its operation. In particular, it lays out standards for: the control and management of the network, its maintenance, the technical conditions applicable to the installations connected to the network, support systems and reading and measurement systems. The Transmission Network Regulation also establishes the means and the legal support for the codification of the technical and safety rules to be observed by entities that intend to connect to the transmission grid. The Transmission Network Regulation was approved by Ministerial Order no. 596/2010.

ERSE

ERSE was appointed as the independent regulator of electricity services in February 1997. On 25 March 2002, ERSE's authority with respect to the electricity sector was extended to the autonomous regions of Madeira and Azores. On 12 April 2002, ERSE became the regulatory entity of energy services, and its authority was extended to cover natural gas regulation.

According to Decree-Law no. 29/2006 and Decree-Law no. 172/2006, ERSE is responsible for regulating the transmission, distribution and supply of electricity, the logistical operations for switching electricity suppliers, and the operation of the electricity markets. In 2012, Decree-Law no. 212/2012, of 25 September (**Decree-Law no. 212/2012**), revised ERSE's statutes with an emphasis on the reinforcement of the regulator's independence and powers, namely those applicable to sanctions, in accordance with the Directives 2009/72/EC, and 2009/73/EC.

Law no. 9/2013, of 28 January 2013, pursuant to Directives 2009/72/EC and 2009/73/EC, established the sanctioning regime applicable to the SEN and has formally granted ERSE powers to initiate legal proceedings and apply sanctions to the entities operating in the SEN.

ERSE's statutes were updated by Decree-Law no. 84/2013, of 25 June 2013, in order to be adjusted to the legal framework defined for regulatory bodies through Law no. 67/2013, of 28 August 2013. This revision introduced provisions aimed explicitly at establishing the autonomy and functional independence of this entity, without prejudice to the powers constitutionally assigned by the Portuguese government while it was also intended to ensure greater representation of stakeholders in the advisory and tariff boards of ERSE.

Decree-Law no. 212/2012, confirming Decree-Law no. 29/2006 and Decree-Law no. 172/2006 assigned to ERSE the responsibility of approving the principal regulations applicable to the Portuguese Electricity System as set forth below:

Electricity Sector

- The Tariff Regulation

The Tariff Regulation sets out the criteria and methods for determining the tariffs and prices applicable to the electricity sector and for other services rendered by the concessionaire of the national electricity transmission network and by electricity distributors to other licence holders or end consumers. The first Tariff Regulation was issued in December 1998 and, since then, it has been subject to several amendments.

In July 2011, with the approach of a new regulatory period (2012-2014), the Tariff Regulation was updated to include three major objectives: (1) amending the Tariff Regulation in accordance with the changes introduced by Decree-Law no. 78/2011, which partially transposed into national law Directive 2009/72/EC; (2) the introduction of improvements to the applicable regulatory methodologies from the perspective of the regulated activity; and (3) the achievement of greater levels of efficiency by the companies. The Tariff Regulation was last amended by ERSE Directive no. 1/2014, in effect as of 13 December 2013, in order to update such regulation in accordance with the legislative developments that occurred during the years of 2012 and 2013, namely Decrees-Law nos. 252/2012, 256/2012, 35/2013, 38/2013, 74/2013 and 215-A/2012.

Through Regulation no. 551/2014, of 15 December 2014, ERSE approved a new Tariff Regulation. On the same day, ERSE published the final document for electricity tariffs in 2015 and the parameters for the regulatory period 2015-17, which included a 3.3 per cent. increase for normal low voltage electricity end-user regulated tariffs in mainland Portugal, applicable to all residential consumers that do not benefit from the social tariff. For 2015, ERSE proposed regulated gross profit for EDP's regulated activities (excluding previous year adjustments) of: (i) €1.194 million for electricity distribution (operated by EDP's subsidiary EDP Distribuição); and (ii) €61 million for last resort electricity supply (operated by EDP's subsidiary EDP SU). These regulated revenues are based on a preliminary 6.75 per cent. rate of return (**RoR**) which was defined for the 2015-17 regulatory period and will be definitively set for year "t" according to the daily average of the 10 year Portuguese government bond yield between October of year "t-1" and September of year "t" – this mechanism foresees a floor and a cap of 6.0 per cent. and 9.5 per cent., respectively. The preliminary RoR of 6.75 per cent. reflects an underlying average of 3.6 per cent. for the 10 year Portuguese government bond yield and each 2.5 per cent. change in Portuguese government bond yield implies a 1 per cent. change in the RoR. Additionally, in terms of electricity demand evolution, the regulator is forecasting a 0.5 per cent. annual increase for 2014 and a 0.8 per cent. annual increase for 2015.

- The Commercial Relations Regulation

The Commercial Relations Regulation governs commercial relations between entities within the electricity sector. The first Commercial Relations Regulation was issued in December 1998 and has since then been subject to several amendments.

Major amendments were implemented in August 2008, in order to improve the full liberalisation of the electricity market, notably by ensuring that the network operator allows other entities to supply their clients through the distribution network, since customers are entitled to choose their supplier but not the network operator, and further in August 2009 to incorporate the new rules regarding tariff adjustments established by Decree-Law no. 165/2008.

In July 2011, the Commercial Relations Regulation was further amended in order to accommodate the changes arising out of Decree-Law no. 78/2011 and other legislation enacted during 2010 and 2011.

In 2012, Regulation no. 468/2012, of 12 November 2012, introduced new commercial conditions of connections to networks of generation facilities and consumer installations and required amendments to reflect the enactment of Decree-Law no. 75/2012.

Through Regulation no. 561/2014, of 10 December 2014, published on 22 December 2014, ERSE approved a new Commercial Relations Regulation.

- The Quality of Service Regulation

The Quality of Service Regulation governs the quality of service provided by electricity companies to their customers. The Quality of Service Regulation was first issued on 1 January 2001 by DGEG and has been subject to several amendments since then. In March 2006, DGEG published, through Decision no. 5255/2006, a new version of the Quality of Service Regulation, applicable as of 1 January 2006. This Quality of Service Regulation seeks to liberalise the electricity market by revoking the quality of service regulations under the previous regime and instituting a new scheme to promote the quality of service in the liberalised electricity market. Under the new Quality of Service Regulation, a violation of individual standards of service quality or of commercial and technical quality entitles the customer to compensation, which is required to be automatically paid on predetermined terms, unless such a violation can be justified by public interest, or service or safety reasons. According to ERSE's new statutes, defined in Decree-Law no. 212/2012, the approval of this regulation is now ERSE's responsibility.

The Quality of Service Regulation was last updated by Regulation no. 455/2013, of 30 October 2013, published on 29 November 2013.

- The Access to the Network and Interconnections Regulation

The Access to the Network and Interconnections Regulation governs the technical and commercial conditions on which third parties may access the electricity networks and interconnections. The Access to the Network and Interconnections Regulation was first issued in December 1998 and has since then been subject to several amendments.

Through Regulation no. 560/2014, of 10 December 2014, published on 22 December 2014, ERSE approved a new Access to the Network and Interconnections Regulation.

- The Networks Operation Regulation

The Networks Operation Regulation sets out, among other things, the conditions that must be met to permit the management of electricity flow on the RNT and aims to ensure interoperability between RNT and other networks. The Networks Operation Regulation was enacted in June 2007, and published by ERSE in December 2010. Through Regulation no. 557/2014, of 10 December 2014, published on 19 December 2014, ERSE approved a new Networks Operation Regulation.

- The Conflict Resolution Regulation

The Conflict Resolution Regulation established the rules and procedures relating to the resolution of commercial conflicts arising between operators in the electricity and natural gas sectors and between such entities and their customers. The Conflict Resolution Regulation was approved by ERSE in October 2002.

Natural Gas Sector

ERSE also regulates the natural gas transmission network, the underground storage of natural gas, the reception, storage, and regasification of LNG, the last resort distribution and supply of natural gas, and the logistical operations for switching natural gas suppliers. ERSE is required to submit a periodic report on these regulatory areas to the Portuguese government.

As specified in Decree-Law no. 30/2006 and Decree-Law no. 140/2006, reinforced by Decree-Law no.

212/2012, ERSE's responsibilities in the Portuguese Natural Gas System (**SNGN**) includes approving the principal applicable regulations. The last revision of the regulations was published on 10 April 2013. This revision was done in order to: (i) accommodate and harmonise them with the regulatory procedures established at European and Iberian levels, issued by the Third Package; (ii) create a better regulatory framework, to match the development of the natural gas market; (iii) improve the capacity allocation mechanism and the pricing model applicable to high pressure infrastructure; (iv) increase efficiency in regulation through consolidation/implementation of incentive regulation and adoption of mechanisms mitigating the impact of demand volatility, and (v) improve tools for pricing flexibility, adapting the tariff model to intermittent and seasonal uses of natural gas.

- The Tariff Regulation

The Tariff Regulation establishes the criteria and methods for determining natural gas tariffs and prices applicable to the natural gas sector. It sets out, among other things, the criteria and processes for: defining the regulated tariffs and determining the respective tariff structures, calculation and determination of the tariffs, calculation and determination of allowed revenues and the processes applicable to the calculation and amendments to tariffs and its respective publication. The first Tariff Regulation was issued in September 2006 and has since been subject to several amendments. In 2011, with the changes introduced by Decree-Law no. 101/2011, which created the social tariff for the supply of natural gas for vulnerable natural gas clients, and Decree-Law no. 102/2011, which has established an extraordinary social support mechanism for energy clients (ASECE), corresponding to a discount over electricity and natural gas prices. Additionally in 2012, the changes in the Regulation reflecting the enactment of Decree-Law no. 74/2012 included a new tariff option for the Use of the Distribution Network Tariff, and the implementation of a joint mechanism in the attribution of capacity in the Portugal Spain interconnections.

Relevant amendments were published in the previously mentioned revision on 10 April 2013. These revisions implemented: (i) a new rate of return methodology; (ii) a new contract capacity regime (annual, monthly and daily); (iii) the extinction of the regulated tariffs, replaced by the transitional quarterly tariffs, and the related duties of the regulated suppliers; (iv) the updating of the interest rate for the tariff adjustments; (v) the extension of the incentive regulation of OPEX to all activities with a tight control over the shared costs; (vi) the introduction of incentives in CAPEX; and (vii) a simplification of the "year gas".

Considering the significant amount of costs yet to be recovered though component II of the UGS Tariff, recently ERSE’s Directive no. 5/2014, of 12 June 2014, amended the Tariff Regulation with a view to ensure tariffs stability and protection of the consumers’ economic interests.

- The Commercial Relations Regulation

The Commercial Relations Regulation governs commercial relations between entities within the natural gas sector and the mechanism of compensation to ensure tariff uniformity, metering rules and conflict resolution rules. The first Commercial Regulation was approved on September 2006 and has since been subject to several amendments. The last major amendments occurred in March 2010, in order to adapt the Commercial Relations Regulation to the full liberalisation of the Portuguese Natural Gas System.

Subsequently, ERSE issued some other amendments to the complementary regulatory legislation, such as the commercial conditions for the connections to natural gas grids and the general conditions of the supply agreements.

More recently, with the last update of April 2013, some other major improvements occurred: (i) deeper rules in image differentiation; (ii) the adoption of a compliance programme, even for the suppliers in the liberalised market; (iii) confirmation that the supplier of last resort will be able to acquire the necessary gas in organised markets or through bilateral contracts; (iv) the introduction of rules designed to improve system sustainability and consumer protection; (v) updating of the procedures of switching; (vi) new duties for the suppliers; and (vii) the introduction of market supervision rules pursuant to REMIT regulations and the Third Package.

- The Quality of Service Regulation

The Quality of Service Regulation establishes the standards for the quality of service that, from a technical and commercial nature, should be observed in all services rendered in the Portuguese Natural Gas System. The first Quality of Service Regulation was approved in September 2006 and has since been subject to several amendments. The last major amendments occurred in March 2010 in order to adapt the Quality of Service Regulation to the full liberalisation of the Portuguese Natural Gas System.

In the last revisions of April 2013, among the changes made were the following: (i) the calendar year becomes the reference for report; and (ii) the suppliers in liberalised market have reporting duties in respect of the quality of commercial service, as well as new targets for some quality of service indicators

- The Access to the Networks, Infrastructure and Interconnections Regulation

The Access to Networks, Infrastructure and Interconnections Regulation establishes the conditions and obligations governing the right of access to all infrastructure of the RNTGN, which must be complied with by the regulated companies operating in the natural gas sector and by eligible customers. The Access to the Networks, Infrastructure and Interconnections Regulation also established the conditions under which the operator may refuse access to the networks, interconnections and storage facilities. The first Access to Networks, Infrastructure and Interconnections Regulation was approved in September 2006. The last major amendments occurred in March 2010 in order to adapt the Access to Networks, Infrastructure and Interconnections Regulation to the full liberalisation of the Portuguese Natural Gas System. In April 2013, the review focused on matters concerning contracting capacity and investments.

On 4 August 2014, through Directive no. 14/2014, ERSE approved the Procedural Manual of the Access to the Infrastructures and established the rules for capacity assignment, as well as the terms for consumptions forecasts and capacity utilisation for 2014 and 2015.

- The Infrastructure Operation Regulation

The Infrastructure Operation Regulation defines the criteria and procedures for managing natural gas flows, the provision of system services and the technical conditions enabling the operators of the natural gas transportation network, of underground storage facilities and of LNG terminals to manage such flows, while ensuring interoperability with the networks to which they are connected. The first Infrastructure Operation Regulation was approved in June 2007. The last major amendments occurred in March 2010 in order to adapt the Infrastructure Operation Regulation to the full liberalisation of the Portuguese Natural Gas System.

Approved in April 2011, and revised in July 2012 the Manual of Logistics Management Supply of LNG Autonomous Units (**UAG**), which is part of the Procedural Manual of Management and Operation of Networks for Local Distribution, foreseen in the Infrastructure Operation Regulation, aims to establish the criteria and procedures for managing the logistics of the supply of LNG to the UAG.

On the same date, ERSE approved the Procedural Manual of the Global Technical Management of the SNGN, also contemplated by the Infrastructure Operation Regulation, which establishes the procedures for the functioning of the SNGN and the operation of the respective infrastructure. In October 2012, pursuant to the aforementioned manual, ERSE approved the values of the parameters needed to determine the commercial margins to be achieved by the market agents. The major amendments adopted in the last revision of April 2013 related to contracting capacity procedures, to loss factors and to auto-consumptions.

The Manual of Logistics Management Supply of UAG and the Procedural Manual of the Global Technical Management of the SNGN, in what regards access to the networks, were revised by ERSE by Directive no. 17/2014, of 31 July 2014.

Portuguese Competition Authority

From 8 July 2012, Portugal has in place a new competition act, approved by Law no. 19/2012, of 8 May 2012, which replaced former Law no. 18/2003, of 11 June 2003.

The new competition act follows closely the wording of the fundamental anti-trust provisions contained in the Treaty on the Functioning of the EU and of the EU Merger Control Regulation.

Competition rules in Portugal, that have been enforced since 2003 by an independent agency, the Portuguese Competition Authority, were reviewed by Decree-Law no. 125/2014, of 18 August 2014, as amended by Rectification no. 40/2014, of 18 August 2014. The Authority is empowered to fully apply those rules in respect of the economic principle of market economy and free competition, and in view of an efficient functioning of the markets, an effective distribution of resources and the interests of consumers.

To that end, the Portuguese Competition Authority enjoys a number of sanctioning, supervisory and regulatory powers which include investigative prerogatives to perform inquiries of legal representatives of companies or associations of companies, request documents or information and conduct searches at business and non-business premises, including private domiciles. It may also impose severe fines on companies and individuals that do not comply with competition rules. Penalties can amount to 10 per cent. of a group's annual turnover or 10 per cent. of an individual's annual income.

Since 1 May 2004, all national competition authorities within the EU, including the Portuguese Competition Authority, are empowered to apply fully the anti-trust provisions of the Treaty on the Functioning of the EU (Articles 101 and 102) in order to ensure that competition is not distorted or restricted. National courts may also apply these provisions so as to protect the individual rights conferred on citizens (companies and individuals) by the Treaty.

Spain

Electricity Regulation 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 all consumers have been free to choose their supplier since 1 January 2003. Additionally, since 2006, bilateral contracts and the forward market (long-term energy acquisition contracts) have made up a larger part of the market.

All generators provide electricity at market prices to the Spanish Pool and under bilateral contracts to consumers and other suppliers at agreed prices. Suppliers, including last resort suppliers, and consumers can buy electricity in this pool. Foreign companies may also buy and sell in the Spanish pool and in the forward markets.

The market operator and agency responsible for the market’s economic management and bidding process is OMIE (see "*Regulatory Framework – Iberian Peninsula – MIBEL Overview*"), while REE is operator and manager of the transmission grid and sole transmission agent. REE as transmission company, together with regulated distributors, provide network access to all consumers. However, consumers must pay an access tariff or toll for the transmission and the distribution.

Liberalised suppliers are free to set a price for their customers. The main direct activity costs of these entities are the wholesale market price and the regulated access tariffs to be paid to the distribution companies. Electricity generators and suppliers or consumers may also engage in bilateral contracts without participating in the wholesale market.

As from 1 July 2009, last resort suppliers, appointed by the Spanish government, supply electricity at a regulated tariff set by the Spanish government to the last resort consumers (low-voltage electricity consumers whose contracted power is less than or equal to 10 kW). Since then, distributors have not been permitted to supply electricity. In January 2014, the last resort tariff was replaced by the "Voluntary Price for the Small Consumer" ("*precio voluntario para el pequeño consumidor*").

Royal Decree-Law no. 6/2010, of 9 April 2010, amended (pursuant to Article 23) Articles 1, 9, 11 and 14 of Law no. 54/1997 and created a new player which, as specified in Royal Decree no. 647/2011, of 9 May 2011, was responsible for developing the supply of energy to recharge electric vehicles.

As part of the unbundling of the transmission system operator, distributors sold their remaining transmission assets to REE in 2011, completing the process required by Law no. 17/2007, which established REE as the sole transmission agent.

Through Royal Decree-Law no. 13/2012 the Directive 2009/72/EC has been partially included in Spanish regulation.

Royal Decree-Law no. 9/2013, of 13 July 2013, included a set of regulatory modifications applicable to the Spanish electricity sector that affected the return ratio of energy assets. These modifications were confirmed by the enactment of Law no. 24/2013 of the Electricity Sector, of 26 December 2013, and were primarily aimed at eliminating the tariff deficit. Some of these modifications were directly implemented by Royal Decree-Law no. 9/2013 and are as follows: (i) the return ratio pre-tax of regulated activities was indexed to the yield associated with Spanish 10-year sovereign bonds plus a spread, (ii) a decrease in capacity payments for combined cycle gas turbines from €26/kW to €10/kW was imposed (although the repayment period was extended) and (iii) it was provided that social tariff discounts would be supported by vertically integrated companies. The spread mentioned in (i) above for distribution and transmission activities was established at 100 basis points for the second half of 2013 and has been set at 200 basis points from 2014 onwards. The spread for renewable and CHP (combined heat and power) generation has been set at 300 basis points since the enactment of Royal Decree-Law no. 9/2013. Following this enactment, the Spanish government implemented a set of additional royal decrees that included modifications to regulations governing all activities relating to the provision of energy, including renewables, electricity and gas distribution and transmission activities, as further detailed in the following sections.

Electricity Sector Act

The enactment of Law no. 54/1997 (the **Electricity Sector Act**) gradually changed the Spanish electricity sector from a state-controlled system to a free-market system with elements of free competition and liberalisation. The Electricity Sector Act is intended to guarantee that the supply of electricity in Spain is provided at high quality and lowest possible cost. In order to achieve those targets, the Electricity Sector Act provides for:

- the unbundling of regulated (transmission, distribution, technical management of the system and economic management of the wholesale market) and liberalised activities (generation, trading, international transactions and energy suppliers for recharging electric vehicles);
- a wholesale generation market, or electricity pool;
- freedom of entry to the electricity sector for new operators carrying out liberalised activities;
- all consumers, from 1 January 2003, the ability to select their electricity supplier and their method of supply;
- all operators and consumers, the right to access the transmission and distribution grid by paying access tariffs approved by the Spanish government; and
- the protection of the environment.

Law no. 17/2007 amended the Electricity Sector Act, bringing it into conformity with Directive 2003/54 EC of the European Parliament and of the Council, with the intention of reconciling the liberalisation of the electricity system with the twin national objectives of guaranteeing supply at the lowest possible price and minimising environmental damage. Royal Decree-Law no. 13/2012 built upon the achievement of that target by including Directive 2009/72/EC in the Spanish regulation.

In December 2013, a new electricity sector act (Law no. 24/2013) entered into force substituting Law no. 54/1997. This new law is based on the reforms announced by the Ministry of Industry in July 2013 and maintains the main principles of Law no. 54/1997, but reinforces the objectives of economic and financial sustainability in the electricity sector, thus preventing a new tariff deficit.

Generation

Generation facilities have several methods of contracting for the sale of electricity and determining a price for the electricity:

• *Wholesale energy market or pool*. This pool was created on 1 January 1998 and includes a variety of transactions that result from the participation of market agents (including generators, suppliers and direct consumers and, until 30 June 2009, distributors) in the daily and intra-day market sessions.

• *Bilateral contracts*. Bilateral contracts are private contracts between market agents, where terms and conditions are freely negotiated and agreed. Information about these contracts has to be given to the energy market in order to retain transparency within the electricity industry.

• *Auctions for purchase options or primary emissions of energy*. Principal market participants could be required by law to offer purchase options for a pre-established amount of their power. Some of the remaining market participants are entitled to purchase such options during a certain specified period. However, these options are currently not regulated in Spain.

These sales can be subject to Regulation (EU) No 1227/2011 of the European Parliament and of the Council on wholesale energy market integrity and transparency (REMIT).

Power plants also participate in ancillary services markets managed by the system operator, REE. Participation is mandatory for certain kind of power plants. Until December 2013, power plants that used renewable, waste and CHP energy sources were regulated under a "special regime", but the distinction between an ordinary and a special regime ceased to apply after the enactment of Law no. 24/2013.

Order no. ITC 2794/2007 established a new regime of fixed payments applicable to generators operating in the ordinary regime. This regime established for a period of ten years, an investment incentive, set at an initial amount of €20,000 per MW installed, increased up to €26,000 per MW installed by Order ITC/3127/2011 and lowered to €10,000 per MW installed by Royal Decree-Law no. 9/2013. Referred Order ITC/3127/2011 has also regulated an incentive regarding the availability of the certain facilities in the short term.

In February 2010, Royal Decree no. 134/2010, modified by Royal Decree no. 1221/2010, laid down the procedure for resolution of restrictions for guarantee of supply as a means to promote consumption of indigenous coal. This procedure was approved by EU competition authorities under Article 108.3 of the Treaty of Lisbon in September 2010. Costs recovery is guaranteed for power plants working under this regime. Soto de Ribera 3 power plant, owned by EDP, belonged to this regime. This regime ended in December 2014.

Royal Decree-Law no. 14/2010 has imposed on generators the payment of a €0.5 per MWh fee for the use of the networks.

Law no. 24/2013 also regulates the temporary closure of generation facilities, which is subject to a prior administrative authorisation scheme.

Customers with small generators will be able to benefit from a self-consumption regime. However its detailed regulations are still pending.

Specific remuneration regime for renewables, CHP and waste generation

As a result of the enactment of Law no. 24/2013, of December 2013, the special regime for renewables, CHP and waste generation was replaced by a specific remuneration regime which applies to the facilities that were regulated under the special regime prior to July 2013. As of July 2013, any new facilities belonging to those technologies receive the same treatment as facilities that belong to the ordinary regime with the only difference of the regulated supplements that receive from the specific remuneration regime.

Royal Decree no. 661/2007 provided the previous regulation of the Spanish special regime. Eligible facilities were those with an installed capacity of 50 MW or less that used cogeneration, CHP, waste or any renewable energy source as their primary energy. This decree was framed within the commitment of the Spanish government to encourage investments in renewable energy in Spain.

Under this decree, Spanish special regime power facilities were able to select a fixed tariff or to participate in the market. If the generator sold electricity in the market, it received the market price plus a premium, subject to a cap and floor on final prices.

However, since January 2012 the special regime has been suffering several adjustments as part of the measures took by the Spanish government to ensure financial sustainability of the electricity system:

(a) In January 2012, Royal Decree-Law no. 1/2012 suspended feed-in tariffs and premiums for new projects.

(b) In December 2012, Act no 15/2012 introduced a tax to energy generation equal to 7 per cent. of incomes.

(c) On 4 February 2013, Royal Decree-Law no. 2/2013, encompassed a set of regulatory modifications affecting wind and other renewable energy assets (i) all energy production facilities under the special regime had to be transiently remunerated according to the current feed-in tariffs, thus eliminating premium, cap and floor scheme, (ii) the power plant could operate under market price but without premiums for the remaining useful life and (iii) the feed-in tariffs had to be updated with inflation, excluding energy products, food prices and impact of tax.

(d) In July 2013, Royal Decree-Law no. 9/2013, changed the remuneration scheme of the special regime and repealed Royal Decree no. 661/2007.

(e) The new scheme was confirmed by Law no. 24/2013, of December 2013, replacing the "special regime" with the "specific remuneration regime".

The specific remuneration additional to market revenues shall consist of (i) a capacity supplement in €/MW to cover investments not recovered in the market, and (ii) if applicable, an operation supplement in €/MWh when operating costs cannot be recovered in the market. This specific remuneration is calculated taking into account standard installations throughout the regulatory life of the power plant, and assuming an efficient and well-managed company. The granting of this specific remuneration scheme for new facilities will be determined on a competitive basis. The result of the auctions will determine the value of the supplement in €/MW applicable.

As a consequence of Royal Decree-Law no. 9/2013, as from July 2013, during the first regulatory period, which applies from July 2013 to December 2019, the return ratio pre-tax during the remaining useful life of the assets under the special regime has to be equal to the yield associated with Spanish 10-year sovereign bonds plus a spread of 300 basis points. The new return ratio pre-tax has been set at 7.4 per cent during the regulatory life of the power plant (20 years in the case of wind generation, 25 years in the case of CHP generation and generation from waste, and 30 years in the case of photovoltaic generation).

Royal Decree no. 413/2014, published in June 2014, set the detailed regulation applicable to this regime. Remuneration values for the first half of the 6-year regulatory period to power plants under the special regime prior to July 2013 are set out in Ministerial Order no 1045/2014.

The amount of the capacity supplement for wind farms varies depending on the year the power plant went into operation and will be paid for 20 years after the power plant is commissioned. Interim revisions every three years are conducted to correct deviations from the expected pool price. Farms with commissioning date earlier than 2004 were not given any capacity supplement. EDP Renováveis' installed capacity in Spain, according to the start-up date, was 9 per cent. up to 2003, 39 per cent. between 2004-07 and 52 per cent. from 2008 onwards.

The authorisation of renewable, CHP and waste plants is by regional governments due to their small size. However, as a result of Royal Decree-Law no. 6/2009 since 2009 all facilities had to enter in a register managed by the Ministry of Industry in order to benefit from the premiums and tariffs of the Spanish special regime (Royal Decree 661/2007), and now the specific remuneration scheme created by Royal Decree-Law no.9/2013.

Electricity tariffs, supply and distribution

Since January 2003, all consumers have become qualified consumers. All of them may now choose to acquire electricity under any form of free trading through contracts with suppliers, by going directly to the organised market or through bilateral contracts with producers.

With the adoption of the Last Resort Supply (*Suministro de Último Recurso*) on 1 July 2009 (Law no. 17/2007 that amended the Electricity Sector Act in order to adapt it to Directive 2003/54/EC), the regulated tariff system has been replaced by a last resort tariff system. Last resort tariffs (now called "*precio voluntario para el pequeño consumidor*") are set by the Spanish government on an additive basis, meaning that the final tariffs are equal to the sum of access tariffs, plus energy tariff and commercialisation tariff, and can only be applied to low-voltage electricity consumers whose contracted power is less than or equal to 10 kW. According to Royal Decree no. 216/2014, the last resort tariff is calculated taking into account the sum of the following components: (1) costs of the electricity generation (which is indexed to the Spanish pool), (2) access tariffs and (3) costs of supply management. Last resort consumers can choose between being supplied at last resort tariffs or being supplied in the liberalised market.

Electricity transmission and distribution activities will continue to be regulated since their particular characteristics impose severe limitations on the possibility of introducing competition. 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 and operational and maintenance costs. Currently, the economic regime for transporters and distributors is contained in Royal Decree-Law no. 9/2013, Law no. 24/2013 and Royal Decree no 1048/2013, and the settlement system is contained in Royal Decree no. 2017/1997. Until July 2013, remuneration to distribution activities was determined by Royal Decree no. 222/2008 and Royal Decree-Law no. 13/2012, which had already established that capital costs would only be paid for net assets and postponed the remuneration until the second year after new assets have been brought into operation.

The main changes introduced by the current regime were setting the return ratio of energy assets based on the yield associated with Spanish 10-year sovereign bonds plus a spread, set at 100 basis points for the second half of 2013 and 200 basis points for 2014 onwards. Royal Decree no. 1048/2013, approved in December 2013, provides that the regulatory asset base is determined by taking into consideration certain physical units that are affected by efficiency factors registered in audited facilities. However, this regulation will not come into effect until definitive rules are approved, which is expected to occur by the end of 2015. Until that time, Royal Decree-Law no. 9/2013 established a transitory phase.

In accordance with the provisions of Law no. 24/2013, the supply of energy is paid from access tariffs and prices applicable to consumers and from specific items from the National Budget (Law no. 15/2012); from 1 January 2011, all facilities are obliged to pay tolls for the energy they generate (Royal Decree-Law no. 14/2010). This regulated income must be sufficient to cover all regulated costs, including transmission and distribution costs, specific remuneration schemes costs, and other costs.

Access tariffs and other regulated prices and charges are set by the Minister of Industry, Energy and Tourism. The portion of access tariffs that is designated to cover transmission and distribution costs will be fixed by the national regulatory authority CNMC according to a methodology which still has not been approved by the Spanish government. Access tariffs and regulated prices are uniform throughout Spain, although regional extra costs, if approved, may be added to tariffs set by the Ministry of Industry, Energy and Tourism.

On the other hand, on 1 July 2009 the regulated system of electricity tariffs was extinguished. Since then, distributors have ceased to supply electricity, and now function as network operators. Accordingly, from that date, all consumers have been in the liberalised market. However, Royal Decree no. 216/2014, provides that the low voltage final consumers who use 10 kW or less are eligible for the tariff of last resort, which applies a regulated price to that supply. This tariff will be applied by the designated suppliers of last resort (called "*comercializadores de referencia*"), among which is EDP Comercialización Último Recurso, S.A.

Following the approval of Act 25/2009, prior to commencing the supply of electricity, suppliers are obliged to provide a statement to the Ministry of Industry, Energy and Tourism or to the respective regional authority where they wish to engage in the supply (who will transfer the information to CNMC) which includes a confirmation of (a) the dates for beginning and ending their supply activity, (b) proof of their capacity for the development of the supply, and (c) the guarantees required. CNMC is entitled to publish on its web site an up-to-date list of electricity suppliers that have communicated the commencement of their supply.

Due to the disappearance of the Change of Supplier Office (*Oficina de Cambio de Suministrador* or **OCSUM**), the CNMC supervises the process for consumers changing their gas supplier under principles of transparency, objectivity and independence.

Last resort suppliers in the Iberian Peninsula may acquire electricity in the spot or forward markets to meet last resort demand. In Spain, following the enactment of Royal Decree-Law no. 17/2013, last resort suppliers are no longer permitted to hold energy auctions to purchase electricity.

Tariff Deficit in electricity sector

The main regulatory developments in the electricity sector in Spain during 2012 and 2013 were aimed at eliminating the tariff deficit in order to ensure the sustainability of the system. These measures have caused positive results from 2014 onwards: i) it is foreseen that the deficit produced in 2014 will be practically negligible; ii) in July 2015, the Spanish government announced that it is foreseen a surplus of regulated incomes in 2015, and even approved a reduction of the regulated prices of capacity paid by consumers through Royal Decree-Law no 9/2015 starting in August 2015.

However, the past debts of tariff deficit amount to €27,000 million at 31 December 2014, although none of which is being currently financed by electric companies. Deficits prior to 2014 were securitised as described below.

Law no. 24/2013 provides that access tariffs, regulated prices and other regulated income must be sufficient to recover the full costs of the regulated activities without any deficit. Although some deficit was permitted until 2013 (as provided by Royal Decree-Law no. 6/2009 and Royal Decree-Law no. 14/2010), Law no. 24/2013 limits tariff deficits incurred as of 2014 to a 2 per cent. yearly cap.

The deficit produced up to 2012 was fully transferred from the electricity companies to a Securitisation Fund called FADE (Depreciation Fund of Electric Tariff Deficit), which is guaranteed by the Spanish State Budget. Financing costs of FADE are included in the regulated costs to be recovered through access tariffs.

In 2012 and 2013 the Spanish government took important steps in order to address the key aspects of the problem of the tariff deficit:

(a) Royal Decree-Law no. 1/2012 suspended temporarily all new renewable premiums.

(b) Royal Decree-Laws no. 13/2012 and 20/2012 reduced system costs in 2012 up to € 1,000 million (in transmission and distribution activities, in capacity payments to generators, in coal subsidies, in system operation and payments to interruptible customers) while increasing system revenues in € 700 million from some budget surpluses. Some of these measures were only in force during 2012.

(c) Access tariffs were updated as from April 2012 to all customers resulting in a revenue increase for the system of €1,600 million through (i) ordinary increases of 5.1 per cent. on average and (ii) re-invoicing of tariffs in the last quarter of 2011 and the first quarter of 2012. This re-invoicing is a consequence of several orders of the Supreme Court that tariffs should have been higher to cover all regulated costs.

(d) Due to the inadequacy of previous measures for containing the tariff deficit, the Spanish government approved Law no. 15/2012 in December 2012, which imposed the following new taxes on generators and natural gas customers in order to cover the costs of the electricity system: (i) a 7 per cent. generation tax on the income from electricity output, (ii) a 22 per cent. charge on the use of inland water for electricity generation, (iii) a tax on the production of nuclear waste and a tax on storage of this waste, (iv) a tax on natural gas of €0.65/GJ applying to all natural gas consumers, and (v) a tax on coal of €0.65/GJ applicable to generators. Additionally, the Spanish government will allocate up to €450 million/yr of the revenues from the sale of emission allowances to cover the regulated electricity system costs. The implementation of the above measures was estimated to increase system revenues by €3,300 million annually.

(e) Royal Decree-Law no. 2/2013 described above.

(f) Royal Decree-Law no. 9/2013 with an estimated yearly impact of €4,500 million, held by customers (€900 million), National Budget (€900 million) and companies (€2,700 million).

Deficit produced in 2013 (€3,200 million) was transiently financed by electricity companies until December 2014 when it was securitised through the mechanism approved by Royal Decree 1054/2014.

Last Resort Tariff to vulnerable customers

Royal Decree-Law no. 6/2009 has created the "Social Bono" with some consumers benefiting from the tariff of last resort (**TUR**) which complies with the social, consumer and economic conditions as determined by the Ministry of Industry, Energy and Tourism. Currently, as provided by Royal Decree no. 216/2014, this tariff for vulnerable customers consists of a discount of 25 per cent. of the regulated tariff PVPC ("*precio voluntario para el pequeño consumidor*"). From 1 July 2009, individual consumers with a contracted capacity of less than 3 kW in their residence, consumers over 60 years old with minimum pensions, large families and families of which all the members are unemployed shall be entitled to this last resort tariff (as provided by Royal Decree-Law no. 6/2009).

Royal Decree-Law no. 13/2012 and Law no. 24/2013 also linked the eligibility to benefit from this tariff to household income but the conditions for benefiting from the "Social Bono" settled in Royal Decree-Law no. 6/2009 remain until the income thresholds are defined.

Discounts applied to vulnerable customers are funded by all vertically integrated companies according to the rules established in Law no 24/2013 and Royal Decree no 968/2014.

Authorisations and Administrative Procedures

All power plants require certain permits and licences from public authorities at local, regional and national levels before construction and operation can commence.

Administrative registration, permits and licences are generally required for the construction, enlargement, modification and operation of power plants and ancillary installations. In addition, power plants using renewable energy sources or CHP must be registered on the "specific remuneration" register managed by the Minister of Industry, Energy and Tourism before the power plant is entitled to benefit from the specific remuneration regime. New power plants in mainland Spain will be only included in the specific remuneration register through capacity auctions which are a competitive process.

Facilities must also be authorised in order to connect to the relevant transmission and distribution networks. If the interconnection authorisation is not granted, the administrative authorisation cannot be granted.

However, interconnection authorisation can only be denied due to lack of current or future network capacity.

Royal Decree no. 1699/2011, regulating the connection of small power plants to distribution networks, aims to streamline administrative procedures to speed up the connection of small power plants (renewable energy power plants below 100 kW and CHP installations below 1 MW) to the electricity grid.

Gas Regulation Overview

The general basis, principles and model of organisation of the gas sector in Spain were established through the Hydrocarbons Act no. 34/1998, of 7 October 1998 (the **Hydrocarbons Act**), Royal Decree no. 949/2001, of 3 August 2001 and Royal Decree no. 1434/2002, of 27 December 2002.

The approval of Act no. 12/2007, of 2 July 2007, which modifies the Hydrocarbons Act, in order to adapt it to EU Directive 2003/55/EC has continued the process of deregulation that was started in the sector in 1998, and Royal Decree-Law no. 13/2012 has completed this process by including Directive 2009/73/EC in the Spanish regulation. The regulated supply system ended on 1 July 2008 and was substituted by a last resort supply system. According to Law 12/2007, the scope of consumers that can be supplied under the last resort tariff systems has been reduced to only domestic and low consumption users. However, these clients will have the option to choose between being supplied under the last resort system (by last resort suppliers appointed by the Spanish government) or in the liberalised market (at the prices freely agreed with suppliers).

The Ministerial Order IET/2355/2014, of 12 December, establishes the transitional remuneration for 2014 under the rules of Royal Decree-Law 8/2014 and Law 18/2014 for the regulated activities. Also defines new incentives for quality distribution made by distributors and retailers and hardens penalties for unbalanced inventories.

The Ministerial Order IET/2445/2014, of 19 December, establishes the tariffs and the revenues related with the access to the gas sector installations by third parties and the remuneration of regulated activities for the year 2015. The update of the retribution will be calculated according to Law 18/2014.

Following the same criteria established for the electricity sector, the Spanish government has amended the Hydrocarbons Act, through Royal Decree-Law no. 8/2014, of 4 July 2014, included into the Act nº 18/2014, in order to regulate the financial stability of the gas system. The amendments to Law no. 34/1998 are focussed on the economic and financial balance of the system, thus aiming to avoid new tariff deficits.

In 2015, the approval of Act no. 8/2015, of 21 May, modifies the Hydrocarbons Act, with the main goal of creating an organised market of natural gas in the Spanish system, that, once it is be liquid, should give a price reference to the market and increase the competition in the sector. The act established that the organised market should be operating before October 2015 and also assigns MIBGAS as the market operator. There are other important changes in the act, as for example, the liberalisation of the periodic check- ups of users installations (which was a distributor duty in the past).

With respect to the supplier of last resort, Royal Decree no. 485/2009 and Royal Decree no. 216/2014 allow for the possibility of merging firms that have to supply both electricity and gas, under the supplier of last resort requirements, into a single company. As a result, by Decision no. 12/02/2009 of the General Director for Energy Policy and Mines, HC CUR holds the qualification of supplier of last resort in both sectors from 1 January 2010.

Spanish law distinguishes between: (1) regulated activities, which include transportation (regasification of LNG, underground storage and transportation of natural gas) and distribution; and (2) non-regulated activities, which include supply.

Any company engaging in a regulated activity must engage in only one regulated activity. However, a group of companies may conduct unrelated activities whenever they are independent at least in terms of their legal form, organisation and decision making in respect of other activities not relating to transmission, distribution and storage (Law no. 34/1998 and Law no. 12/2007). Royal Decree-Law no. 13/2012 incorporated new rules from Directive 2009/73/EC to achieve an effective separation between regulated activities and non-regulated activities carried out by

Spanish companies. This Royal Decree-Law also establishes the ownership unbundling model for the gas transmissions system operator in relation to the main network for the primary transmission of natural gas transmission pipeline/grid, "red troncal". However, any vertically integrated company established prior to 3 September 2009 may opt between an ownership unbundling model or the ISO model.

There have been several mergers and acquisitions in the Spanish gas market, resulting in changes to the market structure. For example, EDP bought in 2010 Gas Natural's low-pressure network in Cantabria and Murcia, together with its supply activities relating to domestic and small businesses. This agreement also included the purchase of high-pressure networks in the Basque Country, Cantabria and Asturias. In 2013, pursuant to Royal Decree-Law no. 13/2012, EDP completed the sale of its gas transmission business to Enagas, activity which was developed by its subsidiary Naturgas Energia Transporte. In January 2015, EDP sold Gas Energia Distribución Murcia and its main distribution and transportation assets in Murcia and, in June 2015, several distribution assets in other Spanish regions (mainly in Extremadura and Gerona) belonging to Naturgas Energia Distribución, were also sold.

The Spanish gas market has developed significantly in recent years, with an increase of 3,4 million customers (80 per cent.) from 2000 to 2014. Over the same period, gas demand has grown even more, recording an increase of 105 TWh (54 per cent.), mainly due to the demand of CCGTs. This is despite the fact that gas consumption decreased by 33 per cent. in the period 2008-2014 (from 449 TWh to 301 TWh).

Natural Gas Transportation

The construction, expansion, operation and closure of gas pipelines, storage facilities and regasification plants requires prior administrative authorisation. In addition, for the construction and operation of gas transmission, regasification and storage facilities, other licences and permits are necessary, including an environmental impact assessment; licences related to infrastructure construction and land rights; and licences related to construction (for example, an activity licence, opening licence and works licence).

Preliminary authorisation is granted by either the Ministry of Industry, Energy and Tourism if the proposed facilities are basic transportation facilities, or, if they affect more than one autonomous community, by the regional authorities where such facilities will be located.

Once the preliminary authorisation has been granted, either the Ministry of Industry, Tourism and Trade or the applicable autonomous regional authority will authorise the engineering construction project. Such authorisation enables the applicant to begin construction of the facility. Definitive authorisations are then granted upon completion of the facility.

Natural Gas Distribution

EDP, through its subsidiaries Naturgas Energia Distribucion and Tolosa Gasa, is involved nowadays in the distribution of natural gas in three regions (Asturias, Cantabria and Basque Country) through medium and low-pressure pipelines (less than 16 bar).

An administrative authorisation is required for the conduct of distribution activities. Any legal entity with Spanish nationality or any member of the EU may apply for an administrative authorisation. Applicants must evidence their legal, financial and technical capacity for distribution.

Distribution companies are under a legal duty to provide access to their networks to suppliers and consumers. The main principles governing third-party access to the distribution networks are the same as those applicable to access to the transportation network.

Natural Gas Supply

EDP participates in the ordinary supply market through Naturgas Energía Comercializadora S.A.U., and in the last resort market through its subsidiary HC CUR in selling natural gas to end consumers all over Spain.

Suppliers acquire natural gas from producers or other suppliers and sell it to other suppliers or to consumers in the liberalised market on terms and conditions freely agreed among the parties. In order to enable suppliers to conduct their business, transporters and distributors are under an obligation to grant access to their network in exchange for regulated tolls and fees. Royal Decree-Law 6/2009 has appointed the companies that can supply consumers under the last resort supply system.

Due to the disappearance of OCSUM, the CNMC supervises the process for consumers changing their gas supplier under principles of transparency, objectivity and independence.

Following the approval of Act 25/2009, prior to commencing supply activity gas suppliers are obliged to provide a statement to the Ministry of Industry or to the respective regional authority where they wish to engage in supply activity (who will transfer the information to the CNMC) which includes confirmation of: (a) the dates for commencing (and ending) their activity, (b) proof of their technical capacity for the development of the activity, and (c) the guarantees required. A prior administrative authorisation is only required for the conduct of supply activities if a company or its parent company is from a country outside of the EU that does not recognise equivalent rights. The CNMC is entitled to publish on its web site an up-to-date list of gas suppliers that have communicated the exercising of their activities.

The implementation of supply of last resort in the natural gas sector was established by Royal Decree no. 104/2010, of 5 February 2010 and Royal Decree-Law no. 13/2012 which has partially included Directive 2009/73/EC in the Spanish regulation.

Tariff Deficit in natural gas sector

In the Spanish natural gas sector, the main regulatory developments in the period 2012 and 2014 aim to reduce the tariff deficit. The total tariff deficit amounted to €326 million as at 31 December 2013, which is 10 per cent. of the total regulated costs.

In this context, the Spanish government approved Royal Decree Law no. 8/2014 in July 2014, the main measures of which are summarized as follows:

- Reduction of €238 million per year in regulated activities remuneration (distribution and transportation)
- New remuneration models for regulated activities, during a new six year regulatory period, which applies from July 2014 to December 2020. For distribution, new model is still demand based, but the price updating component (IPH) disappears. In the case of transportation, there is a new variable component of remuneration linked to the system demand evolution.
- 2014 tariff deficit financed by regulated companies in 15 years. New deficit occurred from 2015 ahead, financed by regulated companies in five years.
- New yearly cap to tariff deficits, which leads to automatic tariffs and tolls increase.

For 2014, the last provisional liquidation indicated €539 million of accumulated deficit, which represents 17 per cent of the total regulated costs. However a higher figure is expected by the definitive settlement, as there are still pendant regulated costs to be recognised by the Spanish government for the year 2014.

Brazil

The Ministry of Mines and Energy (MME) is the Brazilian government's agency responsible for conducting the country's energy policies. Its main duties include formulating and implementing policies for the energy sector, according to the guidelines defined by the National Energy Policy Council (**CNPE**). The MME is responsible for establishing the planning of the national energy sector, monitor the security of supply of the Brazilian electricity sector and define preventive actions to security of supply restoration in the case of cyclical imbalances between supply and demand of energy.

Following the adoption of the Law no. 10.848/2004 (the **New Electricity Law**), the Brazilian government, acting primarily through MME, undertook certain duties that were previously the responsibility of the National Electric Energy Agency (**ANEEL**), including granting concessions and issuing directives governing the bidding process for concessions relating to public services.

ANEEL has attributions to regulate and supervise the production, transmission, distribution and sale of electricity, ensuring the quality of services provided by the universal service and the establishment of tariffs for end consumers, while preserving the economic and financial viability of agents and industry. The 2004 Electricity Law introduced significant changes to the regulation of the Brazilian power industry to provide incentives to private and public entities to build and maintain the country's generation capacity and to assure the supply of electricity within Brazil at as low as possible tariffs through competitive electricity public auctions. The key features of the New Electricity Law include:

- Creation of two markets for the trading of electricity:
  - o the regulated contracting market for the sale and purchase of electricity destined for distribution companies, which is operated through electricity purchase auctions; and
  - o the unregulated market or free contracting market for the sale and purchase of electricity destined for generators, free consumers and electricity trading companies.
- The requirement that distribution companies purchase electricity sufficient to supply 100 per cent. of their demand through public energy auctions.
- Creation of an electricity reserve policy for all electricity traded through contracts.
- Restrictions on certain activities of electricity distribution companies to ensure 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.
- Prohibition on power distribution concessionaires on sales of electricity to free consumers at non-regulated prices.
- Prohibition on distributors engaging directly in power generation or transmission operations.

Several significant changes in regulation regarding the electricity sector occurred during 2012, such as the Provisional Measure 579/2012, later converted to Law no. 12/783, in which the Brazilian government presented measures to reduce electric energy bills. The expected average reduction for Brazil amounts to 20.2 per cent. of total electric energy bills due to government actions aimed at concession renewals (13 per cent.) and sector charges (7 per cent.).

Regarding concession renewals, the generation concessionaires with contracts expiring between 2015 and 2017 may renew their concessions and shall guarantee that they make available physical energy to the quotas system for the distributors in proportion to the market size of each distributor.

On 23 January 2013, Provisional Measure 605 was published, which has the objective of increasing the scope of application of the resources of the Energy Development Fund (**CDE**). As a result, CDE began using resources to help offset the discounts applied to the tariffs and the involuntary exposure of distributors resulting from the decision of some generation companies not to extend their generation concessions. This measure amended Law no. 10.438/2002, which establishes the application of CDE resources.

On 6 March 2013, the National Energy Policy Council (**CNPE**) issued Resolution CNPE 3/2013, which set a new methodology for sharing the additional costs incurred through the use of thermoelectric power plants out of the order of merit, which would normally give preference hydroelectric plants. The thermoelectric power plants were utilised out of the typical order of merit ahead of the hydroelectric plants to maintain the safety of the system in light of the hydrological crisis in Brazil.

On 7 March 2013, Decree 9,745 increased the costs that can be covered by funds from the CDE. From January through December 2013, CDE is responsible for the monthly transfer to the distribution utilities of amounts to cover the costs related to: generation allocated under the Energy Relocation Mechanism – ERM (Hydrological Risk Quotas); replacement amounts not covered by such quotas (**Involuntary Exposure**); and the additional cost of thermal power plant activation outside the order of merit (ESS - Energy Security).

On 7 May 2013 a new regulation (Resolução Normativa 549/2013) was published, which provided that the incremental costs of the acquisition of energy and other system charges (ESS) occurred in 2013 would be funded by the CDE - Conta de Desenvolvimento Energético (positive balances in "Conta de Compensação de Variação de Valores da Parcela A - **CVA**”). This regulation established the compensation criteria and determined that ANEEL will publish in each ordinary tariff revision the amounts that should be paid by Eletrobras to the distribution companies (through CDE) with reference to the costs and CVA charges mentioned above.

Since distribution network operators (**DNOs**) had cash flow difficulties due to Involuntary Exposure and high energy costs as a result of the lack of rain during the beginning of 2014, the federal government issued Decree no. 8,221/2014, creating an account in the Regulated Contracting Environment (**ACR-Account**) to cover the additional costs of electricity distributors due to involuntary exposure in the context of high levels in the spot market and high usage of thermoelectric plants. The Commercialisation Chamber (**CCEE**) manages the account, and is responsible for contracting loans, as well as for ensuring the transfer of costs incurred in the operations of the CDE. Such operations are entitled to defray the expenses incurred from February 2014 until 31 December 2014. The monthly amount to be transferred to each DNO must be ratified by ANEEL and will consider the prevailing tariff coverage. The balance of the ACR -Account may be pledged in favour of banks (creditors), and its operation is regulated by the agency. The loans will be paid by consumers in two years through energy tariffs. On 25 April 2014, CCEE signed contracts with banks to finance 11.2 billions of Reais to enable the ACR-Account to cover the disbursements of the electricity distributors with exposure to the spot market and the energy power stations dispatch. The Energy Development Account - CDE present in the energy tariffs will generate the funds to repay the loan. Loan repayments will start in November 2015. The ACR-Account resources obtained through bank loans were exhausted in April 2014. Therefore, in August 2014, a new loan of 6.5 billions of Reais was approved. The value of the Account-ACR was insufficient to cover the November and December deficit, forcing ANEEL to defer payment for 31 March 2015. In March, CCEE signed a new loan of 3.4 billions of Reais. The amounts received by the ACR-Account to cover the 2014 deficit will be considered in the energy tariffs from the 2015 ordinary tariff processes.

The Flags Tariff System entered into force in January 2015. This system signals to the consumers the real costs of electricity generation, and consists of three flags: green, yellow and red. The green flag indicates that the cost of energy production is lower and, therefore no changes have been applied to the energy tariff. The yellow and red flags represent an increase in energy production cost, and that an additional amount has been added to the tariff. Only consumers classified as low income residential subclass will receive a discount on the additional amount applied by the yellow and red flags.

On 4 February 2015, the Tariff Flag Resource Account was created, through the Decree 8,401. Distributors should collect the proceeds from the application of this system to this account, managed by the CCEE. Proceeds are allocated to cover the costs that are not included in the distribution tariff, such as: Energy Security of the System Service Charge - ESS, thermal dispatch, Itaipu hydrological risk and quotas, exposure to spot market and the Power Reserve Account - CONER surplus.

ANEEL should approve on a monthly basis the transfers to the distribution companies. Any costs not covered by revenue will be considered in the next tariff process.

On 27 February 2015, through Ratifying Resolution 1,859, ANEEL established the new criteria for the additional tariff and the operation of the Flag Tariff System:

- Green Flag: used in the months in which the value of the Variable Unit Cost - CVU of the last plant to be dispatched is less than 200 R$/MWh;
- Yellow Flag: used in the months in which the value of the Variable Unit Cost - CVU of the last plant to be dispatched is equal to or greater than 200 R$/MWh and lower than the maximum value of the Differences Settlement Price - PLD, currently at 388.48 R$/MWh. For the period of 1 January to 1 March 2015, the consumption proportional increase is 1.5 R$ per 100 KWh. From 2 March 2015, the consumption proportional increase is 2.5 R$ per 100 KWh; and
- Red Flag: used in the months in which the value of the Variable Unit Cost - CVU of the last plant to be dispatched is equal to or greater than the maximum value of the PLD. For the period from 1 January to 1 March 2015, the consumption proportional increase is 3 R$ per 100 KWh. From 2 March 2015, the consumption proportional increase is 5.5 R$ per 100 KWh.

Distribution tariffs

Power distribution companies in Brazil operate with regulated tariffs, and their operating results are therefore subject to regulation. Their concession contracts contain provisions for periodic and annual tariff adjustments and the possibility of extraordinary tariff revisions (i.e., revisions that can be taken by the regulator if some unexpected exogenous factor occurs that affects the financial or economic equilibrium of the concession).

Periodic tariff revisions

Every three, four or five years, depending on the concession contract, ANEEL establishes a new set of tariffs, reviewing all concessionaire costs and expected revenue. To calculate periodic tariff revisions, ANEEL determines the annual revenue required for a power distribution company to cover what a concession contract refers to as the sum of "Portion A" and "Portion B" costs. Portion A costs consist of a distribution company's costs of power supply, transmission costs as well as tariff charges. Portion B costs consist of the distribution company's operating costs, taxes, depreciation and return on investment, accepted by the regulator. The after tax rate of return on Regulatory Asset Base (**RAB**) in this regulatory period (2011 – 2015) was set at 7.5 per cent.

The required revenue of EDP's electricity distribution companies is calculated on an annual basis and regards a revenue flow compatible with the regulatory economic costs calculated according to specific rules established by ANEEL, over a past 12-month period called test year. The regulatory regime in Brazil provides for price-caps, and if the estimated required revenue for the year under analysis is different from the actual revenue of the concessionaire for that year, the risk is allocated to the concessionaire. Recent modifications in the tariff methodology have reduced this risk, called market risk, and for almost all of Portion A costs the market risk has been allocated to the customers: if the revenue is higher than expected, the tariff for the next year is reduced, and vice-versa.

Periodic tariff revisions are conducted every three years for Espírito Santo Centrais Eléctricas S.A. (**Escelsa**) and every four years for Bandeirante Energia, S.A.

On 28 April 2015, through the Resolution 660, ANEEL approved changes in the methodology applicable to the processes of Periodic Tariff Review for distributors from 6 May 2015. The changes related to the following: (i) general procedures; (ii) operating costs; (iii) factor X (productivity gains); (iv) non-technical losses; (v) unrecoverable revenues and (vi) other income. The most significant changes are as follows:

a) the tariff cycle concept was extinguished. The methodologies and parameters prevailing at the time of the tariff review will be used. The parameters and the methodologies will be updated every two/four years and every four/eight years respectively;

b) the weighted average cost of capital (WACC) increased from 7.5 per cent. to 8.09 per cent. (after tax). The points taken into account in the update were: (i) standardisation of the series; (ii) use of average credit risk of companies in the debt capital; and (iii) recalculation of the cost of capital every 3 years, with the methodology review in every six years;

c) remuneration for the risk associated with investment operations funded by third-party funds (subsidies);

d) for the definition of efficient operating costs, they were considered the "quality indexes" and "losses";

e) in determining the level of non-technical losses, the variable "low-income" was included and the database updated based on three statistical models;

f) the level of unrecoverable revenues (percentage) shall be calculated based on past 60 months of non-compliance by the concessionaire;

g) the percentage share of other revenue has been changed to 30 per cent. in the services of: (i) efficiency of energy consumption; (ii) qualified cogeneration facility and (iii) data communication services. The percentage share of other services was set at 60 per cent.; and

h) the calculation of the X Factor now includes consideration of commercial quality.

These changes, which will represent an increase in future income only, will impact the next tariff review of Bandeirante and Escelsa, which according to the expectations of management should occur in October 2015 and August 2016, respectively.

Tariff adjustments

Because the revenues of electricity distribution companies are affected by inflation, they are afforded an annual tariff adjustment to address the impact of inflation in the period between periodic revisions. For the 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 productivity power quality, called Factor X. The main objective of Factor X is to ensure an efficient balance between revenues and costs, established at the time of revision, by taking into account standard values established by the regulator. Factor X has three components: (i) expected productivity gains, (ii) quality of service and (iii) cost efficiency.

In August 2013, ANEEL approved EDP Escelsa's Tariff Review which set a 4.12 per cent. tariff adjustment index. In October 2013, ANEEL approved a 10.36 per cent. tariff readjustment index for EDP Bandeirante for the period from 23 October 2013 to 22 October 2014. The Factor X component applied was 1.08 per cent.

In August 2014, ANEEL approved a 26.54 per cent. annual tariff readjustment index for EDP Escelsa, for the period from 7 August 2014 to 6 August 2015. The Factor X component applied was 2.34 per cent. In October 2014, ANEEL approved a 22.34 per cent. tariff readjustment index for EDP Bandeirante for the period from 23 October 2014 to 22 October 2015. The Factor X component applied was 0.44 per cent.

In February 2015, ANEEL approved an extraordinary tariff readjustment for EDP Bandeirante and EDP Escelsa, to apply from 2 March 2015, to deal with uncontrollable costs that the distribution companies have to deal with, particularly, since 2014. The indexes approved were 32.18 per cent. for EDP Bandeirante and 33.27 per cent. for EDP Escelsa.

United States

Federal, state and local energy statutes regulate the development, ownership, business organisation and operation of electric generating facilities in the United States. In addition, the federal government regulates wholesale sales of electricity and certain environmental matters, and the state and local governments regulate the construction of electric generating facilities, retail electricity sales and environmental and permitting matters.

Federal regulations related to the electricity industry

The federal government regulates wholesale power sales and the transmission of electricity in interstate commerce through the Federal Energy Regulatory Commission (**FERC**), which draws its jurisdiction from the Federal Power Act, as amended (the **FPA**), and from other federal legislation such as the Public Utility Regulatory Policies Act of 1978, as amended (**PURPA 1978**), and the Public Utility Holding Company Act of 2005 (**PUHCA 2005**).

Electricity generation

All of the EDP Group's project companies in the United States operate as exempt wholesale generators (**EWGs**) under PUHCA 2005 or as owners of qualifying facilities (**QFs**) under PURPA 1978 or are dually certified. In addition, most of the project companies are regulated by FERC under Parts II and III of the FPA and have market-based rate authorisation from FERC. Such market-based rate authorisations allow the project companies to make wholesale power sales at negotiated rates to any purchaser, except to any public utility affiliated with the project company that has a franchised electric service territory.

EWGs are owners or operators of electric generation facilities (including producers of renewable energy, such as wind and solar projects) that are engaged exclusively in the business of owning and/or operating generating facilities and selling electric energy at wholesale. An EWG cannot make retail sales of electric energy or engage in other business activities that are not incidental to the generation and sale of electric energy at wholesale. An EWG may own or operate only those limited interconnection facilities necessary to connect generation to the grid.

Under the FPA, FERC has exclusive rate-making jurisdiction over "public utilities" that engage in wholesale sales of electric energy or the transmission of electric energy in interstate commerce. With certain limited exceptions, the owner of a renewable energy facility that has been certified as an EWG in accordance with FERC's regulations is subject to regulation under the FPA and to FERC's rate-making jurisdiction. FERC typically grants EWGs the authority to charge market-based rates as long as the EWG can demonstrate that it does not have, or has adequately mitigated, market power and it cannot otherwise erect barriers to market entry. Currently, none of the EDP Group's project companies or their affiliates has been found by FERC to have the potential to exercise market power in any U.S. markets. In the event that FERC's analysis of market power changes or if certain other conditions of market-based rate authority are not met, FERC has the authority to impose mitigation measures or withhold or rescind market-based rate authority and require sales to be made based on cost-of-service rates, which could result in a reduction in rates.

FERC generally grants EWGs with market-based rate authority waivers from many of the accounting and record-keeping requirements that are otherwise imposed on traditional public utilities under the FPA. However, EWGs with market-based rate authority are subject to ongoing review of their rates under FPA sections 205 and 206, advance review of certain direct and indirect dispositions of FERC-jurisdictional facilities under FPA section 203, regulation of securities issuances and assumptions of liability under FPA section 204 (subject to certain blanket pre-authorisations), and supervision of interlocking directorates under FPA section 305. FERC has authority to assess substantial civil penalties (i.e. up to $1 million per day per violation) for failure to comply with the conditions of market-based rate authority and the requirements of the FPA.

Certain small power production facilities may qualify as QFs under PURPA 1978. A wind-powered generating facility (or the aggregation of all such facilities owned or operated by the same person or its affiliates and located within one mile of each other) with a net generating capacity of 80 MW or less may be certified by FERC or self-certified with FERC as a QF. Certain QFs, including renewable energy facilities with a net generating capacity of 30 MW or less, are exempt from certain provisions of the FPA, including the accounting and reporting requirements. Additionally, renewable energy QFs with a net generating capacity of 20 MW or less are exempt from FERC's rate-making authority under the FPA. QFs that are not located in competitive markets have the right to require an electric utility to purchase the power generated by such QFs. QFs also have the right to require an electric utility to interconnect it to the utility's transmission system, and to sell firm power service, back-up power, and supplementary power to the QF at reasonable and non-discriminatory rates. Finally, a renewable energy QF with a net capacity of 30 MW or less is exempt from regulation under PUHCA 2005 and the state laws and regulations respecting the rates of electric utilities and the financial and organisational regulation of electric utilities.

FERC also implements the requirements of PUHCA 2005, which imposes certain obligations on "holding companies" that own or control 10 per cent. or more of the direct or indirect voting interests in companies that own or operate facilities used for the generation of electricity for sale, including renewable energy facilities. As a general matter, PUHCA 2005 imposes certain record-keeping, reporting and accounting obligations on such holding companies and certain of their affiliates. However, holding companies that own only EWGs, QFs or foreign utility companies are exempt from the federal access to books and records provisions of PUHCA 2005.

Energy transactions in the United States are either bilateral in nature, which allows two parties to freely contract for the sale and purchase of energy, or take place within a single, centralised clearing market for spot energy purchases and sales and which facilitates the efficient distribution of energy. Given the limited interconnections between transmission systems in the United States and differences among market rules, regional markets have formed within the transmission systems operated by independent system operators or regional transmission organisations (**ISOs**), such as the Midcontinent, California, New York, PJM Interconnection, and New England ISOs.

EDP's project companies typically sell power and the associated renewable energy credits (**RECs**) from EDP's electric generation facilities under long-term bilateral power purchase agreements. However, additional energy or ancillary services may be sold on a short-term basis to the market, generally at short-term clearing prices. In addition, EDP's project companies may sell RECs under long-term or short-term bilateral agreements. All of EDP's electric generating facilities are typically interconnected to the grid through long-term interconnection agreements, under which transmission-owning utilities (in combination with any ISO in which the utility is a member) agree to construct and maintain system-operated interconnection facilities and provide interconnection service to the facilities. As such, successful and timely completion of EDP's projects and electric sales from EDP's projects are dependent on the performance of EDP's counterparties under the interconnection agreements.

NERC reliability standards

FERC has jurisdiction over all users, owners, and operators of the bulk power system for purposes of approving and enforcing compliance with certain reliability standards. Reliability standards are requirements to provide for the reliable operation of the bulk power system. Pursuant to its authority under the FPA, FERC certified the North American Electric Reliability Corporation (**NERC**) as the entity responsible for developing reliability standards, submitting them to FERC for approval, and overseeing and enforcing compliance with reliability standards, subject to FERC review. FERC authorised NERC to delegate certain functions to eight regional entities. All users, owners and operators of the bulk power system that meet certain materiality thresholds are required to register with the NERC and comply with FERC-approved reliability standards. Violations of mandatory reliability standards may result in the imposition of civil penalties of up to $1 million per day per violation. All of EDP's project companies in the United States that meet the relevant materiality thresholds have registered with NERC as Generation Owners and/or

Generation Operators and Purchasing and Selling Entities, and are required to comply with applicable FERC-approved reliability standards. NERC may require generators that own certain interconnection facilities also to register as Transmission Owners and/or Transmission Operators. Such a change may impose additional reliability standards on EDP's project companies.

State Regulations Related to the Electricity Industry

State regulatory agencies have jurisdiction over the rates and terms of electricity service to retail customers. As noted above, an EWG is not permitted to make retail sales. States may or may not permit QFs to engage in retail sales.

In certain states, approval of the construction of new electricity generating facilities, including renewable energy facilities such as wind farms and solar facilities, is obtained from a state agency, with only limited additional ministerial approvals required from state and local governments. However, in many states the permit process for power plants (including wind and solar projects) also remains subject to land-use and similar regulations of county, city and other local governments. State-level authorisations may involve a more extensive approval process, possibly including an environmental impact evaluation, and are subject to opposition by interested parties or utilities.

Renewable Energy Policies

The marked growth in the U.S. renewable energy industry has been driven primarily by federal and state government policies designed to promote the growth of renewable energy, including wind and solar power. The primary U.S. federal renewable energy incentive programmes have been the production tax credits (**PTCs**), Investment Tax Credits (**ITC**), and a Modified Accelerated Cost Recovery System (**MACRS**), which allows the accelerated depreciation of certain major equipment components over a five-year period. These programs are now expired for new projects and it is unknown if and when these policies will be implemented again. The principal way in which many states have encouraged renewable generation development is through the implementation of Renewable Portfolio Standards (**RPS**), under which a utility must demonstrate that a certain percentage of its energy supplied to consumers within the applicable state comes from renewable sources. Under many RPS, a utility may demonstrate its compliance through its ownership of RECs. RECs are generally tradable and considered separate commodities from the underlying power that is generated by the resource. A majority of states, the District of Columbia and three U.S. territories have implemented mandatory RPS targets, and a number of other states and one U.S. territory have implemented voluntary, rather than mandatory, goals. Additionally, some states and localities encourage the development of renewable resources through reduced property taxes, state tax exemptions and abatements, and state grants.

Federal Tax Incentives

In the United States, the federal government has supported renewable energy primarily through tax incentives to reimburse a portion of eligible capital costs. Historically, the main tax incentives for wind projects have been the PTC and the five-year depreciation for eligible assets under the Modified Accelerated Cost Recovery System (**MACRS)** under the Internal Revenue Code of 1986. The PTC is a per kilowatt-hour tax credit for electricity generated by qualified energy resources including wind, and sold by the taxpayer to an unrelated person during the taxable year. In February 2009, the American Recovery and Reinvestment Act allowed renewable energy projects to elect, in lieu of the PTC, an ITC or a cash grant equal to 30 per cent. of the capital invested in the project. The cash grant option expired for projects that had not begun construction prior to 1 January 2012, although the ITC remained an option. In January 2013, under the American Taxpayer Relief Act of 2012, the PTC and ITC for wind projects were extended to apply to new projects that began construction before 1 January 2014. In December 2014, under the Tax Increase Prevention Act of 2014, the PTC and ITC for wind projects were extended to apply to new projects that began construction before 1 January 2015. As of the date of this Prospectus, the PTC and the option to elect an ITC for wind projects have not been further extended.

Historically, the main tax incentives for solar projects have been an ITC equal to 30 per cent. of the capital invested in the project and the five-year depreciation for eligible assets under MACRS. The 30 per cent. ITC for solar projects is currently scheduled to be reduced to 10 per cent. for solar projects placed in service after 31 December 2016. There can be no assurance that the PTC or the ITC will be further extended beyond their current expiration dates. With respect to asset depreciation under MACRS, in February 2008, the Economic Stimulus Act of 2008 provided for a temporary 50 per cent. bonus depreciation with 5-year MACRS utilised to recover the remaining basis for eligible property, including wind and solar property. The American Taxpayer Relief Act of 2012 extended the 50 per cent. bonus depreciation deadline to property placed into service by 31 December 2013. The Tax Increase Prevention

Act of 2014 extended the 50 per cent. bonus depreciation deadline to property placed into service by 31 December 2014. As of the date of this Prospectus, the 50 per cent. bonus depreciation has not been extended and there can be no assurance that the 50 per cent. bonus depreciation will be extended beyond its current expiration.

EDP's ability to take advantage of the benefits of the PTC, ITC and depreciation incentives is based in part on the investment structures that EDP entered into with institutional investors in the United States (the **Partnership Structures**). Even assuming that the PTC, ITC and depreciation incentives continue to be available in the future, there can be no assurance that (1) EDP will have sufficient taxable income in the United States to utilise the benefits generated by these tax incentives or (2) EDP will otherwise be able to realise the benefits of these incentives. In particular, there can be no assurance that EDP will be able to realise the benefits of these incentives through Partnership Structures entered into with investors who offer acceptable terms and pricing (or that there will be a sufficient number of such suitable investors).

State Renewable Portfolio Standards

In addition to U.S. federal tax incentives, at the state level, RPS provide support for EDP's business by specifying that a certain percentage of a utility's energy supplied to consumers within the state must come from renewable sources (typically between 15 per cent. and 25 per cent. by 2020 or 2025) and, in certain cases, make provision for various penalties for non-compliance. According to the Database of State Incentives for Renewables and Efficiency as of June 2015, 29 U.S. states, the District of Columbia and three U.S. territories have mandatory RPS targets, while an additional eight states and one US territory have adopted non-mandatory renewable energy goals. Within states, municipalities that have authority over electric utilities may also choose to adopt an RPS policy. For states with mandatory targets, most state RPS administrators require utilities to secure RECs to demonstrate compliance with the RPS requirement. Although additional states may consider the enactment of RPS, there can be no assurance that they will decide to do so, or that the existing RPS will not be discontinued or adversely modified.

Environmental Compliance

Construction and operation of wind and solar generation facilities and the generation and transport of renewable energy are subject to environmental regulation by U.S. federal, state and local authorities. Typically, environmental laws and regulations require a lengthy and complex process for obtaining licences, permits and approvals prior to construction, operation or modification of a project or generating facility. Prior to development, permitting authorities may require that wind project developers consider and address, among other things, impact on birds, bats and other biological resources, noise impact, paleontological and cultural impact, wetland and water quality impact, compatibility with existing land uses and impact on visual resources. In addition, projects which propose to impact federal land or require some federal licence or permit, or federal funding, generally require the review of the potential environmental effects of the action pursuant to the National Environmental Policy Act (**NEPA**), which requires that the public be afforded an opportunity to review and comment on the proposed project. For those projects located on federal Bureau of Land Management (**BLM**) land holdings, BLM has prepared a series of environmental impact statements that programmatically review potential impacts of solar and wind energy development, which can reduce the time required to comply with NEPA for later federal funding, permits or authorisations on a specific renewable energy project involving BLM land.

The U.S. Fish and Wildlife Service (**USFWS**) is charged with enforcement of federal environmental laws protecting endangered and threatened species, migratory birds, and bald and golden eagles as well as the habitat supporting such species. The Endangered Species Act (**ESA**), Migratory Bird Treaty Act (**MBTA**) and Bald and Golden Eagle Protection Act (**BGEPA**) each prohibit the "take" of species protected by the particular statute. Generally, prohibited "take" of species includes activities that kill, injure or capture a protected species and, for the ESA, extends to habitat modification. Also, under the ESA, federal agencies must consult with USFWS on any discretionary agency actions, such as permits, to ensure that the permitted project includes sufficient avoidance, minimisation and mitigation measures to avoid jeopardising the continued existence of a species and/or adversely modifying designated critical habitat.

The USFWS has issued voluntary guidelines for land-based wind energy projects, which outline the USFWS regulatory requirements under the ESA, MBTA and BGEPA and provide project developers with guidance as to how to assess potential impacts and avoid or minimise significant adverse impacts of a project on species and habitats. While a project developer who adheres to the USFWS guidelines is not relieved of legal culpability should a violation of any of these statutes arise, the USFWS may consider a developer's documented efforts to engage with the agency and follow the guidelines in the scoping of any enforcement action or penalty. Under the ESA, a developer may obtain protection from liability for "take" through the adoption and approval of a habitat conservation plan or completion of a federal agency consultation with USFWS. The BGEPA also has a permitting regime through which developers adopt conservation measures to avoid and/or minimise the "take" of eagles to the maximum extent possible. At present, there is no similar permitting or incidental take authorisation program for the MBTA. However, in June 2015, USFWS announced a review of a possible MBTA permitting regime. As part of this process, USFWS is considering "whether a general conditional authorisation can be developed for hazards to birds related to wind energy generation, building on guidance the USFWS has developed jointly with that industry to address avian mortality."

Other federal reviews, permits, or authorisations may be required where a renewable energy project involves or impacts federal lands, federally regulated natural resources, or other areas of federal authority. For example, wind farms with structures which exceed 200 feet in height must meet the lighting and safety regulations of the Federal Aviation Administration. Likewise, wind and solar projects must comply with permitting and mitigation requirements relating to impacts on wetlands, water quality, and wastewater discharge under the Clean Water Act, for project activities in or in proximity to waters of the United States. It is possible that wind farms may in the future be subject to further federal restrictions intended to minimise interferences with military radar systems. Further, the designation of new species as well as new or revised critical habitat protected under the ESA can adversely affect new project development as well as impose new restrictions upon existing project operations.

Various states have also implemented environmental laws and regulations that impact renewable energy projects. In addition to state permitting regimes for the protection of waterways and other natural resources, certain state environmental laws require the preparation of an environmental assessment or impact report similar to the federal review required under NEPA, while some states require a meeting be held to solicit comments from affected local landowners and local authorities.

MANAGEMENT

Corporate governance model

EDP's shareholders approved its current corporate governance model at the Annual General Shareholders Meeting held on 30 March 2006, which entered into force on 30 June 2006. The corporate governance model is structured as a two-tier system, composed of an executive board of directors (the **Executive Board of Directors**) and a general and supervisory board (the **General and Supervisory Board**). The Executive Board of Directors is EDP's managing body and is responsible for its management and for developing and pursuing EDP's strategy. Since the Annual General Shareholders Meeting held on 21 April 2015, the Executive Board of Directors must be composed of at least five and no more than eight directors, all of whom undertake executive positions. Under the current mandate of 2015-2017, the Executive Board of Directors is composed of eight directors who were elected at the Annual General Shareholders Meeting held on 21 April 2015. The General and Supervisory Board is a supervisory and consulting body and is responsible for, among other things, supervising the Group's activities and reviewing and approving important transactions involving the Group. The General and Supervisory Board must be composed of at least nine members and must at all times have more members than the Executive Board of Directors. All members of the General and Supervisory Board undertake non-executive positions. Under the current mandate of 2015-2017, the General and Supervisory Board is composed of 21 members who were elected by the shareholders at the Annual General Shareholders Meeting held on 21 April 2015. EDP complies with the corporate governance provisions included in the Portuguese Securities Code. Furthermore, EDP adopted in full the corporate governance recommendations contained in the Corporate Governance Code approved by the Portuguese Securities Market Commission (the **CMVM**), with the exception of the following recommendation:

The articles of association of companies that limit the number of votes that can be held or cast by a single shareholder, individually or with other shareholders, must also set out that the amendment or maintenance of this provision must be submitted to the vote of the general meeting at least every five years – with no increased quorum requirement above that laid down by law and that all the votes cast must be counted without the aforementioned limitation on this decision.

This recommendation has not been adopted on the basis of the considerations below.

Over the past five years, the subject of statutory limitation on voting rights has been discussed by the General Meeting of EDP on two occasions. The limitation of the number of votes set out in Article 14 of EDP's Articles of Association reflects the will of the shareholders of EDP, as expressed through resolutions of the General Meeting, to defend the company's specific interests: (i) a change of the limit from 5 per cent. to 20 per cent. was approved by the shareholders at the General Meeting of 25 August 2011, involving participation of 72.25 per cent. of the capital and approval by a majority of 94.16 per cent. of the votes cast; (ii) a later increase to the current 25 per cent. was approved at the General Meeting of 20 February 2012, involving participation of 71.51 per cent. of the capital and approval by a majority of 89.65 per cent. of the votes cast.

The shareholders have thus been periodically called upon to make a decision as to whether the number of votes ought to be limited. The continued existence of the limitation has prevailed as previously described.

The attitudes of shareholders of the Company have thus proven to be in line with those advocated by the recommendation and enable EDP to pursue its goals, whilst avoiding the rigid procedures for this review set down in EDP's Articles of Association, which has also attracted particularly intense scrutiny from shareholders.

Executive Board of Directors

The Executive Board of Directors, together with EDP’s executive officers, manages EDP’s affairs and monitors the daily operation of EDP’s activities in accordance with Portuguese law and EDP’s Articles of Association. Executive officers are in charge of EDP’s various administrative departments and report directly to the Executive Board of Directors. Companies within the Group are managed by their respective boards of directors. The names of the current directors on the Executive Board of Directors, along with their principal affiliations and certain other biographical information, are set forth below:

Name	Year of Birth	Position	Year Originally Elected	Last Election
António Luís Guerra Nunes Mexia	1957	Chief Executive Officer	2006	2015
Nuno Maria Pestana de Almeida Alves	1958	Chief Financial Officer	2006	2015
João Manuel Manso Neto	1958	Executive Director	2006	2015
António Fernando Melo Martins da Costa	1954	Executive Director	2006	2015
João Manuel Verísssimo Marques da Cruz	1961	Executive Director	2012	2015
Miguel Stilwell de Andrade	1976	Executive Director	2012	2015
Miguel Nuno Simões Nunes Ferreira Setas	1970	Executive Director	2015	------
Rui Manuel Rodrigues Lopes Teixeira	1972	Executive Director	2015	------

António Luis Guerra Nunes Mexia, Chairman He was born on 12 July 1957. He received a degree in Economics from Université de Genève (Switzerland) in 1980, where he was also Assistant Lecturer in the Department of Economics. He was a postgraduate lecturer in European Studies at Universidade Católica. He was a lecturer at Universidade Nova de Lisboa and at Universidade Católica from 1982 to 1995. He served as Assistant to the Secretary of State for Foreign Trade from 1986 until 1988. From 1988 to 1990 he served as Vice-Chairman of the Board of Directors of ICEP (Portuguese Institute for Foreign Trade). From 1990 to 1998 he was a Director of Banco Espírito Santo de Investimentos and, in 1998, he was appointed Chairman of the Board of Directors of Gás de Portugal and Transgás. In 2000, he joined Galp Energia as Vice-Chairman of the Board of Directors. From 2001 to 2004, he was the Executive Chairman of Galp Energia and Chairman of the Board of Directors of Petrogal, Gás de Portugal, Transgás and Transgás-Atlântico. In 2004, he was appointed Minister of Public Works, Transport and Communication for Portugal’s 16th Constitutional Government. He also served as Chairman of the Portuguese Energy Association (APE) from 1999 to 2002, as a member of the Trilateral Commission from 1992 to 1998, as Vice-Chairman of the Portuguese Industrial Association (AIP) and as Chairman of the General Supervisory Board of Ambelis. He was also a Government representative to the EU working group for the trans-European network development. On January 2008 he was appointed as member of the General and Supervisory Board of Banco Comercial Português, SA, having previously been a member of the Superior Board of this bank. He was appointed as a member of the Board of Directors of this bank in February 2012. He is Chairman and Counselor-Delegate of EDP – Renováveis and Vice- Chairman of The Union of the Electricity Industry – EURELECTRIC. He was appointed on 30 March 2006 as Chairman of the Executive Board of Directors, taking office on 30 June 2006, and reappointed on 15 April 2009, 20 February 2012 and 21 April 2015.

Nuno Maria Pestana de Almeida Alves He was born on 1 April 1958. He holds a degree in Naval Architecture and Marine Engineering (1980) and a Master in Business Administration (1985) from the University of Michigan. In 1988, he joined the Planning and Strategy Department of Millennium BCP and in 1990 became an associate director of the bank's Financial Investments Division. In 1991, he was appointed as the Investor Relations Officer for the BCP group and in 1994 he joined the Retail network as Coordinating Manager. In 1996, he became Head of the Capital Markets Division of Banco CISF, currently Millennium BCP Investimento, and, in 1997, Co-Head of the bank's Investment Banking Division. In 1999, he was appointed as Chairman and CEO of CISF Dealer, the brokerage arm of Banco CISF. Since 2000, before his appointment as EDP's Chief Financial Officer in March 2006, Mr. Nuno Alves acted as an Executive Board Member of Millennium BCP Investimento, responsible for BCP Group's Treasury and Capital Markets. He is currently a member of the Board of Directors of EDP - Energias do Brasil and Hidroeléctrica del Cantábrico and CEO of EDP - Estudos e Consultoria, EDP - Imobiliária e Participações and Sãvida. He was appointed on 30 March 2006 as a member of the Executive Board of Directors, taking office on 30 June 2006, and has been reappointed on 15 April 2009, 20 February 2012 and 21 April 2015.

João Manuel Manso Neto He was born on 2 April 1958. He graduated in Economics from Instituto Superior de Economia (1981) and received a post-graduate degree in European Economics from Universidade Católica Portuguesa (1982). He also completed a professional education course through the American Bankers Association (1982), the academic component of the Master's Degree programme in Economics at the Faculty of Economics, Universidade Nova de Lisboa and, in 1985, the "Advanced Management Program for Overseas Bankers" at the Wharton School in Philadelphia. From 1981 to 1995 he worked at Banco Português do Atlântico, occupying several positions, including Head of the International Credit Division, and General Manager responsible for Financial and South Retail areas. From 1995 to 2002 he worked at the Banco Comercial Português, where he held the posts of General Manager of Financial Management, General Manager of Large Corporates and Institutional Businesses, General Manager of the Treasury, member of the Board of Directors of BCP Banco de Investimento and Vice-Chairman of BIG Bank Gdansk in Poland. From 2002 to 2003, he was a member of the Board of Banco Português de Negócios. From 2003 to 2005 he worked at EDP as General Manager and member of the Board of EDP Produção. In 2005 he was elected CEO at HC Energía, Chairman of Genesa and member of the Board of Naturgas Energia and OMEL. Currently he is CEO of EDP Renováveis and responsible for Regulation and Energy Management (gas and electricity) at Iberian level. He was appointed on 30 March 2006 as a member of the Executive Board of Directors of EDP, taking office on 30 June 2006, and reappointed on 15 April 2009, 20 February 2012 and 21 April 2015.

António Fernando Melo Martins da Costa He was born in Oporto, Portugal on 13 December 1954. He holds a degree in Civil Engineering from Faculdade de Engenharia do Porto (1976) and an MBA from Porto Business School (1989). He also has complementary Executive degrees from INSEAD (Fontainebleau, France – 1995), PADE from AESE (Lisbon, 2000) and the Advanced Management Program from Wharton School (Philadelphia, USA – 2003). He was a Teacher's Assistant at the Instituto Superior de Engenharia do Porto between 1976 and 1989. In 1981 he joined the Hydro Generation department at EDP where he stayed until 1989. Between 1989 and 2003 he was General Director at the Millennium BCP Bank, and executive board member of several Insurance, Pensions and Assets Management companies of BCP Group. Between 1999 and 2002 he was Executive Director of Eureko BV (The Netherlands), President of Eureko Polska (Poland) and Vice-President of PZU. He was the CEO and Vice-Chairman of the Board of Directors of EDP – Energias do Brasil between 2003 and 2007. During this period, he also held positions as Vice-President of the Portuguese Chamber of Commerce in Brazil and President of the Brazilian Association of Electricity Distribution companies. In 2007, he assumed functions as Chairman and CEO of Horizon Wind Energy in the USA, also being a Member of the Executive Board of EDP Renováveis from its incorporation in 2008 until 2012. He was CEO of EDP Internacional, and Chairman of EDP Soluções Comerciais from 2009 to 2013 and has been Chairman of EDP Gás since 2012 and Chairman of EDP Valor since 2013. He maintains responsibilities for EDP Distribuição at EDP's Executive Board level. He is a founding member of the Portuguese Institute for Corporate Governance. He was appointed on 30 March 2006 as a member of the Executive Board of Directors of EDP, taking office on 30 June 2006, and reappointed on 15 April 2009, 20 February 2012 and 21 April 2015.

João Manuel Veríssimo Marques da Cruz He was born on 23 May 1961. He holds a degree in Management (1984) from Lisbon's ISE at the Technical University of Lisbon - Instituto Superior de Economia da Universidade Técnica de Lisboa, an MBA (1989) from the Technical University of Lisbon - Universidade Técnica de Lisboa and a post-graduate qualification in Marketing and Management of Airlines (1992) from the Bath University International Air Travel Association, UK. He began his career at the TAP Group in 1984 (*Transportes Aéreos de Portugal*), having held several positions until becoming General Director. Between 1997 and 1999 he was a Board Member of TAPGER. Between 2000 and 2002, he was a member of the Board of several companies within CP – Portuguese Railways, namely EMEF. From 2002 to 2005, he was CEO of Air Luxor, an airline company, and from 2005 and 2007 he was chairman and CEO of ICEP - *Instituto do Comércio Externo de Portugal*. From March 2007 to 2012, he was a board member of EDP Internacional S.A. and in 2009 he was nominated Chairman of the Board of Directors of CEM – Macao Electrical Company. He was appointed as a member of the Executive Board of Directors of EDP Renováveis on May 2012, as Chairman of the Câmara Comércio Luso-Chinesa in April 2012 and Chairman of EDP Internacional on September 2014. He was appointed as member of the Executive Board of Directors on 20 February 2012 and reappointed on 21 April 2015.

Miguel Stilwell de Andrade He was born on 6 August 1976. He graduated with an M.Eng with Distinction in Mechanical Engineering from the University of Strathclyde (Glasgow, Scotland) and an MBA from MIT Sloan (Boston, USA). He began his career at UBS Investment Bank in London, UK, where he worked primarily in Mergers and Acquisitions on various projects in European countries, including Portugal, as well as in Japan, Thailand and Brazil. Miguel lived between 1994 and 2003 in Scotland, Italy, England, Portugal and the USA. In 2000, he joined EDP in the area of Strategy and Corporate Development/M&A and was the Director of this area between 2005 and 2009. During this period Miguel coordinated and managed various M&A and capital markets transactions for EDP, including the acquisition of several companies that gave rise to EDP Renewables, the acquisition of Hidrocantábrico, the different phases of EDP's privatisation, EDP's share capital increase in 2004, EDP Energias do Brazil IPO in 2005 and EDP Renewables IPO in 2008. He was a member of the Board of EDP Distribuição Energia from January 2009 to February 2012. Miguel was also a non-executive Member of the Board of Directors of EDP Inovação, EDP Ventures, EDP Gas Distribution and Chairman of InovGrid ACE. In 2012, he was appointed Chairman of EDP Comercial as well as Counselor-Delegate and Vice Presidente of Hidroeléctrica del Cantabrico and Naturgas Energia. In 2014, he was appointed as Chairman of EDP Soluções Comercials. He is currently a Director of FAE – Fórum de Administradores de Empresas. He was appointed as a Member of the Executive Board of EDP on 20 February 2012, and reappointed on 21 April 2015.

Miguel Nuno Simões Nunes Ferreira Setas He was born on 12 November 1970. He has been based in Brazil since 2008 and has been the CEO of EDP Energias do Brasil since January 2014. Between 2010 and 2013, he was the Vice-President responsible for the Distribution business (CEO of EDP Bandeirante and EDP Escelsa, two electricity distribution companies). Between 2008 and 2009, he was the Vice-President responsible for New Business Development, Commercialisation and Renewables. He joined EDP in 2006, as the CEO Chief of Staff. In 2007, he was an executive board member of EDP Comercial (responsible for the commercialisation in the liberalised energy market). He was also a Board Member of EDP Inovação, Portgás and Fundação EDP. He holds a BSc. in Physics and a MSc. in Electrical and Computing Engineering, both granted by IST (Instituto Superior Técnico, Lisbon). He has an MBA from Universidade Nova de Lisboa (Lisbon MBA). He has been working in the energy sector since 1998, when he was Corporate Director in GDP - Gás de Portugal. Between 1999 and 2001, he was a Board Member of Setgás (natural gas distribution company in Setúbal, part of Galp Energia). Between 2000 and 2001, he was an Executive Board Member of Lisboagás (natural gas distribution company in Lisbon, part of Galp Energia). He was Strategic Marketing Director of Galp Energia (oil and gas) until 2004. In the transportation sector, he was an Executive Board Member of CP - Comboios de Portugal and CEO of CP Lisboa (the largest business unit of CP) between 2004 and 2006. He started his career in 1995 as a consultant at McKinsey & Co, developing strategic projects for energy, banking, insurance, retail and industry clients. He was appointed as a Member of the Executive Board of EDP on 21 April 2015.

Rui Manuel Rodrigues Lopes Teixeira He was born on 11 October 1972. He is a member of the Board of Directors of EDP Renováveis, S.A., a member of the Executive Committee, and is the Chief Financial Officer of the Company. From 1996 to 1997, he was assistant director of the commercial naval department of Gellweiler— Sociedade Equipamentos Maritimos e Industriais, Lda. From 1997 to 2001, he worked as a project manager and ship surveyor for Det Norske Veritas, with responsibilities for offshore structures, shipbuilding and ship repair. Between 2001 and 2004, he was a consultant at McKinsey & Company, focussing on energy, shipping and retail banking. From 2004 to 2007, he headed the corporate planning and control division within the EDP Group. In 2007 he also served as Chief Financial

Officer of EDP Renewables Europe SL (former NEO). He was nominated Chief Financial Officer of EDP Renováveis SA in 2008. He is also a member of the Board of Directors of several subsidiaries of the Company's Group. He holds a Master of Science degree in Naval Architecture and Marine Engineering from the Institute Superior Técnico de Lisboa, a Master in Business and Administration from the Universidade Nova de Lisboa and is a graduate of Harvard Business School's Advanced Management Programme. He was appointed as a member of the Executive Board of EDP on the 21 April 2015.

General and Supervisory Board

The General and Supervisory Board is primarily responsible for permanently monitoring the management of EDP and its subsidiaries and providing advice and support to the Executive Board of Directors, primarily with respect to strategy, reaching objectives and complying with applicable laws. The General and Supervisory Board also carries out other supervisory and control functions relating to the Group's activities, and it maintains a mandatory financial matters committee and audit committee composed of five of its members, which is responsible for overseeing the financial data and auditing of EDP.

The names of the members of the General and Supervisory Board, along with their principal affiliations and certain other biographical information, are set forth below:

Name	Year of Birth	Position	Year Originally Elected	Last Election
China Three Gorges Corporation (represented by Eduardo de Almeida Catroga)	1942	Chairman	2012 (as Vice-Chairman)	2015
Luís Filipe Marques Amado	1953	Vice-Chairman	2015	2015
China Three Gorges New Energy Corp. (represented by Ya Yang)	1962	Member	2012	2015
China International Water & Electric Corp. (represented by Guojun Lu)	1956	Member	2012	2015
CWEI (Europe) S.A. (represented by Dingming Zhang)	1963	Member	2012	2015
CWEI (Portugal) Sociedade Unipessoal, Lda. (represented by Shengliang Wu)	1972	Member	2015	2015
DRAURSA, S.A. (represented by Felipe Fernández Fernández)	1952	Member	2015	2015
Fernando María Masaveu Herrero	1966	Member	2012	2015
Banco Comercial Português, S.A. (represented by Nuno Manuel da Silva Amado)	1957	Member	2015	2015
Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures (the "*Sonatrach*") (represented by Ferhat Ounoughi)	1967	Member	2007	2015
Senfora, BV (represented by Mohamed Ali Al Fahim)	1976	Member	2010	2015
António Sarmento Gomes Mota	1958	Member	2009	2015
Maria Celeste Ferreira Lopes Cardona	1951	Member	2012	2015

Name	Year of Birth	Position	Year Originally Elected	Last Election
Ilídio da Costa Leite de Pinho	1938	Member	2012	2015
Jorge Braga de Macedo	1946	Member	2012	2015
Vasco Joaquim Rocha Vieira	1939	Member	2012	2015
Augusto Carlos Serra Ventura Mateus	1950	Member	2013	2015
João Carvalho das Neves	1956	Member	2015	2015
Alberto Joaquim Milheiro Barbosa	1953	Member	2015	2015
María del Carmen Fernández Rozado	1952	Member	2015	2015
Chairman of the General Meeting (António Manuel de Carvalho Ferreira Vitorino)	1957	Member	2015	2015

***Eduardo de Almeida Catroga*, Chairman** He was born on 14 November 1942. He has a degree in Finance from ISEG of Universidade Técnica de Lisboa and a post-graduate degree from Harvard Business School. He served as Minister of Finance of the Portuguese government from 1994 to 1995. He is a guest senior lecturer in business strategy for the ISEG MBA program. He has focused his career on corporate management and administration, specifically within CUF and in SAPEC, where he was CFO (1974) and General Director, respectively. Currently, he is non-executive Chairman of the Board of Directors of the SAPEC Group, a member of the Board of Nutrinveste, a member of the Board of Banco Finantia and a member of the Investments Committee of Portugal Venture Capital Initiative, an equity fund promoted by the European Investment Bank. He was appointed as a member of the EDP General and Supervisory Board for the first time on 30 June 2006 and he was reappointed on 15 April 2009. He was appointed Chairman of the General and Supervisory Board of EDP on 20 February 2012 and reappointed, representing China Three Gorges Corporation, on 21 April 2015.

***Luis Filipe Marques Amado*, Vice-Chairman** He was born in Porto de Mós on 17 September 1953. He holds an Economics degree and was an Auditor at the Court of Auditors. Previously, he was a Parliament Member of the Assembly of the Republic of Portugal, the Secretary of State for Foreign Affairs and Cooperation, the Minister of National Defence and the Minister of State and Foreign Affairs. He was a visiting professor at Georgetown University. Currently, he is an International Adviser, a non-executive director of Sociedade de Desenvolvimento da Madeira, and Chairman of the Board of Directors of Banif – Banco Internacional do Funchal, S.A. He is also a visiting professor at the Instituto Superior de Ciências Sociais e Políticas and the *Business School* of Universidade Nova de Lisboa, a Curator of Fundação Oriente, and a member of the *European Council on Foreign Relations.* He has received the Badge of Honor Grã Cruz da Ordem de Cristo and several decorations from foreign Governments. He was appointed Vice-Chairman of the General and Supervisory Board of EDP on 21 April 2015.

Ya Yang He was born on 27 August 1962. He has a Bachelor’s degree in Finance from Changsha University of Electricity. He later received his “Diplôme d'Etudes Supérieures Spécialisées” from the Business School of the University of Montreal, Canada and EMBA from HEC Paris. He worked in a series of posts before focusing on the China Three Gorges Project. He was Project Officer of the Bureau of Hydropower Construction of Ministry of Water Resources & Hydropower and Auditor of the Beijing Office of PricewaterhouseCoopers. Currently, he is the Chief Accountant & Corporate Controller of China Three Gorges Corporation and Chairman of the Supervisory Committee of China Yangtze Power Company. He was appointed as a member of the General and Supervisory Board of EDP, representing China Three Gorges New Energy Corp, on 20 February 2012 (beginning his term of office on 11 May 2012), and reappointed on 21 April 2015.

Guojun Lu He was born on 12 July 1956. He has a Bachelor’s degree in Engineering from East China Institute of Water Resources Engineering and a PhD in Economics from Central University of Finance and Economics, China. He worked for China International Water and Electric Corporation from 1982 to 2010, starting as Deputy Chief of the Sri Lanka Office, Manager of the Pakistan Project Department and Deputy Chief of the Hydropower Department 1. He then served as Vice President and President of China International Water and Electric Corporation and Executive Vice

President of China Water Investment Group Corporation. Currently, he is Assistant President of China Three Gorges Corporation, President/CEO of CWE InvestmentCorporation and Director of International Department of China Three Gorges Corporation. He was appointed as a member of the General and Supervisory Board of EDP, representing China International Water & Electric Corp, on 20 February 2012 (beginning his term of office on 11 May 2012), and reappointed on 21 April 2015.

Dingming Zhang He was born on 1 December 1963. He has a Bachelor's degree in Power System and Automation from Huazhong University of Science and Technology (1984) and a Master's degree in Management from Huazhong University of Science and Technology (2001). He served as an associate and then as Deputy Division Chief in the Key Project Construction Department of the State Planning Commission of China (1984-1994), working in Germany between 1992 and 1993. He then worked as Deputy Division Chief, Division Chief and Deputy Director of the Capital Planning Department of the Three Gorges Construction Committee under the State Council (1994-2002), before he became Deputy Director of the Power Production Department of China Three Gorges Corporation (2002). He then worked as Executive Vice President of China Yangtze Power Company (2002-2011) and President of Beijing Yangtze Power Capital Co. Ltd. (2008-2011). His past experience also includes acting as Director of the Board of Guangzhou Development Industry (Holding) Co. Ltd. and Director of the Board of Yangtze Three Gorges Technology and Economy Development. In 2011, he began to serve as Board Secretary, Director of Strategic Development Department and Director of Marketing Department in China Three Gorges Corporation. He was appointed Vice-Chairman of the General and Supervisory Board of EDP, representing China Three Gorges Corporation, on 20 February 2012 (beginning his term of office on 11 May 2012) and reappointed as member of the General and Supervisory Board of EDP on 21 April 2015, representing CWEI (Europe), S.A.

Shengliang Wu He was born on 11 March 1971. He received a Bachelor's degree in Engineering from Wuhuan University of Hydraulic and Electrical Engineering in 1992 and a Master's degree in Technical Economics and Management from Chongqing University in 2000. He worked as a technician and later as an engineer in Gezhouba Hydropower Plant (1992-1998). He then held a number of roles, including Secretary of Corporate Affairs Department in Gezhouba Hydropower Plant (1998-2002), Financial Manager of Capital Operating Department of China Yangtze Power Company (2002-2003), Information manager and then Deputy Director of Office of the Board of China Yangtze Power Company (2004-2006), Deputy Director and then Director of Capital Operating Department of China Yangtze Power Company (2006-2011). His past experience includes acting as Director of the Board of Daye Non-ferrous Metals Co., Ltd (2008-2011) and Executive Vice President of Beijing Yangtze Power Capital Co. Ltd (2008-2011). Since 2011, he has been Deputy Director of Strategic Planning Department in China Three Gorges Corporation. He was appointed as a member of the General and Supervisory Board of EDP, representing China Three Gorges International - Europe, on 20 February 2012 (beginning his term of office on 11 May 2012) and reappointed on 21 April 2015, representing CWEI (Portugal) Sociedade Unipessoal, Lda.

Felipe Fernández Fernández He was born on 21 December 1952. He has a degree in Economics and Management Sciences from the University of Bilbao (1970-1975). His professional career includes the following positions: Professor at the Faculty of Economics and Business, University of Oviedo (1979 - 1984), Director of Regional Economy and Planning of the Principality of Asturias (1984-1990), Member of the Board and Executive Committee of the Caja de Ahorros de Asturias (1986-1990), Member of the Board of Directors and Vice-President of "Sociedade Asturiana de Estudios Económicos e Industriales" (1986-1990), Member of the Board of Directors and Vice-President of the company SEDES, SA (1988-1990), President of the Committee for Planing and Urbanism of Asturias (1990-1991), Counsel for Planning, Urbanism and Housing in the Principality of Asturias (1990-1991), Counsel for Rural and Fishing Affairs in the Principality of Asturias (1991-1993), Director of the Department of Management Control of HidroCantábrico (1993-1998), Director of the Department of Management Control, Purchasing and Quality of HidroCantábrico (1998-2001), President of the company Gas Asturias (2001-2003), Director of Support Areas and Control of HidroCantábrico (2001-2002), HidroCantábrico CFO, Chairman of Gas Capital, CEO of Hidrocantábrico Servicios, Board Member of Naturcorp, Gas de Asturias, SINAE, Canal Energía, Telecable and Sociedad Regional de Promoción de Asturias (2002-2004). He is currently a Board Member of Liberbank, General Manager of Caja de Ahorros de Asturias, President of Infocaja and Lico Corporación and a Board Member of HC Energía, Ahorro Corporation and Tudela Veguín. He is also a Board Member of da Sociedad Promotora de las Comunicaciones en Asturias (SPTA). He was appointed as a member of the General and Supervisory Board of EDP, representing Cajastur Inversiones SA, on 20 February 2012, and reappointed on 21 April 2015, representing DRAURSA, S.A.

Fernando María Masaveu Herrero He was born on 21 May 1966. He received a Law degree from the University of Navarra. He started to work at Masaveu Group in 1993 where he held various roles. He currently holds the following positions, among others: Chairman of Masaveu Corporation, Chairman of Cementos Anónima Tudela Veguín, Chairman of Masaveu International, Advisor at Hidrocantábrico, Chairman of the Audit Committee at Hidrocantábrico, Advisor at Naturgas Energía, Advisor at Bankinter, member of the Executive Committee of Bankinter, member of the Audit Commission of Bankinter, member of International Advisory Board of the Santander Group, Adviser at EGEO, SGPS, Chairman of Masaveu Medicina, Advisor at OLMEA, Chairman of Beluga Holding Limited, Chairman of the Maria Cristina Masaveu Foundation, Chairman of the Foundation San Ignacio de Loyola, Patron and member of the Executive Committee of the Príncipe de Asturias foundation, Patron and member of the heritage of Príncipe de Asturias Foundation, Patron of the Príncipe de Asturias Awards, international Patron of Asociación Amigos Museo del Prado, and Patron of Sociedad Internacional de Bioética (S.I.B.I.). Additionally, he is a director of several companies in the Masaveu group. Previously, he also made relevant contributions in several sectors, particularly in the R&D sector, the beverage sector, the health sector, the financial sector, the transportation sector, the environmental sector, the press sector and the real estate sector, as well as significant contributions to several foundations focused on social responsibility. He was appointed as a member of the General and Supervisory Board of EDP on 20 February 2012, and reappointed on 21 April 2015.

Nuno Manuel da Silva Amado He was born on 14 August 1957. He has a degree in Companies Organisation and Management from ISCTE – Instituto Superior das Ciências do Trabalho e da Empresa. He has also an executive degree from INSEAD, Fontainebleau (Advanced Management Programme). From 1980 to 1985, he was an employee of KPMG Peat Marwick, in the Audit and Consulting Department. From 1985 onwards, he worked at Citibank and Banco Fonsecas & Burnay. Afterwards he was a member of the Board of Directors of Deutsche Bank Portugal, member of the Executive Commission of BCI (Banco de Comércio e Indústria)/Banco Santander, Vice-President of the Executive Commission of Crédito Predial Português, Vice-President of the Executive Commission of Banco Totta & Açores, member of the Executive Commission of Banco Santander Negócios de Portugal, of Banco Santander Totta, S.A. and of Banco Santander Totta, SGPS. From August 2006 until January 2012 he was CEO and Vice-Chairman of the Board of Directors of Banco Santander Totta, S.A. and of Banco Santander Totta, SGPS. Since February 2012, he has been Vice-Chairman of the Board of Directors and CEO of Banco Comercial Português. He was appointed as a member of the General and Supervisory Board of EDP on 6 May 2013, and reappointed on 21 April 2015, representing Banco Comercial Português, S.A.

Ferhat Ounoughi He was born on 26 April 1967. He has a Master in Finances, from the Institute of Economic sciences of the University of Algiers (1991) an Executive MBA from EDHEC, University of Lille II, France (2008) and also a professional diploma of internal audit, from IFACI, the French Institute of Internal control and Audit (2009). He has undertaken specialised training in accountancy, finances, audit, commercial dispute arbitration, project management, petroleum and exploration production, leadership and participated in a commercial development hydrocarbons programme. After military service from 1993 to 1995 as a contingent officer, he started working in Sonatrach, a national oil and gas company in Algeria in accounts and finances. In 1999, he started his first management position as Order of Payment Manager in the Oil and Gas Production Department. In 2002, he was promoted to Finance Manager of the Engineering and Construction Department of the Upstream Activity of Sonatrach. In 2004, he was promoted again, as Procedures Audit Manager of the Upstream Activity of Sonatrach and, in 2006, he was nominated Director of Internal Audit of the Upstream Activity, a position he held until 2013. Since 2013, he has held the position of Director of Financial Operations, in the Corporate Finance Department in the headquarters of the company. He was appointed as a member of the General and Supervisory Board of EDP, representing Sonatrach, on 21 April 2015.

Mohamed Ali Al Fahim He was born on 4 March 1976. He has a degree in Finance from the University of Suffolk, Boston (1999). He started his professional career at Abu Dhabi National Oil Company (ADNOC), where he worked from 2000 to 2008. His activity was focused on the identification and the definition of investment strategies for a balanced investment portfolio of ADNOC, to meet the Group's requirements for cash flow and returns. During that time, he also worked as a Corporate Finance Consultant for KPMG-Dubai (2001-2002) and for HSBC Bank at the Project and Export Finance Division-London (2006). Since September 2008, he has been Finance Division Manager in the Finance & Accounts Department of International Petroleum Investment Company (IPIC). He is a member of the board of directors of several companies as an IPIC representative: AABAR Investment PJS (since May 2010), Arabtec Holdings PJSC (since April 2012), First Energy Bank (since July 2009), Unicredit Spa (since October 2012), Al Izz Islamic Bank (since November 2012), Depa Interiors (since May 2013) and Oasis Capital Bank (since June 2009). He was appointed member of the General and Supervisory Board of EDP, representing Senfora Sarl, on 16 April 2010 and on 20 February 2012, and, representing Senfora BV (formerly Senfora Sarl), on 21 April 2015.

António Sarmento Gomes Mota He was born on 10 June 1958. He has a degree in Management from ISCTE, (1981), an MBA from the School of Economics of Universidade Nova de Lisboa (1984) and a PhD in Management from ISCTE. He is a Full Professor and the head of ISCTE Business School (since 2003). He is also the head of INDEG/ISCTE (since 2005), Chairman of the General Board of the Fundo de Contragarantia Mútua (since 1999) and a non-executive member of the Board of CIMPOR (since 2009). He has been a member of the Direction Board of the Portuguese Corporate Governance Institute since 2010. Previously, he was also head of the Finance and Accountancy Department of ISCTE Business School (2001-2003), Chairman of the Board of CEMAF – Centro de Investigação de Mercados e Activos Financeiros of ISCTE (1995-2003), member of the Investment Committee of FINPRO-SGPS (2002-2004), Chairman of the Board of Directors of SIEMCA – Sociedade Mediadora de Capitais (1990-1997), and a Consultant at PME Investimentos (1998-2000). Co-founder and first director of the "Management Revue", he is also author of a number of books and papers on areas such as corporate governance, financial markets and instruments, strategy and business restructuring. He was appointed as a member of the General and Supervisory Board of EDP on 15 April 2009 and reappointed on 20 February 2012 and on 21 April 2015.

Maria Celeste Ferreira Lopes Cardona She was born on 30 June 1951. She holds a Doctorate degree in Law from the Faculdade de Direito da Universidade de Lisboa, having been an Assistant Professor in the same university. Within the Ministry of Finance, she was a member of the Fiscal Study Center and a Portuguese representative on the OECD. She was Minister of Justice of the XV Constitutional Government. She was granted the degree of Grande Oficial da Ordem do Infante D. Henrique in 1998, by his Excellency the President of the Portuguese Republic. She was also a non-executive Board Member of Caixa Geral de Depósitos. Mrs. Celeste Cardona has published articles and opinions in specialty magazines, namely in "Ciência e Técnica Fiscal". She is also author of several monographs and varied studies, such as "As agências de regulação no Direito Comunitário", "O problema da retroactividade na lei fiscal e na Constituição", "A prescrição da obrigação tributária e a caducidade da liquidação de impostos" and "A natureza e o regime das empresas de serviço público". She is currently a lawyer and a consultant in M. Cardona Consulting, Unipessoal, Lda., and also a non-executive member of BCI, headquartered in Maputo, Mozambique, a member of the Fiscal Council of SIBS and a legal and fiscal consultant for several financial and non-financial institutions. She was appointed as a member of the General and Supervisory Board of EDP on 20 February 2012, and reappointed on 21 April 2015.

Ilídio da Costa Leite de Pinho He was born on 19 December 1938. He has a degree in Electronics and Machinery Engineering. He has received the following: the Grã-Cruz" Order of Merit, the Gold Medal and "Honorary citizen" award granted by the city of Vale de Cambra, in 1999, the Gold Medal and "University Benefactor" award granted by "Universidade Católica Portuguesa" and the Golden Badge by the Portuguese Association of Voluntary Firemen, in 2002. He was an honorary member of the Industrial Order of Merit and of the "Ordens Honoríficas Portuguesas" from 1996 to 1999. Between 1986 and 1991, he was a non-executive member of the Board of Directors of "ICEP" representing the National Industry. He was President of the City Hall Council of Vale de Cambra between 1979 and 1983 and President of the City Hall Assembly of Vale de Cambra, between 1993 and 1997. He was previously a member of the Administrative Committee of "Universidade Católica" – Oporto, University Counsel of "Universidade de Aveiro" and Senate Member of "Universidade do Porto". He was a member of the board of several business associations, and a member of the "Trilateral Commission" between 1988 and 1996. He was the founder and Chairman of the Board of Directors of COLEP, founder of NacionalGás, S.A., LusitâniaGás, EGA, EMPORGÁS, EDISOFT, S.A. and MEGASIS, the main shareholder of Transinsular and non-executive member of the Board of Directors of "Banco Espirito Santo, S.A." between 2000 and 2005. He was also a shareholder of "CEM - Companhia de Electricidade de Macau, SARL", Chairman of the Strategy Committee of "Fomentinvest, S.A.", founder and Chairman of the Board of Directors and the Board of Trustees of Fundação Ilídio Pinho and Chairman of various companies of Group Ilídio Pinho. He was appointed as a member of the General and Supervisory Board of EDP on 20 February 2012, and reappointed on 21 April 2015.

Jorge Avelino Braga de Macedo He was born on 1 December 1946. He has a Law degree from Universidade de Lisboa in 1971. At Yale University, he completed M.A. in International Relations (1973) and also has a PhD in Economics (1979). He graduated from the Faculty of Economics of Universidade de Lisboa in 1982. Since 1999 to 2004 he belonged to the Organisation for Economic Cooperation and Development (OECD) and to the European Commission in Brussels between 1988 and 1991. At a national level, he was President of the Parliamentary Commission for European Affairs (1994-1995), and Minister of Finance (1991-1993). He has taught at the Centre Européen d'Education Permanente in Fontainebleau, at the Catholic University of Lisbon, and at Princeton University, among others. He has been a consultant at the European Bank for Reconstruction and Development, the United Nations, the World Bank and the International Monetary Fund. Currently, he is a Professor of Economics at Universidade Nova de Lisboa, teaches at the Institut d'Etudes Politiques (SciencesPo) in Paris, is Director of the Center Globalization and Governance (CG & G) at the Nova School of Business and Economics of the Universidade Nova de Lisboa, President of Institute of Tropical Research (IICT) and Member of the Board of Governors of the International Centre for International Governance Innovation in Waterloo, Canada. He was appointed as a member of the General and Supervisory Board of EDP on 20 February 2012, and reappointed on 21 April 2015.

Vasco Joaquim Rocha Vieira He was born on 16 August 1939. He has a degree in Civil Engineering. He has taken several courses, including General Course of Staff (1969-1970), Complementary Course of General Staff (1970-1972), Course of Command and Direction for Official General (1982-1983) and the Course of National Defense (1984). In 1984 he was promoted to Brigadier and later, in 1987, he was promoted to General. In 1956 he joined the Military College having received the Alcazar of Toledo Award, given to the highest rated finalist of all students from the Military Academy, and the Marechal Hermes Award in Brazil. From 1969 to 1973, he collaborated with Lisbon´s City Hall. He taught at the Military Academy and at the Institute for Advanced Military Studies. He was Deputy Secretary for Communications and Public Works of the Macau Government (1974-1975). He joined the original core of officers of the Portuguese Armed Forces, promoting the installation of a democratic regime in Portugal. Attributing great importance to his military career, he was Chief of Staff of the Army and a member of the Revolution Council (1976-1978), National Military Representative at NATO Supreme Headquarters Allied Powers in Europe - SHAPE, in Belgium, and Director and Honorary Director of Weapons and Engineering. He was Minister of the Republic for the Azores (1986-1991), and Governor of Macau, where he served from 1991 until 1999. Currently, he is Member of the Board of Engineers, Member of the Academy of Engineering, Chancellor of the Former Military Orders, Member of the Supreme Council of Associations of the Former Students of the Military College, member of the Supreme Council of SHIP (Sociedade Histórica da Independência de Portugal), member of the Honorary Council of the ISCSP (Instituto Superior de Ciências Sociais e Políticas), Member of the School Board of the same Institute and Member of the Advisory Board of the Nova School of Business and Economics at Universidade Nova de Lisboa. He is an honorary associate of Lisbon Geography Society, of Sociedade Histórica da Independência de Portugal and of the Combatants League. He was appointed as a member of the General and Supervisory Board of EDP on 20 February 2012, and reappointed on 21 April 2015.

Augusto Carlos Serra Ventura Mateus He was born on 27 August 1950. He has a degree in Economics from the Superior Institute of Economics and Finance (ISCEF), of Technical University of Lisbon. He is Guest Professor at ISEG with current teaching responsibilities in the areas of European Economy, Economic Policy and Industrial and Competitiveness Policy at the level of degrees and masters' degrees. He is a researcher and consultant in the areas of macroeconomics, economic policy, industrial competitiveness, business strategy, program evaluation and policy development. He is responsible for the coordination of several studies of evaluating programs and policies and for the coordination of several research projects and studies in applied economics. He has held the positions of Secretary of State for Industry (October 1995 until March 1996) and Ministry of Economy (March 1996 until December 1997), being responsible for the launching of a debt to State settlement plan also known as Plano Mateus. He was appointed as a member of the General and Supervisory Board of EDP on 6 May 2013, and reappointed on 21 April 2015.

João Carvalho das Neves He was born in 1956. Currently, he is a Professor of finance, accounting and control at ISEG Lisbon University. He is a Director of the MBA and Masters in Management & Property Valuation and Advisor in Management, Banking and Finance for the Agency for Evaluation & Accreditation of Higher Education. He holds a Ph.D., Manchester Business School. BSc. and MSc. in Management and MBA, ISEG. He has attended executive courses in Leadership, Coaching, Finance and Banking at London Business School, Center for Creative Leadership, Kennedy Harvard Government School, HEC Paris, IMD, INSEAD, Stern New York University and International Banking Centre and Manchester Business School. He has held the positions of President of ACSS Central Administration of the Health System (2011-14), Board Member BPN and SLN (2008-2009) in the team of Mr. Miguel Cadilhe, Trustee (1993-1998) for Torralta, TVI and Casino Hotel de Troia, Associate Consultant at Coopers & Lybrand (now PWC) (1992-1993), General Diretor at CIFAG/IPE (1985-1992) and Controller Assistant at Cometna (1981-1984). He was visiting professor in international schools including HEC School of Management Paris (2001-2007), EM Lyon, Copenhagen Business School, Business School Poznan, Warsaw Banking Institute, Foundation D. Cabral, Federal University of Minas Gerais and others. He is an author of the following books on management – BPN: State the Most Supervision Less; Housing Market Research: London Undergound Influence on Housing Pricing; Analysis of real estate investments; ABC of mergers and acquisitions; Companies and business evaluation; Assessment and management of strategic performance;

Financial analysis - and of articles in international magazines on management, finance, accounting and information systems. He was appointed as a member of the General and Supervisory Board of EDP on 21 April 2015.

Alberto Joaquim Milheiro Barbosa He was born on 12 December 1953. He has more than 35 years of professional experience. After obtaining his degree in Electrical Engineering, he taught at the Faculty of Engineering of Porto University as an assistant professor and started his industrial career as an engineer in electrical studies. He enhanced his competences throughout his career with multiple technical and management training programmes at both national and international institutions. He is currently member of the Board, overseeing Efacec activities in the fields of Electrical Mobility, amongst others. He has previously held positions of President of Board, Executive Director and General Manager in several national and international companies, within the Efacec and Tech M5 Groups. He has also held positions of Director and Head of Department of the Efacec Automation division earlier in his career. During his career, he has headed or been involved in mergers, acquisitions and the sale of over 20 companies or business areas (some of them involving several hundred million euros) and has overseen multiple projects including strategic analysis, technical analysis and financial package preparation. He has also gained strong experience in investor relations, as well as in negotiation with financial institutions. He is a member of the Portuguese Academy of Engineering (*Academia de Engenharia*) and has actively participated in multiple industry associations and *fora*, including the IEC, the Portuguese Institution of Engineers (*Ordem dos Engenheiros*), Animee, UNICE, APDC, APREN, APIEE and ADFER. He has also worked as an Expert for the CEC, advising the Commission on several subjects in the fields of Energy and Information Technology. Over the last 20 years he has participated in multiple conferences and colloquiums, having presented over 100 lectures in technical fields (electricity networks, telecommunications, transportation systems) as well as management areas, and has written technical and position articles in various magazines and newspapers. He was appointed as a member of the General and Supervisory Board of EDP on 21 April 2015.

María del Carmen Fernández Rozado She was born on 9 November 1952. She holds a PhD in Economics and Business Administration from the Complutense University of Madrid, is a Graduate in Political Sciences and Sociology from the Complutense University of Madrid, and took part in the Senior Management Program (PADE) at the IESE Business School (University of Navarra). Her previous roles have included: State Tax Inspector and Auditor, working for more than 15 years in the Energy Sector, having been for 12 years a member of the Board of the National Energy Commission (CNE), Spanish Regulatory Body Energy System where she has participated in projects relating to the regulation and planning in the Energy Sector. For eight years she has been President of the Task Force and Impulse Analysis of Renewable Energy projects and Clean Development Mechanisms of ARIAE (American Association of Energy Regulators). Since October 2011 she has been an International Consultant for the development and execution of business plans on Energy and Infrastructure in Asia and Latin America, providing support to local political and economic institutions and regulatory bodies. She teaches at different universities and Spanish and foreign business schools and is author of numerous articles and publications on Taxation, Energy and Sustainability. She was appointed as a member of the General and Supervisory Board of EDP on 21 April 2015.

António Manuel de Carvalho Ferreira Vitorino He was born in Lisbon, in 1957. He has a Law degree from the University of Lisbon Law School (1981) and a Masters Degree in Legal and Political Science (1986). He has been a Member of the Bar Association since 1982, an Assistant Professor at the University of Lisbon Law School since 1982 and an Invited Professor at the Universidade Nova de Lisboa Law School between 2008 and 2010. He has held the following positions: Member of Parliament (1980-2006), Secretary of State for Parliamentary Affairs (1983-1985), Secretary of State of the Government of Macau (1986-1987), Judge of the Portuguese Constitutional Court (1989-1994), Member of the European Parliament (1994-1995), Deputy Prime Minister and Minister of Defence (1995-1997), European Commissioner for Justice and Home Affairs (1999-2004), Chairman of Shareholder's Meeting Banco Santander Totta, Finpro SGPS, S.A., Brisa Auto – Estradas de Portugal, and Novabase SGPS, Chairman of the Supervisory Board of Siemens Portugal and Tabaqueira Indústria, Non-Executive Director of Áreas (Portugal) and member of the Board of CTT Correios de Portugal, President of Notre Europe (Paris), Partner of Cuatrecasas, Gonçalves Pereira since December 2005 and member of the Portuguese Bar. He was appointed as a member of the General and Supervisory Board of EDP on 21 April 2015.

SPECIALISED COMMITTEES OF THE GENERAL AND SUPERVISORY BOARD

Without prejudice to its responsibility for the carrying out of its competencies as a corporate body, the internal regulations of the General and Supervisory Board set out the possibility of establishing permanent and temporary specialised committees composed of some of its members, whenever it considers necessary, in which the board can delegate the exercise of certain specific functions.

Both the permanent and temporary committees have as their main mission the specific and permanent monitoring of the matters entrusted to them in order to ensure that the processes of decision-making are informed by the General and Supervisory Board or information about certain subjects.

The committees´ activities are coordinated by the Chairman of the General and Supervisory Board, who ensures an adequate coordination of such activities with that of the Board, through their respective Chairmen, who shall keep him informed, namely by disclosing to him the convening of their meetings and their respective minutes.

There were five specialised committees inside the previous General and Supervisory Board: Financial Committee/Audit Committee, Remunerations Committee, Corporate Governance and Sustainability Committee, Strategy Committee and Competitiveness and Performance Analysis Committee.

The General and Supervisory Board that is currently in office instituted its specialised committees at the 22 April 2015 meeting, and also decided on their composition, namely the Financial Committee/Audit Committee, Remunerations Committee, Corporate Governance and Sustainability Committee, Strategy Committee and Competitiveness and Performance Analysis Committee.

At the meeting on 18 June 2015, the General and Supervisory Board, aware of the fact that the responsibilities of the Strategy Committee and the Competitiveness and Performance Analysis Committee were completely compatible and in many cases, interdependent, decided to merge the two and create a Strategy and Performance Committee. That meeting also approved the internal regulations for all the General and Supervisory Board’s specialised committees.

The General and Supervisory Board considers that its specialised committees are relevant to the regular functioning of the company as they allow the delegation of the carrying out of certain duties, including the monitoring of the company’s financial information, the reflection on the governance system adopted by EDP and the assessment of the performance of the company directors as well as that of the company’s overall performance.

FINANCIAL MATTERS COMMITTEE / AUDIT COMMITTEE

The Financial Matters Committee/Audit Committee consists of at least three independent members with the appropriate qualifications and experience, including at least one member with a higher education degree in the area of the committee’s functions and with specific knowledge of auditing and accounting.

Currently, the Financial Matters Committee/Audit Committee comprises the following members:

- António Sarmento Gomes Mota (Chairman)
- João Carvalho das Neves (Vice-Chairman)
- Alberto Barbosa
- María del Carmen Rozado
- Maria Celeste Cardona

In accordance with the EDP Articles of Association and by means of a delegation from the General and Supervisory Board, the Committee on Financial Matters/Audit Committee has the following responsibilities:

- to issue an opinion on the annual report and accounts;
- to oversee, on a permanent basis, the work of the statutory auditor and the external auditor and, with regard to the former, to issue an opinion on its respective election or appointment, removal from office, independence and other relations with the company;
- to oversee, on a permanent basis, and evaluate internal procedures for accounting and auditing, as well as the efficacy of the risk management system, the internal control system and the internal auditing system, including the way in which complaints and queries are received and processed, whether originating from employees or not;

- to monitor, when and how it deems appropriate, the bookkeeping, accounts and supporting documents, as well as the situation in relation to any assets or securities held by the company; and
- to exercise any other powers that may be conferred upon it by law or as expressly conferred by the General and Supervisory Board.

As a specialised committee of the General and Supervisory Board, the Committee on Financial Matters/Audit Committee supports the former in the process of hiring and dismissing the external auditor.

The work of the Financial Matters Committee/Audit Committee is governed by an internal regulation approved by the General and Supervisory Board.

The members of the Financial Matters Committee/Audit Committee meet the legal requirements in terms of independence and qualification for holding their office, given that they have no work relationship or contractual bond with EDP and its subsidiaries, shareholders with a stake of 2 per cent. or more in the company or entities in a group or control relationship with such shareholders and their spouses, relatives and kin in a direct line to the third degree.

The General and Supervisory Board carries out an annual assessment of the compliance with the above mentioned requirements.

The composition, competence and functioning of the Committee on Financial Matters/Audit Committee are in line with the European Commission Recommendation of 15 February 2005 (2005/162/EC) as supplemented by the European Commission Recommendation of 30 April 2009 (2009/385/EC).

REMUNERATION COMMITTEE

Pursuant to Article 27 of the EDP Articles of Association, the Remuneration Committee designated by the General and Supervisory Board is the body that determines the remuneration of the members of the Executive Board of Directors, as well as any supplements.

In accordance with the Articles of Association, the Remuneration Committee of the General and Supervisory Board must submit to the annual General Meeting a statement on the remuneration policy for the members of the Executive Board of Directors which it has adopted. Taking into account the publication of Law no. 28/2009, of 19 June, the work of the Remuneration Committee shall abide by the applicable legal rules.

The work of the Remuneration Committee is governed by an internal regulation approved by the General and Supervisory Board.

The Remuneration Committee is made up of members of the General and Supervisory Board with the appropriate qualifications and experience, the majority of whom are independent of the members of the Executive Board of Directors. A member of this committee is always present at the Annual General meetings. Currently the Remuneration Committee of the General and Supervisory Board is composed of:

- Yang Ya (Chairman)
- Fernando Masaveu Herrero
- Ilídio da Costa Leite de Pinho
- João Carvalho das Neves
- Vasco Rocha Vieira

In the Annual General Meeting held on 21 April 2015 in accordance with Law no. 28/2009, of 19 June and EDP's by-laws, the Chairman of this Committee attended the meeting and submitted for approval a statement on the remuneration policy of the members of the Executive Board of Directors, for the current three-year period term, and which was approved by shareholders.

CORPORATE GOVERNANCE AND SUSTAINABILITY COMMITTEE

The Corporate Governance and Sustainability Committee is a specialised committee of the General and Supervisory Board. Its purpose is to monitor and supervise, on a permanent basis, all matters related with the following:

- corporate governance;
- strategic sustainability;
- internal codes of ethics and conduct;
- systems for assessing and resolving conflicts of interests, in particular pertaining to relations between EDP and its shareholders;
- defining appropriate criteria and competences to serve as standards for the EDP structures and internal bodies and their impact on the composition thereof; and
- drawing up succession plans.

In the scope of its responsibilities, the Corporate Governance and Sustainability Committee supports the activity of the General and Supervisory Board in the continuous assessment of the management, as well as of the performance of the General and Supervisory Board itself. Based on the work of the Corporate Governance and Sustainability Committee, the General and Supervisory Board annually carries out the above mentioned assessments, which are the object of a report. The conclusions of these assessments are included in the annual report of the General and Supervisory Board and presented to the shareholders in the annual General Meeting.

Another two very important activities carried out by the Corporate Governance and Sustainability Committee are the monitoring of the corporate governance practices adopted by the Company and the management of human resources and succession plans.

The functioning of the Corporate Governance and Sustainability Committee is governed by an internal regulation approved by the General and Supervisory Board.

The Corporate Governance and Sustainability Committee is made up of members of the General and Supervisory Board with the appropriate qualifications and experience.

The committee currently consists of the following members:

- Luís Amado (Chairman)
- Felipe Fernández Fernández
- Jorge Braga de Macedo
- Maria Celeste Cardona
- Shengliang Wu

STRATEGY AND PERFORMANCE COMMITTEE

The Strategy and Perfomance Committee is a specialised committee resulting from the merging of the Stategy Committee and the Competitiveness and Performance Analysis Committee, with powers relating to strategy, particularly in relation to investment, financing and strategic partnerships, and with a focus on the analysis of performance and competitiveness of EDP within the markets in which it operates. The work of the Strategy and Performance Committee is governed by internal regulations approved by the General and Supervisory Board. The committee currently consists of the following members:

- Eduardo de Almeida Catroga (Chairman)
- Alberto Barbosa
- Augusto Mateus
- Dingming Zhang
- -Ferhat Ounoughi
- Fernando Masaveu Herrero
- João Carvalho das Neves
- Jorge Braga de Macedo

- Mohamed Al Fahim
- Nuno Amado
- Shengliang Wu

The mission of the Strategy and Performance Committe is to oversee the following areas on a continuous basis:

- short, medium and long term strategies and scenarios;
- strategic implementation, business planning and respective budgets;
- investments and divestiture;
- debt and financing;
- strategic alliances;
- development of markets and competitiveness;
- regulatory issues;
- analysis of the EDP Group's and its Business Units' performance;
- benchmarking the EDP Group's performance in relation to the sector's leading companies; and
- assessment of the competitiveness of EDP's business portfolio.

EXECUTIVE OFFICERS

EDP has 20 executive officers in charge of various business and administrative departments at the holding company level of EDP (Corporate Centre) which report directly to the Executive Board of Directors. Selected information for the executive officers in charge of EDP's principal business activities is set forth below:

Name	Year of Birth	Year of Appointment	Position
SUPPORT TO GOVERNANCE AREA			
Maria Teresa Pereira	1965	2005	Company Secretary and Head of Legal Department
Martim Fortuny Martorell Salgado	1984	2013	Chief of Staff of the Chairman of the Executive Board
Azucena Viñuela Hernández	1965	2006	Head of Internal Audit Department
STRATEGIC AREA			
Pedro Neves Ferreira	1975	2007	Head of Energy Planning Department and Head of Risk Management Department
Duarte Castro Bello	1979	2011	Head of Business Analysis Department
Joana Simões	1961	2004	Head of Regulation and Competition Department
FINANCIAL AREA			
Paula Cristina Santos Guerra	1973	2008	Head of Financial Management Department
João Rui Fonseca Gouveia Carvalho	1979	2015	Head of Planning and Control Department
Miguel Ribeiro Ferreira	1967	2004	Head of Consolidation, Accounting and Tax Department
Miguel Henriques Viana	1972	2006	Head of Investor Relations Department
SYSTEMS AND ORGANISATIONAL AREA			
José Filipe Esteves Saraiva Santos	1967	2012	Head of Organisational Development Department
Vergílio Domingues Rocha	1952	2010	Head of Information Systems Department
HUMAN RESOURCES AREA			
Paula Maria Pinto Eusébio Carneiro	1967	2013	Head of Human Resources Department
Vasco Coucello	1951	2011	EDP University
MARKETING AND COMMUNICATION AREA			
José Manuel Ferrari Bigares Careto	1962	2014	Head of Customer Relations and Marketing Department
Paulo Campos Costa	1965	2006/2012	Head of Brand and Communication Department (since 2006) and Head of Global Coordination of the Trademark and Communication Area (since 2012)

Name	Year of Birth	Year of Appointment	Position
Miguel Coutinho	1965	2012	Head of Institutional Relations and Stakeholders Management Department
SUSTAINABILITY, ENVIRONMENT AND ETHICS AREA			
António Neves de Carvalho	1950	2004	Head of Sustainability and Environment Department
José Eduardo Figueiredo Soares	1951	2012	Ethics Ombudsman
BUSINESS UNITS			
Carlos Manuel Sola Pereira da Mata	1963	2012	Head of Energy Management Business Unit

The business address of each member of the Executive Board of Directors and each executive officer of EDP is Av. 24 de Julho, 12, 1249 - 300 Lisbon, Portugal. The business address of each member of the General and Supervisory Board and each member of the Specialised Committees of the General Supervisory Board described above is Av. 24 de Julho, 12, 1249 - 300 Lisbon, Portugal.

CONFLICTS OF INTEREST

The members of the Executive Board of Directors, the General and Supervisory Board, the Specialised Committees of the General Supervisory Board described above and the executive officers of EDP do not have any conflicts, or any potential conflicts, between their duties to EDP and their private interests or other duties.

TAXATION

Portugal

The following is a general summary of the Issuer's understanding of current law and practice in Portugal as in effect as of the date of this Prospectus in relation to certain current relevant aspects to Portuguese taxation of the Notes 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 the Notes. 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 the absolute beneficial owners of the Notes. 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 Notes, 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 consideration 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 Notes*" or any related documentation.

The summary below in relation to the Notes assumes that the Notes would be treated by the Portuguese tax authorities as corporate bonds ("*obrigações*") as defined under Portuguese law. If the Portuguese tax authorities do not treat the Notes as *obrigações*, no assurance can be given that the same tax regime would apply.

1. General tax regime applicable on debt securities

Interest and other types of investment income obtained on the Notes by a Portuguese resident individual are subject to individual income tax. If the payment of interest or other investment income is made available to Portuguese resident individuals, withholding tax applies at a rate of 28 per cent., which is the final tax on that income unless the individual elects to aggregate it to his taxable income, subject to tax at progressive rates of up to 48 per cent., to which a 3.5 per cent. surtax is to be added. In this circumstance, an additional income tax rate will be due on the part of the taxable income exceeding €80,000 as follows: (i) 2.5 per cent. on the part of the taxable income exceeding € 80,000 up to € 250,000 and (ii) 5 per cent. on the remaining part (if any) of the taxable income exceeding € 250,000. In this case, the tax withheld is deemed a payment on account of the final tax due.

Interest and other investment income paid or made available ("*colocado à disposição*") to accounts in the name of one or more accountholders acting on behalf of undisclosed entities are subject to a final withholding tax of 35 per cent., unless the beneficial owner of the income is disclosed, in which case the general rules will apply.

Capital gains obtained by Portuguese resident individuals on the transfer of Notes are taxed at a rate of 28 per cent., levied on the positive difference between the capital gains and capital losses realised on the transfer of securities and derivatives of each year, which is the final tax on that income, unless the individual elects to aggregate it to his taxable income, subject to tax at progressive rates of up to 48 per cent., to which a 3.5 per cent. surtax is to be added. In this circumstance, an additional income tax rate will be due on the part of the taxable income exceeding €80,000 as follows: (i) 2.5 per cent. on the part of the taxable income exceeding € 80,000 up to € 250,000 and (ii) 5 per cent. on the remaining part (if any) of the taxable income exceeding € 250,000. In this case, the tax withheld is deemed a payment on account of the final tax due. Accrued interest qualifies as interest for tax purposes.

Interest and other investment income derived from the Notes and capital gains obtained with the transfer of Notes by legal persons resident for tax purposes in Portugal and by non-resident legal persons with a permanent establishment therein to which the income or gains are attributable to are included in their taxable income and are subject to corporate income tax at a 21 per cent. tax rate or at a 17 per cent. tax rate on the first €15,000 in the case of small or medium-sized enterprises, to which a municipal surcharge ("*derrama municipal*") of up to 1.5 per cent. of its taxable income may be added. A state surcharge ("*derrama estadual*") also applies at 3 per cent. on taxable profits in excess of €1,500,000, 5 per cent. on taxable profits in excess of €7,500,000 and up to €35,000,000 and at 7 per cent. on taxable profits in excess of €35,000,000.

Withholding tax at a rate of 25 per cent. applies on interest and other investment income, which is deemed a payment on account of the final tax due. Financial institutions subject to Portuguese corporate income tax (including branches of foreign financial institutions located in Portugal), and inter alia pension funds, retirement and/or education savings funds, share savings funds and venture capital funds constituted under the laws of Portugal are not subject to withholding tax.

Interest and other types of investment income obtained by non-resident legal persons without a Portuguese permanent establishment to which the income is attributable to are subject to withholding tax at a rate of 25 per cent., which is the final tax on that income. Interest and other types of investment income obtained by non-resident individuals without a Portuguese permanent establishment to which the income is attributable to are subject to withholding tax at a rate of 28 per cent., which is the final tax on that income. The rate is 35 per cent. in the case of individuals or legal persons domiciled in a country, territory or region included in the ‘‘tax havens’’ list approved by Ministerial order no. 150/2004 of 13 February (as amended by Ministerial order no. 292/2011 of 8 November). Interest and other investment income paid or made available ("*colocado à disposição*") to accounts in the name of one or more accountholders acting on behalf of undisclosed entities are subject to a final withholding tax of 35 per cent., unless the beneficial owner of the income is disclosed, in which case the general rules will apply.

Under the tax treaties entered into by Portugal which are in full force and effect as of the date of this Prospectus, the withholding tax rate may be reduced to 15, 12, 10 or 5 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*") no. 4743-A/2008 (2nd series), of 8 February 2008, published in the Portuguese official gazette, second series, no. 37, of 21 February 2008 of the Portuguese Minister of Finance (as amended), available for viewing and downloading at www.portaldasfinancas.gov.pt.

Income paid to an associated company of the Issuer who is resident in the European Union is exempt from withholding tax.

For these purposes, an associated company of the Issuer is:

(i) a company which is subject to one of the taxes on profits listed in Article 3 (a) (iii) of Council Directive 2003/49/EC without being exempt, which takes one of the forms listed in the Annex to that Directive, which is deemed to be a resident in an European Union Member State and is not, within the meaning of a double taxation convention on income concluded with a third state, considered to be a resident for tax purposes outside the Community; and

(ii) which holds a minimum direct holding of 25 per cent. of the capital of the Issuer, or is directly held by the Issuer at least by 25 per cent. or which is directly held at least by 25 per cent. by a company which holds at least 25 per cent. of the capital of the Issuer; and

(iii) provided that the holding has been maintained for an uninterrupted period of at least two years; if the minimum holding period is met after the date the withholding tax becomes due, a refund may be obtained.

The associated company of the Issuer to which payments are made must be the beneficial owner of the interest, which will be the case if it receives the interest for its own account and not as an intermediary, either as a representative, a trustee or authorised signatory, for some other person.

The exemption from withholding tax may take place at source or through the refund of tax withheld.

Capital gains obtained on the transfer of Notes by non-resident individuals without a permanent establishment in Portugal to which gains are attributable to are exempt from Portuguese capital gains taxation unless the beneficial owner resides 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*") amended by Ministerial order ("*Portaria*") no. 292/2011 of 8 November. If the exemption does not apply, the gains will be subject to personal income tax at a rate of 28 per cent. However, 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. Accrued interest does not qualify as capital gains for tax purposes.

Gains obtained on the disposal of Notes by a legal person non-resident in Portugal for tax purposes and without a permanent establishment therein to which gains are attributable to 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*") amended by Ministerial order ("*Portaria*") no. 292/2011 of 8 November. If the exemption does not apply, the gains will be subject to corporate income tax at a rate of 25 per cent. However, 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 Notes by an individual who is domiciled in Portugal. An exemption applies to transfers in favour of the spouse, de facto spouse, descendants and parents/grandparents. The acquisition of Notes through gift or inheritance by a Portuguese resident legal person or a non-resident acting through a Portuguese permanent establishment is subject to corporate income tax at a 21 per cent. tax rate or at a 17 per cent. tax rate on the first €15,000 in the case of small or medium-sized enterprises, to which a municipal surcharge ("*derrama municipal*") of up to 1.5 per cent. of its taxable income may be added. A state surcharge ("*derrama estadual*") also applies at 3 per cent. on taxable profits in excess of €1,500,000 and up to €7,500,000, 5 per cent. on taxable profits in excess of €7,500,000 and up to €35,000,000 and 7 per cent. on taxable profits in excess of €35,000,000.

No Stamp Duty applies on the acquisition through gift and inheritance of Notes by an individual who is not domiciled in Portugal. The acquisition of Notes through gift or inheritance by a non-resident legal person is subject to corporate income tax at a rate of 25 per cent. However, 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.

2. Notes integrated in a centralised control system foreseen under Decree-Law no. 193/2005, of 7 November 2005

Pursuant to the Special Tax Regime for Debt Securities, approved by Decree-Law no. 193/2005, of 7 November 2005, as amended from time to time (**Decree-Law no. 193/2005**), investment income paid on, as well as capital gains derived from a sale or other disposition of the Notes, to non-resident territory beneficial owners will be exempt from Portuguese income tax provided the debt securities are integrated in (i) a centralised system for securities managed by an entity resident for tax purposes in Portugal (such as the CVM managed by Interbolsa), or (ii) an international clearing system operated by a managing entity established in a Member State of the EU other than Portugal or in a European Economic Area Member State provided, in this case, that such State is bound to cooperate with Portugal under an administrative cooperation arrangement in tax matters similar to the exchange of information schemes in relation to tax matters existing within the EU Member States or (iii) integrated in other centralised systems not covered above provided that, in this last case, the Portuguese Government authorises the application of the Decree-Law no. 193/2005, and the beneficiaries are:

(i) central banks or governmental agencies; or

(ii) international bodies recognised by the Portuguese State; or

(iii) entities resident in countries or jurisdictions with whom Portugal has a double tax treaty in force or a tax information exchange agreement; or

(iv) other entities without headquarters, effective management or a permanent establishment in Portuguese territory to which the relevant income is attributable to and which are not domiciled in a blacklisted jurisdiction as set out in the Ministerial order no. 150/2004, as amended by Ministerial order no. 292/2011 of 8 November.

For purposes of application at source of this tax exemption regime, Decree-Law no. 193/2005 requires completion of certain procedures and the provision of certain information. Under these procedures (which are aimed at verifying the non-resident status of the Noteholder), the beneficial owner is required to hold the Notes through an account with one of the following entities:

(i) a direct registered entity, which is the entity with which the debt securities accounts that are integrated in the centralised system are opened;

(ii) an indirect registered entity, which, although not assuming the role of the "direct registered entities", is a client of the latter; or

(iii) an international clearing system, which is an entity that proceeds, in the international market, to clear, settle or transfer securities which are integrated in centralised systems or in their own registration systems.

The special regime approved by Decree-Law no. 193/2005 sets out the detailed rules and procedures to be followed on the proof of non-residence by the beneficial owners of the Notes to which it applies.

Under these rules, the direct registered entity is required to obtain and retain 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 proof of non-residence should be provided to, and received by, the direct registered entities prior to the relevant date for payment of any interest and, in the case of domestically cleared Notes, prior to the transfer of Notes, 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 as of the date of this Prospectus.

Domestically Cleared Notes

The beneficial owner of Notes must provide proof of non-residence in Portuguese territory substantially in the terms set forth below:

(i) If a Holder of Notes is a central bank, a public law entity or agency or an international organisation recognised by the Portuguese state, a declaration of tax residence issued by the Noteholder, duly signed and authenticated or proof of non-residence pursuant to the terms of paragraph (iv) below;

(ii) If the Noteholder is a credit institution, a financial company, 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, certification shall be made by means of the following: (A) its tax identification official document; or (B) a certificate issued by the entity responsible for its supervision or registration, or by the tax authorities, confirming the legal existence of the Noteholder and its domicile; or (C) proof of non-residence, pursuant to the terms of paragraph (iv) below;

(iii) If the Noteholder is either an investment fund or other type of collective investment undertaking domiciled in any OECD country or any country or jurisdiction with which Portugal has entered into a double tax treaty or a tax information exchange agreement in force, 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, domicile and law of incorporation; or (B) proof of non-residence pursuant to the terms of 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 permit) is not acceptable. There are rules on the authenticity and validity of the documents, in particular that the Noteholder must provide an original or a certified copy of the residence certificate or equivalent document. This document must be issued up to until 3 months after the date on which the withholding tax would have been applied and will be valid for a 3 year period starting on the date such document is issued.

In cases referred to in paragraphs (i), (ii) and (iii) above, proof of non-residence is required only once, the beneficial owner having to inform the register entity of any changes that impact the entitlement to the exemption. The Noteholder must inform the register entity immediately of any change that may preclude the tax exemption from applying.

No Portuguese exemption shall apply at source under the special regime approved by Decree-law no. 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 an exemption to apply are met, but, due to inaccurate or insufficient information, tax is withheld, a special refund procedure is available under the regime approved by Decree-law no. 193/2005. The refund claim is to be submitted to the direct register entity of the Notes within 6 months from the date the withholding took place.

The refund of withholding tax after the above 6-month period is to be claimed to the Portuguese tax authorities through an official form available at http://www.portaldasfinancas.gov.pt (approved by Order ("*Despacho*") no. 2937/2014, issued by the Portuguese Secretary of State for Tax Matters) within 2 years, starting from the term of the year in which the withholding took place. The refund is to be made within 3 months, after which interest is due.

EU Savings Directive

Under Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the **Savings Directive**), Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to, or for the benefit of, an individual resident in another Member State or certain limited types of entities established in another Member State.

For a transitional period, Austria is instead required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. (subject to a procedure whereby, on meeting certain conditions and allowing Austrian tax authorities to exchange information with the tax authorities of other Member States pursuant to the Savings Directive, the beneficial owner of the interest or other income may request that no tax be withheld). The transitional period is to terminate at the end of the first full fiscal year subject to 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 adopted similar measures (a withholding system in the case of Switzerland).

On 24 March 2014, the Council of the EU adopted EC Council Directive 2014/48/EC, of 24 March (the **Amending Directive**) amending and broadening the scope of the requirements described above. Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive (this national legislation must apply from 1 January 2017), and if they were to take effect the changes would expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities. These changes would also broaden the definition of "interest payment" to cover additional types of income payable on securities. In addition, they would also expand the circumstances in which payments that are made, directly or indirectly, to a beneficiary that is an individual resident in a Member State must be reported or subject to withholding. This approach would apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the EU.

However, the European Commission has proposed the repeal of the Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent an overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The new regime under Council Directive 2011/16/EU (as amended) is in accordance with the Global Standard released by the Organisation for Economic Co-operation and Development in July 2014. Council Directive 2011/16/EU (as amended) is generally broader in scope than the Savings Directive, although it does not impose withholding taxes. The proposal also provides that, if it proceeds, Member States will not be required to apply the new requirements of the Amending Directive.

Portugal has implemented the Savings Directive through Decree-Law no. 62/2005, of 11 March, as amended by Law no. 39-A/2005, of 29 July and Law no. 37/2012 of 2 September. The forms currently applicable to comply with the reporting obligations arising from the implementation of the EU Savings Directive were approved by Ministerial

Order no. 563-A/2005, of 28 June 2005, which is available for viewing and downloading at www.portaldasfinancas.gov.pt.

In this respect it should be noted that Portugal has not yet implemented the Amending Directive into Portuguese Law.

Investors who are in any doubt as to their position should consult their professional advisors.

The Proposed Financial Transactions Tax (FTT)

On 14 February 2013 the European Commission published a proposal (the "Commission's Proposal") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "participating Member States").

The Commission's Proposal has a very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt. Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

A joint statement issued by participating Member States indicates an intention to implement the FTT by 1 January 2016.

The FTT proposal remains subject to negotiation between the participating Member States and the scope of any such tax is uncertain. It may therefore be altered prior to any implementation. Additional EU Member States may decide to participate. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (**FATCA**) impose a new reporting regime and potentially a 30 per cent. withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a "foreign financial institution", or "FFI" (as defined by FATCA)) that does not become a "Participating FFI" by entering into an agreement with the U.S. Internal Revenue Service (**IRS**) to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States account" of an Issuer (a "Recalcitrant Holder"). The Issuer may be classified as an FFI.

The new withholding regime is now in effect for payments from sources within the United States and will apply to "foreign passthru payments" (a term not yet defined) no earlier than 1 January 2017. This withholding would potentially apply to payments in respect of (i) any Notes characterised as debt (or which are not otherwise characterized as equity and have a fixed term) for U.S. federal tax purposes that are issued after the "grandfathering date", which is the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register, or which are materially modified after the grandfathering date and (ii) any Notes characterised as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued. If Notes are issued on or before the grandfathering date, and additional Notes of the same series are issued after that date, the additional Notes may not be treated as grandfathered, which may have negative consequences for the existing Notes, including a negative impact on market price.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an **IGA**). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a "Reporting FI" not subject to withholding under FATCA on any payments it receives. Further, an FFI in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being "FATCA Withholding") from payments it makes. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. The governments of Portugal and the United States have in substance reached an agreement related to FATCA, and the IRS has provided that Portugal and the United States would be treated as having entered into an intergovernmental agreement (**IGA**) until the end of 2014 (**Portugal IGA**). According to the US Department of Treasury, the Portugal IGA was signed on 6 August 2015.

In this respect, Portugal has implemented, through Law 82-B/2014 of 31 December 2014, the legal framework regarding the reciprocal exchange of information on financial accounts subject to disclosure in order to comply with FATCA. Under this legislation the Issuer will be required to obtain information regarding certain accountholders and report such information to the Portuguese government, which, in turn, would report such information to the IRS. It is foreseen that additional legislation will be created in Portugal namely regarding certain procedures, rules and dates in connection with FATCA.

If the Issuer is treated as a Reporting FI pursuant to the Portugal IGA it does not anticipate that it will be obliged to deduct any FATCA Withholding on payments it makes. There can be no assurance, however, that the Issuer will be treated as a Reporting FI, or that it would in the future not be required to deduct FATCA Withholding from payments it makes. Accordingly, the Issuer and financial institutions through which payments on the Notes are made may be required to withhold FATCA Withholding if (i) any FFI through or to which payment on such Notes is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

Whilst the Notes are cleared through Interbolsa, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Issuer, any paying agent and the common depositary or common safekeeper, given that each of the entities in the payment chain between the Issuer and Interbolsa is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an intergovernmental agreement will be unlikely to affect the securities. However, Investors should be aware that the Issuer is not under an obligation to gross up any amounts that may be withheld or deducted pursuant to FATCA.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model intergovernmental agreements, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Issuer and to payments they may receive in connection with the Notes.

SUBSCRIPTION AND SALE

Banco Comercial Português, S.A., Banco Santander Totta, S.A., BNP PARIBAS, Deutsche Bank AG, London Branch, HSBC Bank plc, J.P. Morgan Securities plc and UBS Limited (the **Lead Managers**) have, pursuant to a Subscription Agreement dated 14 September 2015 (the **Subscription Agreement**), agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe and pay for the Notes at 99.456 per cent. of the principal amount of the Notes less a combined management, underwriting and selling commission. The Issuer has agreed to reimburse the Lead Managers for certain of their expenses in connection with the issue of the Notes.

The Lead Managers are entitled to terminate the Subscription Agreement in certain circumstances prior to payment to the Issuer.

United States

The Notes have not been and will not be registered under 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 the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act (**Regulation S**).

The Notes 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 a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes 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.

Portugal

Each Lead Manager has represented and agreed that the Prospectus has not been and will not be registered or filed with or approved by the Portuguese Securities Exchange Commission ("*Comissão do Mercado de Valores Mobiliários*" or the **CMVM**) nor has a prospectus recognition procedure been commenced with the Portuguese Securities Exchange Commission. The Notes 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, filing, approval or recognition procedure is made. In addition, each Lead Manager has represented and agreed that (i) it has not directly or indirectly taken any action or offered, advertised, marketed, invited to subscribe, gathered investment intentions, sold, re-sold, re-offered 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 Notes 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 Notes 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 Notes only ("*oferta particular*"); (iii) it has not distributed, made available or cause to be distributed the Prospectus or any other offering material relating to the Notes to the public in Portugal; and (iv) it will comply with all applicable provisions of the Portuguese Securities Code, the Prospectus Regulation implementing the Prospectus Directive (as amended) 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 Notes 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.

United Kingdom

Each Lead Manager has represented, warranted and agreed that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an 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 Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

General

No action has been or will be taken by the Issuer or the Lead Managers that would permit a public offering of the Notes, or the possession or distribution of this Prospectus, or any other offering material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

Each Lead Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute the Prospectus or publish any prospectus, form of application, advertisement or other document or information in any country or jurisdiction except in circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and the Issuer shall not have responsibility for the action of the Lead Managers.

Other persons into whose hands this Prospectus comes are required by the Issuer and the Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any related offering material, in all cases at their own expense.

The Lead Managers and their respective affiliates currently provide, and may continue to provide, banking services, including senior lending facilities, to the Issuer on customary market terms, and for which they have been or will be paid customary fees.

GENERAL INFORMATION

(1) The Issuer has obtained all necessary consents, approvals and authorisations in Portugal in connection with the issue and performance of the Notes. The issue of the Notes was authorised pursuant to a resolution of the Executive Board of Directors of the Issuer on 28 April 2015 and a resolution of the General and Supervisory Board of the Issuer on 7 May 2015.

(2) It is expected that listing of the Notes on the Official List of the Irish Stock Exchange and to trading on the Main Securities Market will be granted on or about 16 September 2015. Before official listing, dealings will be permitted by the Main Securities Market in accordance with its rules. Transactions will normally be effected for delivery on the third working day in London after the day of the transaction.

(3) An estimate of total expenses related to admission to trading is €6790.

(4) Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission of the Notes to the Official List of the Irish Stock Exchange or to trading on the Main Securities Market for the purposes of the Prospectus Directive.

(5) The Notes have been accepted for clearance through the clearing system operated by Interbolsa. The Notes will also be eligible for clearing and settlement through Euroclear Bank S.A./N.V., and Clearstream Banking, société anonyme holding Notes through a custodian that is a member participating in the system managed by Interbolsa. The ISIN for the Notes is PTEDPUOM0024 and the Common Code is 129176784.

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.

(6) From (and including) the Issue Date to (but excluding) the First Call Date, the yield on the Notes will be 5.500 per cent. per annum. The relevant yield is calculated at the Issue Date on the basis of the Issue Price and on the basis that no Change of Control Event occurs during such period. It is not an indication of future yield.

(7) There has been no significant change in the financial or trading position of the Issuer nor the Group since 30 June 2015. There has been no material adverse change in the prospects of the Issuer nor the Group since 31 December 2014.

(8) Save as described in note 37 (*Provisions for liabilities and charges*) to EDP'S consolidated financial statements for the six months ended June 2015 and EDP's consolidated financial statements for the year ended 31 December 2014(which are incorporated by reference in this Prospectus), neither the Issuer nor any other member of the EDP Group is or has been involved in any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer 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 the Issuer or the EDP Group.

(9) The auditors of the Issuer are KPMG & Associados, SROC, SA, independent certified public accountants, who have audited (i) the consolidated financial statements of the EDP Group as of and for the year ended on 31 December 2014, without qualification, prepared in accordance with International Financial Reporting Standards (**IFRS**) as adopted by the EU and (ii) the consolidated financial statements of the EDP Group as of and for the year ended on 31 December 2013, without qualification, prepared in accordance with IFRS, as adopted by the EU. The auditors of the Issuer have no material interest in the Issuer. KPMG & Associados, SROC, S.A. is a member of the Portuguese Institute of Statutory Auditors (''*Ordem dos Revisores Oficiais de Contas*'').

(10) Copies of this Prospectus, the latest annual report and consolidated accounts of the Issuer, the latest interim consolidated accounts of the Issuer and the documents referred to in *"Incorporation by Reference"* above may be obtained free of charge, and copies of the Articles of Association (with an English translation thereof) of the Issuer, the Subscription Agreement, the Interbolsa Instrument and the Paying Agency Agreement will be available for inspection at the specified offices of the Principal Paying Agent and the Portuguese Paying Agent during normal business hours, so long as any of the Notes are outstanding. In addition, this Prospectus will be available, in electronic format, on the website of the Irish Stock Exchange (www.ise.ie).

(11) Certain Lead Managers 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 Issuer and its affiliates in the ordinary course of business. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. Certain Lead Managers or their affiliates that have a lending relationship with the Issuer or its affiliates routinely hedge their credit exposure to the Issuer or its affiliates in a way consistent with their customary risk management policies. Typically, such Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer's or its affiliates' securities, including potentially the Notes offered hereby. Any such short positions could adversely affect future trading prices of the Notes offered hereby. The Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

(12) The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

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