**The business operations of the EDP Renováveis Group**

EDP Renováveis, Sociedad Anónima (hereinafter referred to as "EDP Renováveis") was incorporated on 4 December 2007. Its main corporate objective is to engage in activities related to the electricity sector, namely the planning, construction, operation and maintenance of electricity generating power stations, especially hydroelectric, mini-hydroelectric, wind, solar, thermal solar, photovoltaic, biomass and waste plants, among others. The registered offices of the company are located in Oviedo, Spain. On 18 March 2008 EDP Renováveis was converted into a company incorporated by shares (Sociedad Anónima).

During 2008, the shareholders of EDP Renováveis approved several share capital increases, which were effected through non monetary contributions (4,718 thousands of Euros plus 175,490 thousands of Euros of share premiums), incorporation of share premiums (2,057,828 thousands of Euros) and conversion of shareholders' loans (1,300,000 thousands of Euros). Also, during this period the shareholders of EDP Renováveis also approved the split of share nominal value from 10 to 2 Euros and then from 2 to 5 Euros per share).

On 4 June, 2008, following an Initial Public Ofering ("IPO"), EDP Renováveis, S.A. became a public traded company listed in the Euronext Lisbon. As a result of the IPO, the company's share capital was increased through the public subscription of 196,024,306 new shares, resulting in a capital increase of 980,122 thousands of Euros, and a share premium of 552,035 thousands of Euros.

As at 31 December 2008, the share capital amounts to 4,361,541 thousands Euros, divided into 872,308,162 shares of 5 Euros par value each, fully subscribed and paid. The share capital is held 62.02% by EDP S.A. through its branch in Spain, 15.51% by Hidrocantábrico and 22.47% of the share capital is free-float in the Euronext Lisbon.

As at 31 December, 2008, EDP Renováveis holds a 100% stake in the share capital of Nuevas Energias de Occidente ("NEO") and a 100% stake in the share capital of Horizon Wind Energy, LLC ("Horizon"). These holdings were transferred to EDP Renováveis through several share capital increases in kind subscribed by EDP Energias de Portugal, S.A. Sucursal en España (EDP Branch) and Hidroeléctrica del Cantábrico, S.A. The holding in Horizon was acquired by EDP Sucursal, on 2 July 2007, from Goldman Sachs, and was subsequently transferred to EDP Renováveis on 18 December 2007.

NEO operates through its subsidiaries located in Portugal, Spain, France, Belgium, Poland and Romania. NEO's main subsidiaries are: Enernova (wind farms in Portugal), Genesa (renewable resources electricity generation in Spain), Agrupación Eólica (wind farms in Spain and France), Greenwind (wind farms in Belgium - partnership with local investors) and Relax Wind Parks (wind farms in Poland).

Horizon's main activities consist on the development, management and operation of wind farms in the United States of America. Horizon holds a portfolio of projects in the operation and development stages and a portfolio of projects with a potential generation capacity of 10,500 MW.

On 26 February 2008, EDP Renováveis announced the incorporation of a new Brazilian company, 55% owned by EDP Renováveis and 45% owned by Energias do Brasil (the EDP Group Brazilian holding company which consolidates all assets related to generation, trade and distribution of electricity in Brazil). The purpose of this new EDP Renováveis Group company is to establish a new business unit to aggregate all the investments in the renewable energy market of South America.

On 8 April 2008, EDP Renováveis through its subsidiary NEO, acquired to EOLE76 and Eurocape in France (i) 3 operating wind farms in Normandia with a gross installed capacity of 35 MW and (ii) several wind farms in development, mainly located in Normandia and Rhônes-Alpes, that represent a total capacity of 560 MW.

On 11 June 2008, EDP Renováveis through the new company incorporated in Brazil, agreed to purchase 100% of "Central Nacional de Energia Eólica, S.A. ("CENAEEL"). The conclusion of this operation depends from administrative and contractual authorizations.

On 27 June 2008, EDP Renováveis through its subsidiary Horizon, started operations in its biggest wind farm in the USA ("Lone Star"), located in Texas, with an installed capacity of 400 MW.

On 2 October 2008, EDP Renováveis through its subsidiary Horizon, started operations in Rattlesnake Road wind farm, located in Oregon, with an installed capacity of 103 MW.

On 3 October 2008, the Congress of the United States of America ("USA") passed a one-year extension of the renewable energy Production Tax Credit ("PTC") that was included as part of the economic recovery legislation approved in the USA. The extension of the PTC reinforces the positive moment for the development of renewable energy in the USA where EDP Renováveis is present through Horizon Wind Energy LLC.

On 17 October 2008, EDP Renováveis through its subsidiary NEO, acquired 85% of Renovatio Power SRL and Cernavoda Power SRL in Romania which own several wind farms in prospects and development phases that represent a total capacity of 737 MW.

On 29 December 2008, EDP Renováveis through its subsidiary Horizon, agreed to enter into a transaction with a consortium of institutional equity investors composed of JPM Capital Corporation, New York Life Insurance Company and New York Life Insurance and Annuity Corporation for the investment in a portfolio of wind farm projects that started operations in 2008. The total contribution of this consortium for the transaction amounts to 264,000 thousands of USD, of which 214,000 thousands of USD to be invested in December 2008 and 50,000 thousands of USD in January 2009.

As at 31 December 2008, EDP Renováveis and its subsidiaries ("the Group" or the "EDP Renováveis Group") had a total gross installed capacity of 5,052 MW, operating in Portugal (553 MW), Spain (2,109 MW), France (185 MW), Belgium (47 MW) and the United States (2,158 MW).

**Regulatory framework for the activities in Spain**

The Electrical Sector in Spain is regulated by Law 54 of 27 November 1997 and subsequent amendments to legislation.

Royal Decree 436 of 12 March 2004 was published on 24 March 2004 and sets out the methodology to be used for updating and systematizing the legal and economic regime relating to electrical power production under the special regime, which includes the generation of electricity using renewable sources of energy, cogeneration, biomass and waste. This Royal Decree replaces the former Royal Decree 2818/1998 and unifies regulations applicable to special regime energies. The Royal Decree also defines a system whereby the owners of the electrical installation are entitled to sell the production or surplus electrical power to distributors. A regulated price can be received for this sale, or production and surplus can be sold directly on the daily market, futures market or through a bilateral agreement, in which case a market-negotiated price would be received, plus an incentive for participation in the agreement and a premium if the installation was entitled to receive it.

Royal Decree 661 of 25 May 2007 was published on 26 May 2007 and regulates electrical power produced under the special regime. This Royal Decree replaces Royal Decree 436 of 12 March 2004 and updates regulations on electrical power production under the special regime, whilst maintaining the basic structure of the regulation. The economic framework set out in this Royal Decree maintains the same system of payment for power produced under the special regime, whereby the owner of the installations can opt to sell its power at a regulated price, for all the programming periods only, or sell the power directly on the daily market, futures market or through a bilateral agreement, in this case receiving the negotiated price plus a premium.

The main changes to the Royal Decree include a modification to the regulated price and premiums and the introduction of a variable premium system for certain technologies, such as wind power. The owners of wind power installations officially entering into service prior to 1 January 2008 can opt to adhere to the transitory regime established in the first transitory provision, which stipulates that the owners of this installations may maintain the prices and premiums established in the aforementioned Royal Decree until 31 December 2012.

The NEO Group has opted to sell on the market the power of all its installations currently in operation and to remain in the transitory regime established in the new Royal Decree 661/2007, for all wind power installations officially entering into service prior to 1 January 2008.

**Regulatory framework for the activities in Portugal**

The Portuguese legal provisions applicable to the generation of electrical power based on renewable resources are currently established by Decree-Law No. 189/88 dated 27 May 1998, as amended by Decree-Law No. 168/99 dated 18 May 1999, Decree-Law No. 312/2001 dated 10 December 2001, and Decree-Law No. 339-C/2001 dated 29 December 2001. Also relevant is Decree-Law No. 33-A/2005, dated 16 February 2005 ("DL 33-A/2005"), which establishes the current amounts used in the remuneration formula applicable to energy produced by means of renewable resources and the deadlines for the application of such remuneration formula.

The main feature of the legal framework for renewable energy power generation in Portugal is that the national grid operator or the regional distribution operator must purchase all electricity produced by renewable producers who hold an operating license. The construction and operation of a wind farm depends on the allocation of a grid connection point issued by the State Energy Department (Direcção Geral de Geologia e Energia) ("DGGE"). The issue of the point of connection by the DGGE occurs upon the request of the promoters during limited periods of time set by the DGGE or by means of a public tender procedure. Award by direct negotiation is exceptional.

Decree-Law No. 225/2007 dated 31 May, establishes a set of regulations associated to renewable energies, predicted in National Strategy for Energy, and has reviewed the formula used in estimating the remuneration of electricity supply generated by renewable power stations, and delivered to the grid of National Electric System, as well as the definition of attribution procedures of available power in the same grid and deadlines to obtain the establishment license to renewable power stations.

Still in the context of renewable energies, Decree-Law No. 363/2007, dated 2 November, has established the legal regime applicable to electricity generation by micro-generating power stations, both using renewable resources as primary energy or generating electricity and heat. The electricity generators able to access this activity are those that have a low tension electricity purchase agreement.

Since July 1, 2007, the Iberian electricity financial market ("MIBEL") has been fully operational, with daily transactions from both Portugal and Spain, including a forwards market that has operated since July 2006.

**Regulatory framework for the activities in France**

The electricity industry in France is governed primarily by Act 2000-108 (amended by Acts 2004-803 and 2006-1537) ("Act 2000"), passed on 10 February 2000, which governs the modernization and development of public energy services and is the general legislative framework for the operation of wind facilities in France. The operation of wind facilities in France is also subject to the provisions of the French environmental and construction code. Article 10 of Act 2000-108 requires non-nationalized electric power distributors to enter into purchase obligation contracts to buy electricity produced by: (i) installations that extract energy from household or similar waste or that use such sources to provide heat to a district heating system; and (ii) installations that use renewable energy sources (including mechanical energy from wind, for which special provisions apply).

Installations that use renewable energy sources, with the exception of those using mechanical wind energy that are located in areas connected to the continental metropolitan grid or that implement energy-efficient technology such as cogeneration, do not qualify for the power purchase obligation unless they comply with defined installed capacity limits. These limits are set by a decree of the Conseil d'Etat (Decree 2000-1196 of 6 December 2000) for each category of installation eligible to benefit from the power purchase obligation. With the new regulation, only wind farms operating within a ZDE (zone de développement éolien) can benefit the power purchase obligation. The power purchase contracts with non-nationalized distributors of electricity are premised on the rates set by ministerial order for each source of renewable energy and according to a model contract approved by the energy minister.

Act 2000 provides that operator of wind facilities may enter into long-term agreements for the purchase and sale of energy with Electricité de France (EDF). The tariffs are set by Order of July 10, 2006 wich was repealed in August 2008 due to formal defect in its approval, and then republished without any amendment in December 2008. The tariffs are the following: i) during the first ten years of the EDF Agreement, EDF pays a fixed annual tariff, which is 82 Euros per MWh for applications made during 2006 (tariff is amended annualy based, in part, on a inflation-related index), ii) During years 11 to 15 of the EDF Agreement, the tariff is based on the annual average percentage of energy produced during the wind facility' s first ten years. These tariffs are also amended annually, based, in part, on a inflation-related index. iii) Beginning in the year 16, there is no specific support structure and the wind energy generators will sell their electricity at market price.

**Regulatory framework for the activities in the United States of America**

Federal, state and local energy laws and regulations regulate the development, ownership, business organization and operation of electric generating facilities and the sale of electricity in the United States. All project companies within the Group in the United States operate as exempt wholesale generators ("EWGs") or qualifying facilities ("QFs") under federal law or are dually certified. In addition, most of the project companies in the United States are regulated by the Federal Energy Regulatory Commission ("FERC") and have market-based rates on file with FERC.

EWGs are owners or operators of electric generation (including producers of renewable energy, such as wind projects) that are engaged exclusively in the business of owning and/or operating generating facilities and selling electric energy at wholesale rates. An EWG cannot make retail sales of electric energy and may only own or operate the limited interconnection facilities necessary to connect its generating facility to the grid.

**Regulatory framework for the activities in Poland**

The legislation applicable to renewable energy in Poland is primarily contained in an Energy Act passed on 10 April 1997, which has been amended by the Act of 24 July 2002 and the Energy Act of 2 April 2004, which came into effect in January 2005 (together, the "Energy Act"). The Energy Act implemented provisions (i) of Directive 2003/54/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in electricity, (ii) of Directive 2003/55/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in natural gas, and (iii) of Directive 2001/77/EC of the European Parliament and of the Council of 27 September 2001 on the promotion of electricity produced from renewable energy sources in the internal electricity market. Detailed regulations regarding the scope of the energy sector are included in the relevant secondary regulations adopted under the Energy Act. On the basis of the Energy Act, the national energy regulatory authority–the president of the Energy Regulatory Authority (the "ERA President") – was established.

Pursuant to the Energy Act, the different forms of supporting power generation from renewable sources introduced in Poland are: (i) A system of obligatory purchase of certificates of origin by the generation companies and trading companies selling electricity to the end user interconnected to a grid in Poland. These power companies are obliged to: a) obtain a certificate of origin and submit it to the ERA President for cancellation, or b) pay a substitute fee calculated in accordance with the Energy Act. ii) If the power company does not purchase certificates of origin or does not pay a substitute fee, the ERA President will penalize such company with a financial penalty calculated in accordance with the Energy Act.

The minimun limit of electricity generated from renewable sources in the total annual volume of electricity delivered to the end users is specified in the ordinance of Ministry of Economy adopted under the Energy Act. In 2008, this minimum limit was 7% and will increase each year up to 12,9% in 2017. These quotas were originally fixed until 2014 but a new regulation approved in August 2008 fixed the quotas for years 2015-2017 and increased the quota for 2013 and 2014.

**Regulatory framework for the activities in Belgium**

The regulatory framework for electricity in Belgium is complex in view of the division of powers between the federal and the three regional entities: Wallonia, Flanders and Brussels-Capital. The federal regulatory field of competence includes electricity transmission (of transmission levels above 70 kV), generation, tariffs, planning and nuclear energy. The relevant federal legislation is the Electricity Act of 29 April 1999 (as modified) (the "Electricity Act"). The regional regulatory entities are responsible for distribution, renewable energy and cogeneration (with the exception of offshore power plants) and energy efficiency. The relevant regional legislation, respectively, is: (a) for Flanders, the Electricity Decree of 17 July 2000; (b) for Wallonia, the Regional Electricity Market Decree of 12 April 2001; and (c) for Brussels-Capital, the Order of 19 July 2001 on the Organization of the Electricity Market.

In view of the allocation of responsibilities between the federal government and the regions, there currently exist four energy regulators: (a) the federal Commission for Electricity and Gas Regulation ("CREG"); (b) the Flemish Electricity and Gas Regulatory Body ("VREG"); (c) the Walloon Energy Commission ("CwaPE"); and (d) the Regulatory Commission for Energy in the Brussels-Capital Region ("BRUGEL").

The Belgian regulatory system promotes the generation of electricity from renewable sources (and cogeneration) by a system of green certificates (each a "GC"), as described below. The Belgian federal government is responsible for offshore power plants and for imposing obligations on the transmission system operators. The various GC systems are very similar across the three regions and are similar to the GC system for federally-regulated offshore power plants. There are currently differences in terms of quotas, fines and thresholds for granting GCs. However, GCs issued in one region or by the Federal government in respect of offshore plants are not recognized automatically in the other regions.

The GC system aims at creating a market for GC parallel to the market of sale of electricity. In March 2009 an exchange market for GCs will be launched. Besides the GC market, there is a minimum guaranteed price system at the federal level (obligations imposed on the transmission system operator) or at a regional level (the production aid regime in Flanders and Wallonia).

**Regulatory framework for the activities in Romania**

The promotion of electricity generated from renewable energy sources in Romania was set with the Electricity Law 318/2003. In 2005 a Green Certificate mechanism was introduced with mandatory quotas for suppliers, in order to comply with their EU renewable requirements. Romania must comply with its target of 33% of gross electricity consumption from renewable energy in 2010. The regulatory authority establishes a fixed quota of electricity produced from renewable energy sources which suppliers are obliged to buy and annually reviews applications from green generators in order to be awarded green certificates. Law 220/2008 of 3 November 2008 has introduced some changes in the green certificates system. Currently, producers of wind energy receive two green certificates for each MWh produced (until 2015), which can be sold separately from the physically delivered electricity. From 2016 onwards generators receive 1 green certificate for each MWh produced. The price of electricity is determined in the electricity market and the price of green certificates is determined on a parallel market.

The trading value of green certificates has a floor of 27 Euros and a cap of 55 Euros, both indexed to Romanian inflation. Law 220/2008 also guarantees the access to the National Grid for the electricity produced from renewable sources. In 2007 a new Energy Law was approved (Law 13/2007), which sets July 2007 as the limit date for the legal unbundling in Romania and defines the role of Implicit Supplier and of the Supplier of Last Resort.

**Regulatory framework for the activities in Brazil**

The Electrical Sector in Brazil is regulated by Federal Law nº 8,987 of 13 February 1995, which generally rules the concession and permission regime of public services; Law nº 9,074 of 7 July 1995, which rules the grant and extension of public services concession or permission contracts; Federal Law nº 10,438 of 26 April 2002, which governs the increase in Emergency Electric Power Supply and creates the 3,300 MW Program of Incentives for Alternative Electricity Sources (PROINFA); Federal Law nº 10,762 of 11 November 2003 and Law nº 10,848 of 15 March 2004, concerning commercial rules for the trade of Electric Power and; Subsequent amendments to the legislation.

The Decree nº 5,025 of 30 March 2004, regulates the Federal Law nº 10,438 and states the "Alternative Energy Sources" economical and legal framework. PROINFA participants have granted a PPA with ELETROBRÁS, and are subject to the regulator (ANEEL) authority. However, the first stage of PROINFA has ended and the second stage is highly uncertain.

The Decree nº 5,163 of 30 July 2004 regulates the Federal Law nº 10,762, establishing the possibility of distribution companies and authorized agents to buy *"Distributed Energy"* (Local Generation), by observing a limit of 10% of the total demand of each distribution agent. In addition, the Law nº 10,762 establishes the possibility of an Alternative Source Electricity Producer to sell directly to the final consumer(s) (aggregated demand > 500kW), at any voltage level. As part of the regulatory incentive framework, Renewable Energy producers (or buyers) are granted a discount on the Distribution and Transmission System Use Tariff (TUSD and TUST). Public Electricity Auctions are technically lead by the state "Energy Planning and Research Company" (EPE), who registers, analyses and allows potential participants.

In addition, the Law nº 10,438 has also regulated the use of a special sector fund, the Fossil Fuel Consumption Quota (CCC), to low cost financing of Renewable ventures that are able to replace fossil fuel based energy production.

## 2. Accounting policies

### a) Basis of preparation

The consolidated annual accounts presented reflects EDP Renováveis and its subsidiaries results from operations and Group's interests in its associated companies for the year ended 31 December 2008 and to EDP Renováveis for the period from 4 to 31 December 2007 and to its subsidiaries (NEO and Horizon) for the 13 day period ended 31 December 2007 and the financial position as at 31 December 2008 and 31 December 2007.

In accordance with Regulation (EC) no. 1606/2002 of 19 July 2002, from the European Council and Parliament, the Group's consolidated annual accounts are prepared in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Union (EU). IFRS comprise accounting standards issued by the International Accounting Standards Board ('IASB') and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor bodies.

The Board of Directors approved these consolidated annual accounts on 26 February 2009. The annual accounts are presented in thousand of Euros, rounded to the nearest thousand.

The annual accounts have been prepared under the historical cost convention, modified by the application of fair value basis for derivative financial instruments, financial assets and liabilities held for trading and available-for-sale, except those for which a reliable measure of fair value is not available. Recognised assets and liabilities that are hedged under hedge accounting are stated at fair value in respect of the risk that is being hedged. Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

EDP Renováveis started its activities on 4 December 2007, consequently, the Group income statement and notes to the income statement captions are not comparable to the Group income statement and notes to the income statement on 31 December 2008.

The preparation of the annual accounts in accordance with the EU-IFRS requires the Board of Directors to make judgments, estimates and assumptions that affect the application of the accounting policies and of the reported amounts of assets, liabilities, income and expenses. The estimates and related assumptions are based on historical experience and other factors believed to be reasonable under the circumstances. They form the basis for making judgments regarding the values of the assets and liabilities whose valuation is not apparent from other sources. Actual results may differ from these estimates. The areas involving the highest degree of judgment or complexity, or for which the assumptions and estimates are considered significant, are disclosed in Note 3 (Critical accounting estimates and judgments in applying accounting policies).

In accordance with IFRS 3, the adjustments that have resulted from the purchase price allocation carried out in 2008 for the Relax Winds Group goodwill booked in 2007 originates a restatement/reclassification of the comparative financial information as if the accounting for this business combination had been completed at the date of acquisition.

The working capital of EDP Renováveis as at 31 December 2008 is negative. The consolidated financial statements of EDP Renováveis and its subsidiaries have been prepared on a going concern basis, considering that the main shareholder has undertaken in writting to provide the necessary financial support for Nuevas Energias de Occidente, S.L. and Horizon Wind Energy, LLC (the parent companies of NEO and Horizon subgroups) to meet their commitments in the short and medium term.

**b) Basis of consolidation**

The consolidated annual accounts of EDP Renováveis comprise the assets, liabilities and results of EDP Renováveis and its subsidiaries and the results and net equity from its associated companies attributable to the Group. These accounting policies have been consistently applied by all Group companies.

*Subsidiaries*

Investments in subsidiaries where the Group has control are fully consolidated from the date EDP Renováveis assumed control over the financial and operational activities until the moment that control ceases to exist. Control is presumed to exist when the Group owns more than half of the voting rights. Control also exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity, so as to obtain benefits from its activities, even if its shareholding is less than 50%.

Accumulated losses of a subsidiary attributable to minority interest, which exceed the equity of the subsidiary attributable to the minority interest, are attributed to the Group and charged to the income statement when incurred. If the subsidiary subsequently reports profits, such profits are recognised as profits of the Group until the losses attributable to the minority interest previously recognised by the group have been recovered.

*Associates*

Investments in associates are accounted for by the equity method since the date on which significant influence is transferred to the Group until the date it ceases. Associates are entities over which the Group has significant influence, but not control, over its financial and operating policies. Generally when the Group holds more than 20% of the voting rights of the investor it is presumed that it has significant influence. If the Group holds, directly or indirectly, less than 20% of the voting rights of the investor it is presumed that the group does not have significant influence, except when such influence can be clearly demonstrated.

The significant influence by EDP Renováveis Group is normally demonstrated by one or more of the following ways:
- Representation on the Board of Directors or equivalent management committee;
- Participation in the policy making processes, including participation in decisions over dividends and other distributions;
- Existence of material transactions between the Group and the investor;
- Interchange of managerial personnel;
- Provision of essential technical information.

The consolidated annual accounts include the Group's attributable share of total reserves and results of associated companies accounted under the equity method. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has a legal or constructive obligation of covering those losses or make payments on behalf of the associate.

*Jointly controlled entities*

Jointly controlled entities, consolidated under the proportionate consolidation method, are entities over whose activities the Group has joint control along with another company, under a contractual agreement. The consolidated annual accounts include the Group's proportionate share of the joint ventures' assets, liabilities, revenue and expenses, from the date the joint control begins until it ceases.

*Consolidation differences - Goodwill*

Following the transition to International Financial Reporting Standards (IFRS), adopted by the EDP Energias de Portugal Group as of 1 January 2004, and as permitted by IFRS 1 — First-time Adoption, the EDP Group opted to maintain the goodwill resulting from the business combinations that occurred prior to the transition date, calculated according to the previous accounting principles applied by the Group. This accounting policy was maintained when the holdings in NEO and Horizon were transferred to EDP Renováveis Group. As such, the goodwill booked on the EDP Renováveis consolidated annual accounts remained as it was on the EDP Energias de Portugal Group consolidated annual accounts on the date of the transfer (18 December 2007).

Business combinations occurring are recorded using the purchase method. According to this method, the acquisition cost is equivalent to the fair value of assets transferred and liabilities incurred or assumed on the purchase date, plus any costs directly attributable to the acquisition. The total amount of positive goodwill resulting from acquisitions is recognised as an asset and recorded at cost, not being subject to depreciation.

Goodwill arising on the acquisition of holdings in subsidiaries and associates is defined as the difference between the acquisition cost and the proportion of fair value of the identifiable assets, liabilities and contingent liabilities acquired by the Group.

The Group recognises as a liability the fair value of the liability related to minority interest acquired through written put options celebrated with those minority interest. Any differences between the minority interest acquired and the fair value of the liability, are recognised against goodwill.

Fair value is based on contractual price, that can be fixed or variable. In the case of variable price, responsibility value is discounted against goodwill and the discount unwinding is recognised as results.

The value of goodwill recognised as an asset is assessed annually to identify any impairment, regardless of the existence of any indication of impairment. Impairment losses are recognised in the year's income statement. The recoverable amount is determined based on the future economic benefits of the assets, which are calculated using valuation methods based on discounted cash flows techniques, considering market conditions, time value of money and business risks.

Negative goodwill arising on an acquisition is recognised directly in the income statement in the period when the business combination occurs.

*Investments in foreign operations*

The annual accounts of the foreign subsidiaries and associates of the Group are prepared using their functional currency, defined as the currency of the primary economic environment in which they operate. In the consolidation process, the assets and liabilities of foreign subsidiaries are translated into Euros at the official exchange rate prevailing at the balance sheet date.

In relation to the foreign subsidiaries consolidated using the full consolidation, proportional or equity method, the exchange differences arising from the amount expressed in Euros of the opening balance of net assets at the beginning of the year and the translation to Euros of the opening balance of net assets using the year end exchange rate, are booked against reserves.

Goodwill from foreign operations is revaluated using the year end exchange rate, and booked against reserves.

The income and expenses of foreign subsidiaries are translated to Euros, at the approximate exchange rates ruling at the dates of the transactions. Exchange differences arising from the translation of the result for the reporting period from the exchange rate used in the income statement to the exchange rate prevailing at the balance sheet date are recognised in reserves.

On disposal of a foreign operation, exchange differences related thereto and previously booked against reserves are accounted in the income statement.

*Balances and transactions eliminated on consolidation*

Inter-company balances and transactions, including any unrealised gains and losses on transactions between group companies, are eliminated in preparing the consolidated annual accounts. Unrealised gains and losses arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in those entities.

*Common control transactions*

The accounting for transactions among entities under common control is excluded from IFRS 3. Consequently, in the absense of specific guidance, within IFRSs, the EDP Renováveis Group has developed an accounting policy for such transactions, as considered appropriate. According to the Group's policy, business combinations among entities under common control are accounted for in the consolidated annual accounts using the book values of the acquired company (subgroup). The difference between the carrying amount of the net assets received and the consideration paid, is recognised in equity.

*Put options related to minority interests*

EU-IFRS currently do not establish specific accounting treatment for commitments related to written put options related with investments in subsidiaries held by minority interests at the date of acquisition of a business combination. Nevertheless, the EDP Renováveis Group records these written put options at the date of acquisition of a business combination or at a subsequent date as an advance acquisition of these interests, recording a financial liability for the present value of the best estimate of the amount payable, irrespective of the estimated probability that the options will be exercised. The difference between this amount and the amount corresponding to the percentage of the interests held in the identifiable net assets acquired is recorded as goodwill. In the event that these written put options are engaged at a date subsequent to the acquisition of the business combination, the same accounting policy would be applied.

In years subsequent to initial recognition, the changes in the liability due to the effect of the financial discount are recognised as a financial expense in the consolidated income statement, and the remaining changes are recognised as an adjustment to the cost of the business combination. Where applicable, dividends paid to minority shareholders up to the date the options are exercised are also recorded as adjustments to the cost of the business combination. In the event that the options are not exercised, the transaction would be recorded as a sale of interests to minority shareholders.

**c) Foreign currency transactions**

Foreign currency transactions are translated at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Euros at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Euros at the foreign exchange rates ruling at the date the fair value was determined.

**d) Derivative financial instruments and hedge accounting**

Derivative financial instruments are recognised on the trade date at fair value. Subsequently, the fair value of derivative financial instruments is re-measured on a regular basis, being the gains or losses on re-measurement recognised directly in the income statement, except for derivatives designated as hedging instruments. The recognition of the resulting gains or losses on re-measurement of the derivatives designated as hedging instruments depends on the nature of the risk being hedged and of the hedge model used.

The fair value of derivatives correspond to their quoted market prices, if available, or, in the absence of a market, are determined by external entities through the use of valuation techniques, including discounted cash flows models and option pricing models, as appropriate.

**Hedge accounting**

The Group uses financial instruments to hedge interest and foreign exchange risks resulting from its operational and financing activities. The derivate financial instruments that do not qualify for hedge accounting are recorded as for trading.

The derivatives that are designated as hedging instruments are recorded at fair value, being the gains and losses recognised in accordance with the hedge accounting model adopted by the Group. Hedge accounting is used when:

(i) At the inception of the hedge, the hedge relationship is identified and documented;
(ii) The hedge is expected to be highly effective;
(iii) The effectiveness of the hedge can be reliably measured;
(iv) The hedge is revalued on a on-going basis and is considered to be highly effective over the reporting period; and
(v) The forecast transactions hedged are highly probable and represent a risk to changes in cash flows that could affect the income statement.

*Fair value hedge*

Changes in the fair value of the derivative financial instruments that are designated as hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the risk being hedged. If the hedge no longer meets the criteria for hedge accounting, the accumulated gains or losses concerning the fair value of the risk being hedged are amortised over the period to maturity.

*Cash flow hedge*

The effective portion of the changes in the fair value of the derivative financial instruments that are designated as hedging instruments in a cash flow hedge model is recognised in equity. The gains or losses relating to the ineffective portion of the hedging relationship are recognised in the income statement in the moment they occur.

The cumulative gains or losses recognised in equity are also reclassified to the income statement over the periods in which the hedged item will affect the income statement. When the forecast transaction hedge results in the recognition of a non-financial asset or liability, the gains or losses recorded in equity are included in the acquisition cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in equity at that time stays recognised in equity until the hedged transaction also affects the income statement. When the forecasted transaction is no longer expected to occur, the cumulative gains or losses recognized in equity are recorded in the income statement.

*Net investment hedge*

The net investment hedge is applied on a consolidated basis to investments in subsidiaries in foreign currencies. The exchange differences recorded against exchange differences arising on consolidation are offset by the exchange differences arising from the foreign currency borrowings used for the acquisition of those subsidiaries. If the hedging instrument is a derivative, the gains or losses arising from fair value changes are also recorded agianst exchange differences arising on consolidation. The ineffective portion of the hedging relation is recognised in the income statement.

*Effectiveness*

For a hedge relationship to be classified as such, in accordance with IAS 39, its effectiveness should be demonstrated. Therefore, the Group performs prospective tests at inception and retrospective tests on an on-going basis to demonstrate the effectiveness at each balance sheet date, demonstrating that any changes in the fair value of the hedged item (risk being hedged) are hedged by changes in the fair value of the hedging instrument. Ineffectiveness is recognised in the income statement in the moment it occurs.

**e) Other financial assets**

The Group classifies its other financial assets at acquisition date in the following categories:

*Financial assets at fair value through profit or loss*

This category includes: (i) financial assets held for trading, which are those acquired principally for the purpose of being sold in the short term and (ii) financial assets that are designated at fair value through profit or loss at inception.

*Available for sale investments*

Available for sale investments are non-derivative financial assets (i) intended to be held for an indefinite period of time, or (ii) designated as available for sale at initial recognition.

**Initial recognition, measurement and derecognition**

Purchases and sales of: (i) financial assets at fair value through profit or loss and (ii) available for sale investments, are recognised on trade date, the date on which the Group commits to purchase or sell the assets.

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, in which case these transaction costs are directly recognised in the income statement.

Financial assets are derecognised when (i) the contractual rights to receive their cash flows have expired, (ii) the Group has transferred substantially all risks and rewards of ownership or (iii) although retaining some, but not substantially all of the risks and rewards of ownership, the Group has transferred the control over the assets.

**Subsequent measurement**

After initial recognition, financial assets at fair value through profit or loss are subsequently carried at fair value and gains and losses arising from changes in their fair value are included in the income statement in the period in which they arise.

Available for sale financial assets are also subsequently carried at fair value, however, gains and losses arising from changes in their fair value are recognised directly in equity, until the financial assets are derecognised or impaired, being the cumulative gains or losses previously recognised in equity recognised in the income statement. Foreign exchange differences arising from equity investments classified as available for sale are also recognised in equity, while foreign exchange differences arising from debt instruments are recognised in the income statement. Interest calculated using the effective interest rate method and dividends, are recognised in the income statement.

The fair values on quoted investments in active markets are based on current bid prices. For unlisted securities the Group determines the fair value through (i) valuation techniques, including the use of recent arm's length transactions or discounted cash flow analysis and (ii) valuation assumptions based on market information.

Financial instruments whose fair value cannot be reliably measured are carried at cost.

**Reclassifications between categories**

The Group does not reclassify, after initial recognition, a financial instrument into or out of the fair value through profit or loss category.

**Impairment**

At each balance sheet date, an assessment is performed as to whether there is objective evidence that a financial asset or group of financial assets is impaired, namely when losses may occur in future estimated cash-flows of the financial asset or group of financial assets, and it can be reliably measured.

If there is objective evidence of impairment, the recoverable amount of the financial assets is determined, the impairment losses being recognised through the income statement.

A financial asset or a group of financial assets is impaired if there is objective evidence of loss as a result of one or more events that occurred after their initial recognition, such as: (i) for listed securities, a significant or prolonged decline in the fair value of the security below its cost, and (ii) for unlisted securities, when that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets, that can be reliably estimated.

If there is objective evidence that an impairment loss on available for sale financial assets has been incurred, the cumulative loss recognised in equity, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement, is taken to the income statement.

For debt instruments, if in a subsequent period, the amount of the impairment losses decrease, the previously recognised impairment losses are reversed through the income statement up to the acquisition cost, if the increase is objectively related to an event occurring after the impairment loss was recognised. For equity instruments, the impairment reversal is recognised in equity.

**f) Financial liabilities**

An instrument is classified as a financial liability when it contains a contractual obligation to transfer cash or another financial asset, independently from its legal form. These financial liabilities are recognised (i) initially at fair value less transaction costs and (ii) subsequently at amortised cost, using the effective interest rate method.

The Group derecognises the whole or part of a financial liability when the obligations included in the contract have been satisfied or the Group is legally released of the fundamental obligation related to this liability either through a legal process or by the creditor.

Where financial instruments are exchanged between the Group and the counterparty, or substantial modifications are made to initially recorded liabilities, the original financial liability is derecognised and a new financial liability is subsequently recognised, provided that these instruments are substantially different.

The Group considers that the terms are substantially different if the current value of cash flows discounted under the new terms, including any commission paid net of any commission received, and using the original effective interest rate to make the discount, differs by at least 10% of the current discounted value of cash flows remaining from the original financial liability.

If the exchange is recognised as a cancellation of the original financial liability, costs or commissions are taken to the consolidated income statement. Otherwise, costs or commissions adjust the book value of the liability and are amortised following the amortised cost method over the remaining term of the modified liability.

The Group recognises the difference between the carrying amount of a financial liability (or part of a financial liability which has been cancelled or transferred to a third party) and the consideration paid, which includes any asset transferred other than cash or the liability assumed, with a debit or credit to the consolidated income statement.

### g) Borrowing costs

Borrowing costs that are directly attributable to the acquisition or construction of assets are capitalised as part of the cost of the assets. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. To the extent that funds are borrowed generally, the amount of borrowing costs eligible for capitalisation are determined by applying a capitalisation rate to the expenditures on these assets. The capitalisation rate corresponds to the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalised during a period does not exceed the amount of borrowing costs incurred during the period.

The capitalisation of borrowing costs commences when expenditures for the asset are being incurred, borrowing costs have been incurred and activities necessary to prepare all or part of the assets for their intended use or sale are in progress. Capitalisation ceases when substantially all the activities necessary to prepare the qualifying assets for their intended use or sale are completed. Capitalisation of borrowing costs shall be suspended during extended periods in which active development is interrupted.

### h) Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The cost of acquisition includes interest on external financing and personnel costs and other internal expenses directly or indirectly related to work in progress accrued solely during the period of construction. The cost of production is capitalised by charging costs attributable to the asset as own work capitalised under other operating income and personnel costs and employee benefit expense in the consolidated income statement.

Subsequent costs are recognised as separate assets only when it is probable that future economic benefits associated with the item will flow to the Group. All repair and maintenance costs are charged to the income statement during the financial period in which they are incurred.

The Group assesses assets impairment, whenever events or circumstances may indicate that the book value of the asset exceeds its recoverable amount, the impairment being recognised in the income statement.

The recoverable amount is determined by the highest value between the net selling price and its fair value in use, this being calculated by the present value of estimated future cash-flows obtained from the asset and after its disposal at the end of its economic useful life.

Land is not depreciated. Depreciation on the other assets is calculated using the straight-line method over their estimated useful lives, as follows:

| | Number of years |
|---|---|
| Buildings and other constructions | 20 to 33 |
| Plant and machinery | |
| Wind farm generation | 20 |
| Hydroelectric generation | 20 to 30 |
| Other plant and machinery | 15 to 40 |
| Transport equipment | 3 to 10 |
| Office equipment and tools | 3 to 10 |
| Other tangible fixed assets | 4 to 10 |

**i) Intangible assets**

The other intangible assets of the Group are booked at acquisition cost less accumulated amortisation and impairment losses. The Group does not own intangible assets with indefinite lives.

The Group assesses for impairment, whenever events or circumstances may indicate that the book value of the asset exceeds its recoverable amount, the impairment being recognised in the income statement. The recoverable value is determined by the highest amount between its net selling price and its value in use, this being calculated by the present value of the estimated future cash-flows obtained from the asset and sale price at the end of its economic useful life.

*Acquisition and development of software*

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of their expected useful lives.

Costs that are directly associated with the development of identifiable specific software applications by the Group, and that will probably generate economic benefits beyond one year, are recognised as intangible assets. These costs include employee costs directly associated with the development of the referred software and are amortised using the straight-line method during their expected useful lives.

Maintenance costs of software are charged to the income statement when incurred.

*Industrial property and other rights*

The amortisation of industrial property and other rights is calculated using the straight-line method for an expected useful live expected of less than 6 years.

**j) Leases**

*Operating leases*

Lease payments are recognised as an expense and charged to the income statement in the period to which they relate.

**k) Inventories**

Inventories are stated at the lower of the acquisition cost and net realisable value. The cost of inventories includes purchases, conversion and other costs incurred in bringing the inventories to their present location and condition. The net realisable value is the estimated selling price in the ordinary course of business less the estimated selling costs.

The cost of inventories is assigned by using the weighted average method.

**l) Accounts receivable**

Accounts receivable are initially recognised at their fair value and subsequently are measured at amortised cost less impairment losses.

Impairment losses are recorded based on the valuation of estimated losses from non-collection of accounts receivable at the balance sheet date. Impairment losses are recognised in the income statement, and can be reversed if the estimated losses decrease in a later period.

**m) Employee benefits**

**Pensions**

Enernova, one of the portuguese companies of EDP Renováveis Group attribute post-retirement plans to their employees under defined benefit plans and defined contribution plans, namely, pension plans that pay complementary old-age, disability and surviving-relative pension complements, as well as early retirement pensions.

*Defined benefit plans*

In Portugal, the defined benefits plan is financed through a restricted Pension Fund complemented by a specific provision. This Pension Fund covers liabilities for retirement pension complements as well as liabilities for early retirement.

The pension plans of the Group companies in Portugal are classified as defined benefit plans, since the criteria to determine the pension benefit to be received by employees on retirement is predefined and usually depend on factors such as age, years of service and level of salary at the age of retirement.

The liability of the Group with pensions is calculated annually, at the balance sheet date for each plan individually, by qualified actuaries using the projected unit credit method. The discount rate used in this calculation is determined by reference to interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liabilities.

Actuarial gains and losses determined annually and resulting from (i) the differences between financial and actuarial assumptions used and real values obtained and (ii) changes in the actuarial assumptions are recognised against equity, in accordance with the alternative method defined by IAS 19, revised on 16 December 2004.

The increase in past service costs arising from early retirements (retirements before the normal age of retirement) is recognised in the income statement when incurred.

Annually the Group recognises as cost in the income statement the net amount of, (i) the current service cost, (ii) the interest cost, (iii) the estimated return of the fund assets and (iv) the cost arising from early retirements.

The plan assets are recognised according to the conditions established by IFRIC 14 - IAS 19 and the minimum financing requirements defines legally or under a contract.

*Defined contribution plans*

In Spain and Portugal, some Group Companies have social benefit plans of defined contribution that complement those granted by the social welfare system to the companies employees, under which they pay a contribution to these plans each year, calculated in accordance with the rules established in each plan. The cost related to defined contribution plans is recognised in the results in the period in which the contribution is made.

**Other benefits**

*Medical care and other plans*

In Portugal some Group companies provide medical care during the period of retirement and early retirement, through complementary benefits to those provided by the Social Welfare System. These medical care plans are classified as defined benefit plans. The present value of the defined benefit obligation at the balance sheet date is recognised as a defined benefit liability. Measurement and recognition of the liability with healthcare benefits is similar to the measurement and recognition of the pension liability for the defined benefit plans, described above.

*Variable remuneration to employees*

In accordance with the by-laws of certain Group entities, annually the shareholders approve in the annual general meeting a percentage of profits to be paid to the employees (variable remuneration), following a proposal made by the Board of Directors. Payments to employees are recognised in the income statement in the period to which they relate.

**n) Provisions**

Provisions are recognised when: (i) the Group has a present legal or constructive obligation, (ii) it is probable that settlement will be required in the future and (iii) a reliable estimate of the obligation can be made.

*Dismantling and decommissioning provisions*

The Group recognises dismantling and decommissioning provisions for property, plant and equipment when a legal or contractual obligation is setlled to dismantling and decommissioning those assets at the end of their useful life. Consequently, the Group has booked provisions for property, plant and equipment related with wind turbines, for the expected cost of restoring sites and land to its original condition. The provisions correspond to the present value of the expenditure expected to be required to settle the obligation and are recognised as part of the initial cost or an adjustment to the cost of the respective asset, being depreciated on a straight-line basis over the asset useful life.

Decommissioning and dismantling provisions are remeasured on an annual basis based on the best estimate of the settlement amount. The unwinding of the discount at each balance sheet date is charged to the income statement.

**o) Recognition of costs and revenue**

Costs and revenues are recorded in the year to which they refer regardless of when paid or received, in accordance with the accrual concept. Differences between amounts received and paid and the corresponding revenue and expenditure are recorded under other assets and other liabilities.

Revenue comprises the amounts invoiced on the sale of products or of services rendered, net of value added tax, rebates and discounts, after elimination of intra-group sales.

Revenue from electricity sales is recognised in the period that electricity is generated and transferred to customers. Revenue from credits over renewable energies is recognised in the period in which the company signs the contract to sell those credits.

Engeneering revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in profit or loss in proportion to the stage of completion of the contract.

Differences between estimated and actual amounts, which are normally not significant, are recorded during the subsequent periods.

**p) Financial results**

Financial results include interest payable on borrowings, interest receivable on funds invested, dividend income, foreign exchange gains and losses, gains and losses on financial instruments and changes on fair value of the risk being hedged.

Interest income is recognised in the income statement based on the effective interest note method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

Financial results also include impairment losses on available for sale investments.

**q) Income tax**

Income tax for the year includes current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred taxes arising from the revaluation of cash flow hedge derivatives and financial assets available for sale recognised in shareholders' equity are recognised in the profit and loss in the period the results that originated the deferred taxes are recognized.

Current tax is the tax expected to be paid on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred taxes are calculated in accordance with the liability method based on the balance sheet, considering temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax basis, using the tax rates enacted or substantively enacted at the balance sheet date for each jurisdiction and that is expected to be applied when the temporary difference is reversed.

Deferred tax liabilities are recognised for all taxable temporary differences except for goodwill not deductible for tax purposes, differences arising on initial recognition of assets and liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available to absorb deductible temporary differences for taxation purposes.

**r) Earnings per share**

Basic earnings per share are calculated by dividing net income available to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding the average number of ordinary shares purchased by the Group and held as treasury stock.

For the diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to assume conversion of all dilutive potential ordinary shares, such as convertible debt and share options granted to employees. Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

**s) Non-current assets held for sale and discontinued operations**

Non-current assets or disposal groups (groups of assets and related liabilities that include at least a non-current asset) are classified as held for sale when their carrying amounts will be recovered principally through sale and the assets or disposal groups are available for immediate sale and its sale is highly probable.

The Group also classifies as non-current assets held for sale those non-current assets or disposal groups acquired exclusively with a view to its subsequent disposal, that are available for immediate sale and its sale is highly probable.

Immediately before classification as held for sale, the measurement of the non-current assets or all assets and liabilities in a disposal group, is adjusted in accordance with the applicable IFRS. Subsequently, these assets or disposal groups are measured at the lower of their carrying amount at fair value less costs to sell.

**t) Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents include balances with maturity less than three months from the balance sheet date, including cash and deposits with banks.

**u) Segment reporting**

A business segment is a distinguishable component of an entity that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments.

A geographical segment is a distinguishable component of an entity that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

**v) Government grants**

Government grants are recognised initially as deferred income under non-current liabilities when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

## 3. Critical accounting estimates and judgments in applying accounting policies

The IFRSs set forth a range of accounting treatments and require the Board of Directors to apply judgment and make estimates in deciding which treatment is most appropriate.

The main accounting estimates and judgements used in applying the accounting policies are discussed in this note in order to improve the understanding of how their application affects the Group's reported results and disclosures. A broader description of the accounting policies employed by the Group is disclosed in Note 2 to the Consolidated Annual Accounts.

Considering that in many cases there are alternatives to the accounting treatment adopted by the Executive Board of Directors, the Group's reported results could differ if a different treatment was chosen. The Executive Board of Directors believes that the choices made are appropriate and that the annual accounts are presented fairly, in all material respects, the Group's financial position and results. The alternative outcomes discussed below are presented solely to assist the reader in understanding the annual accounts and are not intended to suggest that other alternatives or estimates would be more appropriate.

**Impairment of available for sale investments**

The Group determines that available for sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost.

This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, valuations are generally obtained through listed market prices or valuation models that may require assumptions or judgment in making estimates of fair value.

Alternative methodologies and the use of different assumptions and estimates could result in a higher level of impairment losses recognised with a consequent impact in the income statement of the Group.

**Fair value of derivatives**

Fair values are based on listed market prices, if available, otherwise fair value is determined either by dealer prices (both for that transaction or for similar instruments traded) or by pricing models, based on net present value of estimated future cash flows which take into account market conditions for the underlying instruments, time value, yield curves and volatility factors. These pricing models may require assumptions or judgments in estimating fair values.

Consequently, the use of a different model or of different assumptions or judgments in applying a particular model may have produced different financial results for a particular period.

**Review of the useful life of assets related to production**

The Group regularly reviews the useful life of its electrical generation installations in order to bring it into line with the technical and economic measurements of the installations, taking into consideration their technological capacity and prevailing regulatory restrictions.

**Impairment of long term assets**

Impairment test are performed whenever there is an indication that the recoverable amount of property, plant, equipment and intangible assets is less than the corresponding net book value of assets.

The recoverable amount of the goodwill from investments in subsidiaries recognised as an asset is reviewed annually, regardless of whether there is any indication of impairment, and goodwill from associates is tested when there is any indication of impairment.

Considering that estimated recoverable amounts related to property, plant and equipment, intangible assets and goodwill are based on the best information available, changes in the estimates and judgments could change the impairment test results which could affects the Group's reported results.

**Doubtful debts**

Impairment losses related to Doubtful debts are estimated by the Board of Directors based on the estimated recoverable amounts, the date of default, debt write offs and other factors. Certain circumstances and facts may change the estimated impairment losses of Doubtful debts, namely changes in the economic environment, economic sector trends, client's credit risk and increases in the rate of defaults. The evaluation process in determining whether an impairment loss should be recorded in the income statement is subject to numerous estimates and judgment. Changes in the estimates and judgments could change the impairment test results which could affect the Group's reported results.

**Revenue recognition**

Revenue from electricity sales is recognised when electricity is generated and transferred to customers. Estimates of electricity consumed and not invoiced until the end of the period are recognised based on average consumptions from previous periods and analysis to the electricity suppliance activity.

Alternative estimates could affect the Group's reported revenues and consequently the Group's reported results.

**Income taxes**

The Group is subject to income taxes in numerous jurisdictions. Significant interpretations and estimates are required in determining the global amount for income taxes.

There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Different interpretations and estimates would result in a different level of income taxes, current and deferred, recognised in the period.

Tax Authorities are entitled to review the EDP Renováveis, and its subsidiaries' determination of its annual taxable earnings, for a determined period that may be extended in case there are tax losses carried forward. Therefore, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law. However, the Board of Directors of EDP Renováveis, and those of its subsidiaries, are confident that there will be no material tax assessments within the context of the annual accounts.

**Pensions and other employee benefits**

Determining pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections, estimated returns on investment, discount rates, salaries and social security increases and other factors that could impact the cost and liability of the pension and medical plans. Changes in these assumptions could materially affect these values.

**Dismantling and decommissioning provisions**

The Board of Directors considers that Group has contractual obligations with the dismantling and decommissioning of property, plant and equipment related to wind electricity generation. For these responsibilities the Group has recorded provisions for the expected cost of restoring sites and land to its original condition. The provisions correspond to the present value of the expenditure expected to be required to settle the obligation.

The Board of Directors considers that no contractual or constructive obligations arise from regulatory and legal requirements of Group's activity that demands the recognition of a provision for dismantling and decommissioning for the remaining electricity generating centres of EDP Renováveis Group.

The use of different assumptions in estimates and judgments referred may have produced different results from those that have been considered.

## 4. Financial-risk management policies

The businesses of EDP Renováveis Group are exposed to a variety of financial risks, including the effects of changes in market prices, foreign exchange and interest rates. The main financial risks lie essentially in its debt portfolio, arising from interest-rate and the exchange-rate exposures. The unpredictability of the financial markets is analysed on an on-going basis in accordance with the EDP Group's risk management policy. Financial instruments are used to minimize potential adverse effects resulting from the interest rates and foreign exchange rates risks on EDP Renováveis financial performance.

The Board of Directors of EDP Renováveis is responsible for the definition of general risk-management principles and the establishment of exposure limits. The operational management of financial risks of EDP Renováveis Group is outsourced to the Finance Department of EDP - Energias de Portugal, S.A., in accordance with the policies approved by the Board of Directors. The outsourcing service includes identification and evaluation of hedging mechanisms appropriate to each exposure.

All transactions undertaken using derivative financial instruments require the prior approval of the Board of Directors, which defines the parameters of each transaction and approves the formal documents describing their objectives.

**Exchange-rate risk management**

EDP Renováveis Group operates internationally and is exposed to the exchange-rate risk resulting, mainly, from investments in subsidiaries whose functional currency is the US Dollar (USD). Currently, the exposure to the USD/EUR currency fluctuation risk results mainly from the shareholding in Horizon.

EDP Group's Finance Department is responsible for monitoring the evolution of the USD, seeking to mitigate the impact of currency fluctuations on the financial results and/or equity of the Group, using exchange-rate derivatives and/or other hedging structures.

The policy implemented by the EDP Renováveis Group consists of undertaking derivative financial instruments for the purpose of hedging foreign exchange risks with characteristics similar to those of the hedged item. The operations are revalued and monitored throughout their useful lives and, periodically, their effectiveness in controlling and hedging the risk that gave rise to them is evaluated.

**Sensivity analysis - Foreign exchange rate**

Some operations result in an exposure to exchange rate risk due to the fact that they are accounted for as held for trading, although the actual purpose of these operations is to fix the price in the foreign exchange component related to future acquisitions of turbines.

As at 31 December 2008, NEO has no significant exposure to foreign exchange rate risks.

**Interest rate risk management**

The Group's operating and financial cash flows are substantially independent from the fluctuation in interest-rate markets.

The purpose of the interest-rate risk management policies is to reduce the financial charges and the exposure of debt cash flows to market fluctuations. As such, whenever considered necessary and in accordance to the Group's policy, the Group contracts derivative financial instruments to hedge interest rate risks.

In the floating-rate financing context, the Group contracts interest-rate derivative financial instruments to hedge cash flows associated with future interest payments, which have the effect of converting floating-interest rate loans into fixed-interest rate loans.

All these operations are undertaken on liabilities in the Group's debt portfolio and are mainly perfect hedges with a high correlation between changes in fair value of the hedging instrument and changes in fair value of the interest-rate risk or upcoming cash flows.

The EDP Renováveis Group has a portfolio of interest-rate derivatives with maturities between 1 and 11 years. The Group's Financial Department undertakes sensitivity analyses of the fair value of financial instruments to interest-rate fluctuations.

**Sensivity analysis - Interest rates**

The management of interest rate risk associated to activities developed by the Group is outsourced to the Financial Department of EDP Group, contracting derivative financial instruments to mitigate this risk.

**Counter-party credit-rate risk management in financial transactions**

The EDP Renováveis Group policy in terms of the counterparty risk on financial transactions with companies outside EDP Group is managed by an analysis of the technical capacity, competitiveness, credit rating and exposure to each counter-party. Counterparties in derivatives and financial transactions are restricted to high-quality credit institutions.

The EDP Renováveis Group documents financial operations according to international standards. Most operations with derivative financial instruments are engaged under ISDA Master Agreements, to assure a greater flexibility in the transfer of the instruments in the market.

In the specific case of the NEO Group, credit risk is not significant due to the limited average collection period for customer balances and the quality of its debtors. The Group's main customers are operators and distributors in the energy market of their respective countries (OMEL and MEFF in the case of the Spanish market).

The Board of Directors believe that the amount that best represents the Group's exposure to credit risk corresponds to the carrying amount of Trade receivables and Other debtors, net of the impairment losses recognised. The Group believes that the credit quality of these receivables is adequate and that no significant impaired credits exist that have not been recognised as such and provided for.

**Liquidity-risk**

Liquidity risk is the possibility that the Group will not be able to meet its financial obligations as they fall due. The Group strategy to manage liquidity is to ensure, as far as possible, that it will always have significant liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unaceptable losses or risking damage to the Group's reputation.

The adverse scenario of debt market could make it difficult to cover the financial requirements needed to carry out the Group's activities.

The liquidity policy followed ensures compliance with payment obligations acquired, through maintaining sufficient credit facilities and having access to the EDP Group credit facilities.

**Market price risk**

As at 31 December 2008, market price risk affecting the EDP Renovavéis Group is not significant. In the case of Horizon, prices are fixed and mainly determined by power purchase agreements. In the case of NEO the electricity is sold in Spain directly on the daily market at spot prices plus a pre-defined premium (regulated). Nevertheless, NEO has an option of selling the power through regulated tariffs, granting minimum prices. In the remaining countries, prices are mainly determined through regulated tariffs.

**Capital management**

The Group's goal in managing equity, in accordance with the policies established by its main shareholder, is to safeguard the Group's capacity to continue operating as a going concern, grow steadily to meet established growth targets and maintain an optimum equity structure to reduce equity cost.

In order to maintain and adjust its equity structure, the Group could adjust the amount of dividends to be distributed to shareholders.

In conformity with other sector groups, the Group controls its financing structure based on the leverage ratio. This ratio is calculated as net financial borrowings divided by total equity and net borrowings. Net financial borrowings are determined as the sum of financial debt, institutional equity liabilities corrected for non-current deferred revenues, less cash and cash equivalents

## 5. Revenue

**Revenue** is analysed by sector as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| **Revenue by sector of activity/business:** | | |
| Electricity | 514.039 | 13.653 |
| Other | 12.738 | 472 |
| | 526.777 | 14.125 |
| **Services rendered by sector of activity:** | | |
| Other | 5.652 | 238 |
| | 532.429 | 14.363 |
| **Total Revenue:** | | |
| Electricity | 514.039 | 13.653 |
| Other | 18.390 | 710 |
| | 532.429 | 14.363 |

The breakdown of **Revenue** for the Group, by geographic market, is as follows:

| | 31 Dec 2008 | | | 31 Dec 2007 | | |
|---|---|---|---|---|---|---|
| | Europe | United States | Total | Europe | United States | Total |
| Electricity | 382.226 | 131.813 | 514.039 | 10.167 | 3.486 | 13.653 |
| Other | 12.738 | - | 12.738 | 472 | - | 472 |
| | 394.964 | 131.813 | 526.777 | 10.639 | 3.486 | 14.125 |

**Cost of consumed electricity** and **Changes in inventories and cost of raw material and consumables used** is analysed as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| **Cost of consumed electricity** | 993 | 158 |
| **Changes in inventories and cost of raw material and consumables used:** | | |
| Cost of consumables used | 17.160 | 7.939 |
| Changes in inventories | -5.909 | -7.437 |
| | 12.244 | 659 |

## 6. Other operating income

**Other operating income** is analysed as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| Supplementary income | 1.503 | 53 |
| Gains on fixed assets | 823 | 18 |
| Turbine availability income | 2.390 | - |
| Income from sale of interests in institutional partnerships - Horizon | 61.238 | 886 |
| Amortization of deferred income related to power purchase agreements | 18.272 | - |
| Other income | 5.298 | 792 |
| | 89.524 | 1.749 |

Income from sale of interests in institutional partnerships - Horizon, includes revenue recognition related to production tax credits (PTC) and tax depreciations, related to projects Vento I and Vento II (see note 33).

The power purchase agreements between Horizon and its customers were valued, at the acquisition date, using discounted cash flow techniques. At that date, these agreements were valued based on market assumptions by approximately 120 million Euros (USD 190.4 million) and recorded as a non-current liability (note 33). This liability is amortised over the period of the agreements against other operating income. As at 31 December 2008, the amortization for the year amounts to 18,272 thousands of Euros.

Turbine availability income refers to compensation received from turbines suppliers when the measured average availability of turbines in activity, is less than 93% in the first six months and/or less than 97% in any of the subsequent periods of six months during the warranty period.

## 7. Supplies and services

This balance is analysed as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| **Supplies and services:** | | |
| Water, electricity and fuel | 1.808 | 50 |
| Tools and office material | 1.628 | 38 |
| Leases and rents | 19.196 | 506 |
| Communications | 1.685 | 68 |
| Insurance | 6.009 | 185 |
| Transportation, travelling and representation | 6.258 | 152 |
| Commissions and fees | 574 | - |
| Maintenance and repairs | 40.251 | 325 |
| Advertising | 2.223 | 40 |
| Specialised work | 25.181 | 1.426 |
| Other supplies and services | 2.133 | 137 |
| | 106.947 | 2.927 |

## 8. Personnel costs and employee benefits expense

**Personnel costs** is analysed as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| Management remuneration | 414 | 5 |
| Employees' remuneration | 32.426 | 928 |
| Social charges on remunerations | 5.095 | 105 |
| Employee's variable remuneration | 14.257 | 574 |
| Employee's benefits | 1.501 | 104 |
| Other costs | 2.823 | 41 |
| Own work capitalised | -19.505 | -758 |
| | 37.011 | 999 |

The average breakdown by management positions and professional category of the permanent staff (annual average) as of 31 December 2008 and 31 December 2007 is as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| Board members | 34 | 11 |
| Senior management / Senior officers | 24 | 47 |
| Middle management | 108 | 190 |
| Highly-skilled and skilled employees | 177 | 177 |
| Semi-skilled workers | 214 | 38 |
| | 557 | 463 |

The number of employees includes Management and all the employees of all the companies included in the consolidation perimeter (full or proportionate method), regardless of the EDP Renováveis holding in the share capital.

**Employee benefits expense** is analysed as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| Costs with pension plan | 1.085 | 22 |
| Costs with medical care plan and other benefits | 5 | 1 |
| | 1.090 | 23 |

As at 31 December 2008, the balance Costs with pension plan is related to defined contribution plan expense (1,080 thousands of Euros) and defined benefit plans (5 thousands of Euros).

## 9. Other operating expenses

**Other operating expenses** are analysed as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| Direct operating taxes | 8.574 | 109 |
| Indirect taxes | 4.047 | 71 |
| Impairment loss on debtors and other assets | 38 | 3 |
| Losses on fixed assets | 2.289 | 506 |
| Operating indemnities | 2 | - |
| Lease costs related to the electricity generating centres | 4.343 | - |
| Donations | 1.988 | 14 |
| Amortizations of Deferred O&M cost | 1.629 | - |
| Rents | 1.512 | - |
| Turbine availability bonus | 255 | - |
| Other costs and losses | 2.107 | 89 |
| | 26.784 | 792 |

As discussed in Note 6, the Horizon's assets and liabilities were revalued to reflect fair value as of EDP Group acquistion date. During this process, it was determined that certain of the Horizon's Operation and Maintenance (O&M) and Warranty contracts, which were executed prior to the EDP Group acquisition, were at lower than then current market prices. Accordingly, it was determined that these contracts constituted an asset to the Company and a non-current asset was recorded. This asset is amortized into other operating expense over the life of the associated contract.

During the period the Group did not incur in any research and development expenses.

## 10. Depreciation and amortisation expense

This balance is analysed as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| **Property, plant and equipment:** | | |
| Buildings and other constructions | 489 | 398 |
| Plant and machinery: | | |
| Hydroelectric generation | 83 | 3 |
| Thermoelectric generation | 460 | 16 |
| Wind generation | 201.500 | 6.022 |
| Other | 23 | - |
| Transport equipment | 140 | - |
| Office equipment | 1.600 | 38 |
| Other | 344 | - |
| | 204.639 | 6.477 |
| **Other intangible assets:** | | |
| Industrial property, other rights and other intangibles | 3.125 | 408 |
| | 3.125 | 408 |
| | 207.764 | 6.885 |
| **Amortisation of deferred income (Government grants):** | | |
| Investment grants | -696 | -468 |
| | -696 | -468 |
| | 207.068 | 6.417 |

## 11. Gains / (losses) from the sale of financial assets

**Gains / (losses) from the sale of financial assets** , for the Group, are analysed as follows:

| | 31 Dec 2008 | | 31 Dec 2007 | |
|---|---|---|---|---|
| | Disposal % | Value Euro'000 | Disposal % | Value Euro'000 |
| **Investments in subsidiaries and associates** | | | | |
| Marquesado del Solar, S.A. | 50% | 2.378 | 50% | 1.136 |
| Investigación y Desarollo de Energias Renovables, S.L. ("IDER") | 20% | -15 | 20% | -248 |
| | | 2.363 | | 888 |

On 28 March 2008, Generaciones Especiales I S.L., a company in which NEO holds an 80% interest, authorised the sale of the subsidiary Marquesado del Solar, S.A. to Solar Millenium AG, a german company. The sale price amounted to 3.4 million Euros, originating a gain of 2.4 million Euros.

## 12. Other financial income and financial expenses

**Other financial income and financial expenses** are analysed as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| **Other financial income:** | | |
| Interest income | 19.271 | 561 |
| Derivative financial instruments | | |
| Interest | 25.978 | - |
| Fair value | 1.692 | 157 |
| Foreign exchange gains | 223.960 | 237 |
| | 270.901 | 955 |
| **Other financial expenses:** | | |
| Interest expense | 93.851 | 5.210 |
| Derivative financial instruments | | |
| Fair value | 5.663 | 227 |
| Banking services | 530 | 6 |
| Foreign exchange losses | 227.272 | - |
| Own work capitalised (financial interests) | -39.176 | -699 |
| Unwinding | 57.922 | - |
| Other financial expenses | 2.059 | 178 |
| | 348.121 | 4.922 |
| Financial income / (expenses) | -77.219 | -3.969 |

Derivative financial instruments - Interest, relating to the interest liquidations result from the derivative financial instrument established between EDP Renováveis and EDP Branch (see notes 23 and 35).

Foreign exchange gains (223,960 thousands of Euros) and losses (227,272 thousands of Euros) as at 31 December 2008 are essentially related with the financings granted by EDP Branch to EDP Renováveis

In acordance with the accounting policy described on note 2g), the borrowing costs (interest) capitalised in tangible fixed assets in progress as at 31 December 2008 amounted to 39,176 thousands of Euros (699 thousands of Euros as at 31 December 2007) and are included under Own work capitalised (financial interest). The implicit interest rates used for this capitalisation vary in accordance with the related loans, between 2.71% and 7.91%.

Interest expense refers to interest on loans which bear interest at market rates.

Unwinding rexpenses refers to financial update of provision for wind farms dismantling and commissioning in the amount of 2,157 thousands of Euros (see note 32), financial update of the liability related with put option Genesa and Desa in the amount of 12,134 thousands of Euros (see note 33) and implied return in institutional partnership in US wind farms in the amount of 43,631 thousands of Euros (see note 33).

## 13. Income tax expense

In accordance with prevailing legislation, tax returns are subject to review and correction by the tax authorities during subsequent years. In Portugal and Spain this period is four years, and 2002 is the last year considered to be definitively reviewed by the tax authorities. In the United States of America, generally, the statute to the issuance by tax authorities (IRS) of a tax additional liquidation is three years from the date of settlement of the annual tax declaration of a company.

Tax losses generated in each year, also subject to inspection and adjustment, may be deductible from taxable profits during subsequent years (6 years in Portugal, 15 years in Spain and 20 years in the EUA). The breakdown of tax losses carried forward and the respective expiration date are presented in Note 20. The companies of the EDP Renováveis Group are taxed, whenever possible, on a consolidated basis allowed by the tax law of the respective countries.

Nuevas Energías de Occidente, S.L. and its subsidiary companies file individual tax declarations in accordance with prevailing tax legislation. Nevertheless, the main Group companies pay income tax following the specific principles of the Special Tax Consolidation Regime, contained in articles 64 and 82 of Royal Legislative Decree 4/2004 whereby the revised corporate income tax law was approved.

This balance is analysed as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| **Current tax** | -55.047 | - |
| **Deferred tax** | 6.068 | -47 |
| | -48.979 | -47 |

The income tax rates in the countries in which the EDP Renováveis Group operates are as follows:

| | | Tax rate | |
|---|---|---|---|
| **Country** | **Subgroup** | **2008** | **Subsequent years** |
| Spain | NEO | 30,00% | 30,00% |
| Portugal | NEO | 26,50% | 26,50% |
| France | NEO | 33,00% | 33,00% |
| Poland | NEO | 19,00% | 19,00% |
| Belgium | NEO | 33,99% | 33,99% |
| United States | Horizon | 37,63% | 37,63% |

## 14. Property, plant and equipment

This balance is analysed as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| **Cost:** | | |
| Land and natural resources | 11.739 | 4.589 |
| Buildings and other constructions | 10.855 | 241.920 |
| Plant and machinery: | | |
| Hydroelectric generation | 2.619 | 2.619 |
| Thermoelectric cogeneration | 6.008 | 6.008 |
| Wind generation | 5.227.721 | 2.640.479 |
| Other plant and machinery | 247 | 247 |
| Transport equipment | 686 | 332 |
| Office equipment and tools | 9.378 | 5.091 |
| Other tangible fixed assets | 7.334 | 27.754 |
| Assets under construction | 2.293.879 | 2.303.822 |
| | 7.570.466 | 5.232.861 |
| **Accumulated depreciation:** | | |
| Depreciation and amortisation expense for the period | -204.639 | -6.477 |
| Accumulated depreciation | -313.044 | -300.084 |
| | -517.683 | -306.561 |
| **Carrying amount** | 7.052.783 | 4.926.300 |

The balance of Assets under construction for 31 December 2007 has been restated/reclassified due to Relax Winds Group purchase price allocation carried out in 2008, in the amount of 86,818 thousands of Euros (see note 16).

Plant and Machinery includes the cost of the wind farms under operation.

**Assets under construction** as at 31 December 2008 and 31 December 2007 are analysed as follows:

| | Group | |
|---|---|---|
| | **31 Dec 2008 Euro'000** | **31 Dec 2007 Euro'000** |
| **Electricity business:** | | |
| NEO Group | 891.131 | 1.065.835 |
| Horizon Wind Energy Group | 1.402.388 | 1.237.987 |
| EDP Renováveis | 296 | - |
| EDP Renováveis Brasil | 64 | - |
| | 2.293.879 | 2.303.822 |

Assets under construction as at 31 December 2008 and 31 December 2007 for NEO and Horizon Group are essentially related to wind farms under construction and development.

The EDP Renováveis Group has lease and purchase obligations as disclosed in Note 36 - Commitments below.

## 15. Intangible assets

This balance is analysed as follows:

| | Group | |
|---|---|---|
| | **31 Dec 2008 Euro'000** | **31 Dec 2007 Euro'000** |
| **Cost:** | | |
| Industrial property, other rights and other intangible assets | 33.521 | 29.677 |
| Intangible assets under development | 2.840 | 3.781 |
| | 36.361 | 33.458 |
| **Accumulated amortisation:** | | |
| Depreciation and amortisation expense for the period | -3.125 | -408 |
| Accumulated depreciation | -10.828 | -10.092 |
| | -13.953 | -10.500 |
| **Carrying amount** | 22.408 | 22.958 |

Industrial property, other rights and other intangible assets include 18,022 thousands of Euros and 14,408 thousands of Euros related to wind generation licenses of Portuguese companies and Horizon Group, respectively.

Intangible assets under development are essentially related to advances for electricity wind generation licenses acquisition.

## 16. Goodwill

For the Group, the breakdown of **Goodwill** resulting from the difference between the cost of the investments and the corresponding share of the fair value of the net assets acquired, is analysed as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| **Electricity business:** | | |
| Goodwill booked in NEO Group | 802.611 | 661.817 |
| Goodwill booked in Horizon Wind Energy Group | 569.777 | 539.353 |
| | 1.372.388 | 1.201.170 |

EDP Renováveis Group goodwill as at 31 December 2008 and 31 December 2007 is analysed as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| Horizon group | 569.777 | 539.353 |
| Genesa group | 441.356 | 459.812 |
| Ceasa group | 146.469 | 141.949 |
| Relax Winds group (Poland) | 25.424 | 14.010 |
| Enernova group | 43.011 | 42.971 |
| NEO Galia SAS group | 45.104 | - |
| Hollywell group | 8.007 | - |
| Ridgeside group | 4.317 | - |
| Romania group | 64.461 | - |
| NEO Catalunia | 21.199 | - |
| Other | 3.263 | 3.075 |
| | 1.372.388 | 1.201.170 |

The goodwill balance for Relax Winds group (Poland) included in NEO Group's as at 31 December 2007, in accordance with IFRS, has been restated/reclassified due to purchase price allocation carried out in 2008, in the amount of 43,908 thousands of Euros (see information disclosed below in this note)

## 17. Changes in consolidation perimeter

During 2008, the changes in the consolidation perimeter of the EDP Renováveis Group were:

**Companies sold during the period:**
- Generaciones Especiales I, S.L, sold its 50% interest in the subsidiary Marquesado Solar, S.A. to Solar Millenium AG.
- Sinae Inversiones Eólicas, S.A. sold 20% of its interest in IDER, S.L.
- Sinae Inversiones Eólicas, S.A. sold an interest of 5% in Eólica Sierra de Avila, S.L. and Eólica del Alfoz, S.L. to Invesducro Eólica, S.L.
- Enernova sold its 5% interest in Bioeléctrica, S.L. to EDP Imobiliária.

**Companies merged during the period:**
- Horizon Wind Energy Company LLC was merged into Horizon Wind Energy LLC.
- Bolores - Energia Eólica, S.A. and Safra - Energia Eólica, S.A. were merged into Enernova - Novas Energias, S.A..

**Companies incorporated during the period:**
- Eólica de Radona S.L. was incorporated being 100% held by Sinae Inversiones Eólicas, S.A. .
- Neolica Polska SP Z.O.O. was incorporated and it is 100% held by NEO.
- The companies Cloud County Wind Farm, Pioneer Prairie Wind Farm I, LLC, Sagebrush Power Partners, LLC, Rail Splitter, Cloud West Wind Project, LLC, Wheatfield Wind Power Project, LLC and Whitestone Wind Purchasing, LLC were incorporated during 2008 and are 100% held by Horizon Wind Energy LLC.

**Companies acquired during the period:**
- DEPSA S.A. acquired an additional 5% interest in Desarollos Eólicos del Corme, S.A.
- Desarrollos Catalanes Del Viento,S.L. acquired 100% of the companies Parc Eòlic de Coll de Moro, S.L., Parc Eòlic de Torre Madrina, S.L. and Parc Eòlic de Vilalba dels Arcs, S.L.
- Nuevas Energías de Occidente,S.L. acquired 100% of the subgroups Hollywell and Ridgeside, several companies that are currently included in the Neo Galia subgroup, Bom Vent de Corbera, Bom Vent de Vilalba and Parc Eolic Molinars, S.L..
- Nuevas Energías de Occidente,S.L. acquired 85% of the companies Renovatio Power and Cernavoda Power..
- Nuevas Energías de Occidente,S.L. acquired 51% of the companies Relax Wind Park IV Sp and Relax Wind Park II Sp.
- Nuevas Energías de Occidente,S.L. increased the interest from 73.3% to 93.3% in the company Relax Wind Park I Sp and from 51% to 100% in the company Relax Wind Park III, Sp.

## 18. Investments in associates

This balance is analysed as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| **Investments in associates:** | | |
| Equity holdings in associates | 40.782 | 32.514 |
| Adjustments on investments in associates | - | -154 |
| **Carrying amount** | 40.782 | 32.360 |

For the purpose of annual accounts presentation, goodwill arising from the acquisition of associated companies is presented in this caption, included in the total amount of Equity holdings in associates.

The breakdown of **Investments in associates as at 31 December 2008** , is analysed as follows:

| | Group 31 Dec 2008 | |
|---|---|---|
| | Investment Euro'000 | Impairment Euro'000 |
| **Associated companies:** | | |
| Desarrollos Eólicos de Canárias, S.A. | 10.735 | - |
| ENEOP - Éolicas de Portugal, S.A. | 6.486 | - |
| Parque Eólico Sierra del Madero S.A. | 5.454 | - |
| Veinco Energia Limpia S.L. | 4.154 | - |
| Parque Eólico altos del Voltoya, S.A. | 3.481 | - |
| Parque Eólico Belmonte, S.A. | 3.243 | - |
| Associates of Valle del Ebro Ingeniería y Consultoría, S.L. | 2.241 | - |
| Hidroastur S.A. | 2.112 | - |
| Horizon Wind Energy | 2.031 | 0 |
| Other | 845 | - |
| | 40.782 | - |

The breakdown of **Investments in associates as at 31 December 2007** , is analysed as follows:

| | Group 31 Dec 2007 | |
|---|---|---|
| | Investment Euro'000 | Impairment Euro'000 |
| **Associated companies:** | | |
| Desarrollos Eólicos de Canárias, S.A. | 10.875 | - |
| Parque Eólico Sierra del Madero, S.A. | 4.542 | - |
| Associates of Veinco Energia Limpia, S.L. | 4.913 | - |
| Parque Eólico Altos del Voltoya, S.A. | 2.967 | - |
| Blue Canyon Windpower, LLC | 2.635 | -154 |
| Parque Eólico de Belmonte, S.A. | 2.610 | - |
| Hidroastur, S.A. | 2.121 | - |
| Associates of Valle del Ebro Ingeniería y Consultoría, S.L. | 1.647 | - |
| Other | 204 | - |
| | 32.514 | -154 |

## 19. Available for sale investments

This balance is analysed as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| Sociedad Eólica de Andalucia, S.A. | 10.854 | 3.107 |
| ENEOP - Eólicas de Portugal, S.A. | - | 3.460 |
| Hueneja, C.B. | - | 1.246 |
| Aprofitament D'Energies Renovables de la Terra Alta, S.A. | 783 | - |
| Wind Expert | 500 | - |
| Other | 364 | 138 |
| | 12.501 | 7.951 |

During 2008, ENEOP - Eólicas de Portugal, a partnership with other companies that develop several projects related to electricity wind generation, started to consolidate under the equity method

Genesa sold its shareholding in Marquesado del Solar, S.A., which held an interest in Hueneja, C.B. classified under available for sale investments.

The EDP Renováveis Group acquired an interest in Aprofitament D'Energies Renovables de la Terra Alta, S.A., a company that develops several projects related with electricty transport lines and high voltage substations in the region of Terra Alta (Spain) and an interest of 5% in romanian company Wind Expert, included in the acquisition of Renovatio and Cervanoda.

The increase in Sociedad Eólica de Andalucia, S.A. is related to the increase on the fair vale of the company (see note 28).

## 20. Deferred tax assets and liabilities

The EDP Renováveis Group records the tax effect arising from temporary differences between the assets and liabilities determined on an accounting basis and on a tax basis, which are analysed as follows:

| Deferred tax assets | | Deferred tax liabilities | | Net deferred tax | |
|---|---|---|---|---|---|
| 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| 21.577 | 16.719 | 303.331 | 278.470 | -281.754 | -261.751 |

## 21. Inventories

This balance is analysed as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| Advances on account of purchases | 1.915 | 35.127 |
| Finished and intermediate products | 10.313 | 3.740 |
| Raw and subsidiary materials and consumables: | | |
| Other consumables | 149 | 157 |
| | 12.377 | 39.024 |

## 22. Trade receivables

**Trade receivables** are analysed as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| **Short term trade receivables - Current:** | | |
| Spain | 46.221 | 35.219 |
| United States of America | 21.130 | 11.567 |
| Portugal | 11.050 | 11.178 |
| France | 4.168 | 2.881 |
| Poland | 29 | 40 |
| | 82.598 | 60.885 |
| Doubtful debts | 2.347 | 2.309 |
| Impairment losses | -2.347 | -2.309 |
| | 82.598 | 60.885 |

The movement in impairment losses in 2008 is due to an increase of 38 thousands of Euros for customers in Spain.

## 23. Debtors and other assets

**Debtors and other assets** are analysed as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| **Short-term debtors - Current:** | | |
| Loans to related parties | 106.625 | 23.674 |
| Advances to suppliers | 18 | 36 |
| Other debtors: | | |
| - Amounts related to staff | 25 | 9 |
| - Derivative financial instruments (Hedging) | 3.355 | 51.061 |
| - Insurance | 1.059 | 309 |
| - Management fees | 512 | 2.022 |
| - Cernavoda land acquisitions | 2.189 | - |
| - Financial assets advanced payments | 1.075 | 1.399 |
| - Deferred costs for infrastructure construction | 1.821 | - |
| - Wind relax (Receivable VAT related with turbines acquisitions) | 991 | - |
| - Amounts receivabe from Eolic Partners | 1.925 | - |
| - Production tax credits (PTC) | 934 | 1.104 |
| - Horizon warranty claim | 5.179 | - |
| - Prepaid turbine maintenance | 2.687 | - |
| - Guarantee deposits | 6.853 | 1.044 |
| - Tied deposits | 43.016 | 9.089 |
| - Sundry debtors and other operations | 17.549 | 9.504 |
| | 195.813 | 99.251 |
| **Medium and long-term debtors - Non-current:** | | |
| Loans to related parties | 21.769 | 10.576 |
| Notes receivable (Horizon) | 10.678 | 6.824 |
| Guarantees and tied deposits | 33.666 | 34.431 |
| Derivative financial instruments (Hedging) | 6.081 | - |
| Deferred costs (Enernova Group) | 42.617 | 26.666 |
| Deferred PPA costs (High Trail) | 5.748 | - |
| O&M contract valuation - Mapple Ridge I (Horizon) | 7.941 | 8.084 |
| Deferred Tax Equity Costs | 5.002 | - |
| Sundry debtors and other operations | 8.038 | 13.881 |
| | 141.540 | 100.462 |
| | 337.353 | 199.713 |

Loans to related parties - Current includes an amount of 83,025 thousands of Euros related to a set of loans granted to EDP Finance, that have maturities from 1 week to 1 month and bear interest at market conditions and an amount of 22,825 thousands of Euros with EDP Branch.

Tied deposits - Current includes 39,736 thousands of Euros related to the Vento III financing agreement. Funds are required to be held in the amount sufficient to pay remaining Vento III construction related costs.

Guarantees and tied deposits - Non Current are related with NEO Group companies with projects finance, that are obliged to maintain these amounts in bank accounts to assure the capacity of comply with responsabilities.

Deferred costs (Enernova group) - non current relates to up-front rents and surface rights paid to land owners and up-front network rents paid to EDP Distribuição. These costs are deferred on the balance sheet date and are recognised in a straight line basis over the estimated useful life of the assets.

## 24. Tax receivable

**Tax receivable** is analysed as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| State and other public entities: | | |
| - Income tax | 7.755 | 3.993 |
| - Value added tax (VAT) | 150.569 | 89.342 |
| - Other taxes | 16.769 | 3.500 |
| | 175.093 | 96.835 |

## 25. Financial assets at fair value through profit or loss

**Financial assets at fair value through profit or loss** are analysed as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| Equity securities: | | |
| Investment funds | 32.369 | 42.841 |
| Debt securities: | | |
| Unlisted bonds | 3.405 | 1.998 |
| | 35.774 | 44.839 |

The fair value of the investment funds is calculated based on the quoted market price of the funds.

## 26. Cash and cash equivalents

**Cash and cash equivalents** are analysed as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| Cash: | | |
| - Cash in hand | 2 | 2 |
| Bank deposits: | | |
| - Current deposits | 218.095 | 388.295 |
| - Term deposits | - | 195 |
| - Other deposits | 11.583 | - |
| | 229.678 | 388.490 |
| Cash and cash equivalents | 229.680 | 388.492 |

The main operation occurred during 2008 without cash in or out, was the share capital increases in the EDP Renováveis through non monetary contributions (see note 27), and the acquisition of the Romanian companies Renovatio and Cervanoda.

## 27. Capital and Share premium

EDP Renováveis was incorporated on 4 December 2007 with a share capital of 15 thousands of Euros, represented by 1,500 shares with a par value of 10 Euros each. These shares were subscribed entirely by EDP Energias de Portugal, S.A. Sucursal en España, (EDP Branch). On 18 and 21 December 2007, EDP Sucursal increased the share capital of EDP Renováveis through the incorporation of the shares held in its subsidiaries NEO - Nuevas Energias de Occidente, S.L. (corresponding to 60% of this company's share capital) and Horizon Wind Energy LLC, (corresponding to 100% of this company's share capital).

On 25 February 2008, the sole Shareholder of EDP Renováveis, approved a share capital increase of 4,718 thousands of Euros with a share premium of 175,490 thousands of Euros, through the issuance of 471,824 new shares with a par value of 10 Euros each and a share premium of 371.94 Euros per share (175,490 thousands of Euros). This capital increase was fully subscribed by Hidroelectrica del Cantábrico, S.A. through a non-monetary contribution of its 40% interest held in Nuevas Energías de Occidente, S.L., the parent company of the NEO Group, obtaining in exchange an interest of 20% in EDP Renováveis. This agreement was executed on a public deed on 29 February 2008. Since that date, EDP Renováveis holds a 100% interest in Nuevas Energías de Occidente, S.L.

The above referred contributions were made under the Special Regime governing mergers, spin offs, asset contributions and share exchanges established in Chapter VIII, Title deed VII of Royal Decree 4 of 5 March 2004, approving the revised corporate income tax law. In compliance with article 93 of Royal Legislative Decree 4 of 5 March 2004, whereby the revised corporate income tax law was approved.

At the annual general meeting held on 12 March 2008 the shareholders agreed to:

- Increase the share capital of EDP Renováveis, S.L. with a charge to share premium through the issuance of 205,782,806 shares with a par value of 10 Euros each. This capital increase was subscribed by the shareholders in proportion of the respective shareholdings in EDP Renováveis, S.A.

- Reduce the par value of the shares from Euros 10 to 2 Euros per share by splitting the shares representing the total share capital in a proportion of five new shares for each former share. Share capital remained unchanged.

This operation was raised to public deed on 18 March 2008.

At their annual general meeting held on 18 March 2008 the shareholders agreed to convert EDP Renováveis, S.L. into a corporation under the name EDP Renováveis, S.A. The agreement, which was raised to a public deed on 18 March 2008, considers the Company balance sheet as at 17 March 2008 as the conversion balance sheet, replacing the former stakes by shares with the same number and unit value.

On 7 May 2008, EDP, S.A. and Hidrocantabrico approved (i) a share capital increase of EDP Renováveis to 3,381,419,280 Euros. This increase was fully subscribed by EDP, S.A. and Hidrocantabrico through a non monetary contribution of loans granted amounting to 1,040,000 thousands of Euros and 260,000 thousands of Euros, respectively, and (ii) increase of share nominal value from 2 to 5 Euros. After this share capital increase, EDP, S.A. maintained a hold of 80% and Hidrocantabrico a hold of 20% of EDP Renováveis' share capital.

On 13 May 2008, to allow the Initial Public Offering ("IPO"), the General Assembly of EDP Renováveis decided to increase share capital of the Company in a maximum nominal amount of 1,127,139,760 Euros, by issuing of 225,427,952 new shares.

On 2 June 2008, the IPO occurred through the dilution of the interests held by EDP Renováveis shareholders. The number of new shares admitted to negotiation was 196,024,306 shares, and as a consequence, the interest held by EDP, S.A. through its branch in Spain decreased to 62.02% and the interest held by Hidrocantabrico decreased to 15.51% of the EDP Renováveis share capital.

As at 31 December 2008 the share capital of EDP Renováveis is composed of 872,308,162 shares with a nominal value of Euros 5 per share.

## 28. Reserves and retained earnings

This balance is analysed as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| Fair value reserve (cash flow hedge) | 18.669 | 11.566 |
| Fair value reserve (available for sale financial assets) | 7.747 | |
| Exchange differences arising on consolidation | 1.179 | -819 |
| Additional paid in capital | 60.666 | 119.097 |
| Other reserves and retained earnings: | | |
| Retained earnings | 1.158 | - |
| | 89.419 | 129.844 |

*Additional paid in capital*

The accounting for transactions among entities under common control is excluded from IFRS 3. Consequently, in the absence of specific guidance, within IFRSs, the Group EDP Renováveis has adopted an accounting policy for such transactions, as considered appropriate. According to the Group's policy, business combinations among entities under common control are accounted for in the consolidated annual accounts using the book values of the acquired company (subgroup). The difference between the carrying amount of the net assets received and the consideration paid is recognised in equity.

The variation of 58,431 thousands of Euros in Additional paid in capital relates to the increase in EDP Renováveis shareholding in the NEO Group from 60% to 100%, following a share capital contribution made by Hidrocantábrico. This contribution was recorded in EDP Renováveis annual accounts in accordance with the book values of this shareholding in EDP's consolidated annual accounts, namely financial investments of 180 million Euros. Considering NEO's shareholding equity as at 28 February 2008 of 304 million, of which 122 are attributable to EDP Renováveis shareholding, a negative consolidation reserve of 58 million Euros was accounted for as at 31 December 2008.

*Legal reserve*

The legal reserve has been appropriated in accordance with Article 214 of the Spanish Companies Act whereby companies are obliged to transfer 10% of the profits for the year to a legal reserve until such reserve reaches an amount equal to 20% of the share capital. This reserve is not distributable to shareholders and may only be used to offset losses if no other reserves are available or to increase the share capital.

*Profit distribution (parent company)*

The proposal for EDP Renováveis, S.A. 2008 profits distribution to be presented in the Annual General Meeting is as follows:

| | Company |
|---|---|
| Profit for the period | 74.794 |
| **Distribution** | |
| Legal reserve | 7.479 |
| Free reserve | 67.315 |
| | 74.794 |

*Fair value reserve (cash flow hedge)*

The Fair value reserve (cash flow hedge) comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments.

*Fair value reserve (available-for-sale financial assets)*

This reserve includes the accumulated net change in the fair value of available-for-sale financial assets as at the balance sheet date. The changes in this consolidated caption are as follows:

| | Group | |
|---|---|---|
| | Increases Euro'000 | Decreases Euro'000 |
| **Balance as at 1 January 2008** | - | - |
| Changes in fair value for Sociedad Eólica de Andalucia | 7.747 | - |
| **Balance as at 31 December 2008** | 7.747 | - |

*Exchange differences arising on consolidation*

This caption reflects the amount arising on the translation of the annual accounts of subsidiaries and associated companies from their functional currency into Euros. The exchange rates used in the preparation of the annual accounts are as follows:

| | | Exchange rates as at 31 Dec 2008 | | Exchange rates as at 31 Dec 2007 | |
|---|---|---|---|---|---|
| Currency | | Closing Rate | Average Rate | Closing Rate | Average Rate |
| Dollar | USD | 1,392 | 1,477 | 1,472 | 1,372 |
| Zloty | PLN | 4,154 | 3,486 | 3,594 | N/A |
| Real | BRL | 3,244 | 2,652 | N/A | N/A |
| Lei | RON | 4,023 | 3,762 | N/A | N/A |

## 29. Minority interest

This balance is analysed as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| Minority interest in income statement | 7.854 | 277 |
| Minority interest in share capital and reserves | 74.897 | 213.296 |
| | 82.751 | 213.573 |

**Minority interests** , by subgroup, are analysed as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| NEO Group | 82.751 | 213.547 |
| Horizon Wind Energy Group | 27 | 26 |
| EDP Renováveis Brasil | -27 | - |
| | 82.751 | 213.573 |

The Minority interests of NEO Group for 31 December 2007, in accordance with IFRS, has been restated/reclassified due to purchase price allocation carried out in 2008, in the amount of 27,986 thousands of Euros (see note 16).

As at 31 December 2008, the EDP Renováveis Group profit attributable to minority interests amounted to 7,854 thousands of Euros (31 December 2007: 277 thousands of Euros).

In 2008, the amount of minority interests accounted for under the terms of the granted put options of Genesa was 10,058 thousand Euros. These put options were revalued and therefore the liability and Goodwill decreased in the amount of 15,910 thousand Euros (note 16).

## 30. Financial debt

This balance is analysed as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| **Short-term financial debt - Current** | | |
| Bank loans: | | |
| - NEO Group | 75.950 | 80.016 |
| Loans from shareholders of group entities: | | |
| - NEO Group | 3.956 | 116.502 |
| - Horizon Wind Energy Group | - | 320.926 |
| Other loans: | | |
| - NEO Group | 3.277 | - |
| Interest payable | 2.982 | - |
| | 86.165 | 517.444 |
| **Medium/long-term financial debt - Non-current** | | |
| Bank loans: | | |
| - NEO Group | 451.062 | 398.233 |
| Loans from shareholders of group entities: | | |
| - NEO Group | 34.394 | 1.931.896 |
| - EDP Renováveis, S.A. | 862.817 | |
| Other loans: | | |
| - NEO Group | 27.835 | 34.500 |
| | 1.376.108 | 2.364.629 |
| | 1.462.273 | 2.882.073 |

Financial debt - Current for EDP Renováveis, amounting to 862,817 thousands of Euros, refers to a set of loans granted by EDP Branch. These loans have an average maturity of 9.75 years and bear interest at a fixed rate of 4.413%.

The Group has project finance financings that include the usual guarantees on this type of financings, namely the pledge or a promise of pledge of bank accounts and assets of the related projects. As at 31 December 2008, these financings show a total amount of 478,904 thousands of Euros (476,334 thousands of Euros as at 31 December 2007), which are already included in the total debt of the Group.

## 31. Employee benefits

**Employee benefits** balance are analysed as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| Provisions for social liabilities and benefits | 780 | 834 |
| Provisions for healthcare liabilities | 383 | 377 |
| | 1.162 | 1.211 |

As at 31 December 2008 and 31 December 2007, the caption "Provisions for liabilities and social benefits" refers exclusively to defined benefit plans.

The liabilities arising from pension and healthcare plans are fully covered, either by plan assets or provisions.

**Employee benefit plans**

Some EDP Renováveis Group companies grant post-retirement benefits to employees, under defined benefit plans, namely pension plans that ensure retirement complements to age, disability and surviving pensions, as well as retirement pensions. In some cases healthcare care is provided during retirement and early retirement, through mechanisms complementary to those provided by the National Health Service.

The existing plans are presented hereunder, with a brief description of each and of the companies covered by them, as well as of the economic and financial data:

**I. Defined benefit pension plans**

The EDP Renováveis Group companies in Portugal have a social benefits plan funded by a restricted Pension Fund, complemented by a specific provision. The EDP Pension Fund is managed by Pensõesgere being the management of the assets subcontracted to external asset management entities.

This Pension Fund covers the liability for retirement pension complements (age, disability and survivor pension) as well as the liability for early retirement.

The following financial and actuarial assumptions were used to calculate the liability of the EDP Renováveis Group pension plans:

| | Group | |
|---|---|---|
| | 31 Dec 2008 | 31 Dec 2007 |
| **Assumptions** | | |
| Expected return of plan assets | 6,00% | 6,00% |
| Discount rate | 5,75% | 5,30% |
| Salary increase rate | 3,70% | 3,70% |
| Pension increase rate | 2,90% | 2,90% |
| Social Security salary appreciation | 2,10% | 2,10% |
| Inflation rate | 2,20% | 2,20% |
| Mortality table | TV 88/90 | TV 88/90 |
| Disability table | 50,00% | 50,00% |
| Expected % of eligible employees accepting early retirement | 40,00% | 40,00% |

**II. Pension Plans - Defined Contribution Type**

NEO in Spain, has social benefit plans of defined contribution that complement those granted by the Social Welfare System to the companies' employees, under which they pay a contribution to these plans each year, calculated in accordance with the rules established in each case.

**III. Liability for Medical Care and Other Benefits Plans - Defined Benefit Type**

The Group companies in Portugal resulting from the spin-off of EDP in 1994 have a Medical Care Plan which is fully covered by a provision.

The actuarial assumptions used to calculate the liability for Medical Care Plans are as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 | 31 Dec 2007 |
| **Assumptions** | | |
| Discount rate | 5,75% | 5,30% |
| Annual increase rate of medical service costs | 4,00% | 4,00% |
| Estimated administrative expenses per beneficiary per year (Euros) | 150 | 150 |
| Mortality table | TV 88/90 | TV 88/90 |
| Disability table | 50,00% | 50,00% |
| Expected % of subscription of early retirement by employees eligible | 40 | 40 |

The Medical Plan liability is recognised in the Group's accounts through provisions that totally cover the liability.

## 32. Provisions

**Provisions** are analysed as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| Provision for legal, labour and other contingencies | 278 | 12 |
| Provision for customers guarantees | 270 | 301 |
| Dismantling and decommission provisions | 47.311 | 20.280 |
| Provision for other liabilities and charges | 1.839 | 2.004 |
| | 49.698 | 22.597 |

Dismantling and decommission provisions refer to the costs to be incurred with dismantling wind farms and restoring of sites and land to their original condition, in accordance with the accounting policy described in Note 2 n). The above amount includes 39,240 thousands of Euros for wind farms in the United States of America, 6,086 thousands of Euros for wind farms in Spain, 1,577 thousands of Euros for wind farms in Portugal and the remaining 408 thousands of Euros for wind farms in France.

The EDP Renováveis Board of Directors believes that the provisions booked on the consolidated balance sheet adequately cover the risks described in this note. Therefore, it is not expected that they will give rise to liabilities in addition to those recorded.

As at 31 December 2008, the EDP Renováveis Group does not have any significant tax-related contingent liabilities or contingent assets related to unresolved disputes with the tax authorities.

## 33. Trade and other payables

This balance is analysed as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| **Short-term trade and other payables - Current:** | | |
| Suppliers | 78.141 | 20.168 |
| Other operations with related parties | 8.837 | - |
| Property and equipment suppliers | 424.920 | 287.066 |
| Advances from customers | 22 | 7.155 |
| Derivative financial instruments (Hedging) | - | 1.400 |
| Deferred income | 857 | 708 |
| Amounts payable for the acquisition of the "RELAX" project | - | 2.267 |
| Variable remuneration to employees | 19.662 | 5.730 |
| Other supplies and services | 68.821 | 38.224 |
| Deposits received from customers and other debtors | - | 7.215 |
| Management fees | 5.181 | - |
| Other creditors and sundry operations | 41.893 | 28.260 |
| | 648.334 | 398.193 |

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| **Medium/long-term trade and other payables — Non-current:** | | |
| Property and equipment suppliers | 131 | - |
| Amounts payable for the acquisition of the "RELAX" project | 46.279 | 46.735 |
| Amounts payable for the acquisition of Greenwind | 7.114 | - |
| Government grants for investments in fixed assets | 15.034 | 10.528 |
| Electricity sale contracts - Horizon | 119.655 | 125.735 |
| Derivative financial instruments (Hedging) | 77.022 | - |
| Sucess fees payable for the acquisition of Romania companies | 63.000 | - |
| Liabilities arising from options with minority interests | 258.925 | 264.893 |
| Liabilities arising from institutional partnerships in US wind farms | 1.096.668 | 733.273 |
| Other creditors and sundry operations | 11.559 | 1.889 |
| | 1.695.387 | 1.183.053 |

Derivative financial instruments (Hedging) - Non Current includes 65,478 thousands of Euros (on 31 December 2007 a debtor balance of 37,993 thousands of Euros) related to an hedge instrument of USD and Euros with EDP Branch, which was settled in order to hedge the foreign exchange risk of the net investment held in Horizon, expressed in USD. The amount referred above reflects the derivative fair value as of 31 December 2008, which corresponds to the spot rate revaluation of related loans (see Note 35). In the Group accounts, EDP Renováveis Group has applied the net investment hedge model to state this transaction.

Electricity sales contracts - Horizon relates to the fair value of the contracts entered into by Horizon with its customers, determined under the Purchase Price Allocation (see note 6).

As referred in note 2b) the EDP Renováveis Group records written put options related with investments in subsidiaries held by minority interest at the date of acquisition of a business combination or at a subsequent date as an advance acquisition of these interests, recording a financial liability for the present value of the best estimate of the amount payable, irrespective of the estimated probability that the options will be exercised. As at 31 December 2008 the liabilities arising from written put options with minority interests include the liability for the put option contracted in 2005 with Caja Madrid for a 20% interest in the Desa Group and the written put option contracted in 2007 with Caja Madrid for 20% of the Genesa Group and amount to 258,925 thousands of Euros. Also, as referred in note 16, the option conditions (both for Desa and Genesa) are as follows:

- The timeframe is from 1 January 2010 to 2011, inclusive.
- The contract is for the total shares in Neo Group companies held by Caja Madrid, 20% in Genesa Group and 20% in Desa Group.
- The strike price will be the market value determined by valuations from prestigious banks.

Liabilities arising from institutional partnerships in US wind farms, in the amount of 1,096,668 thousands of Euros, are analysed as follows:

| | 31 Dec 2008 Euro'000 |
|---|---|
| Balance as of 1 January | 733.273 |
| Exchange rate differences | 60.813 |
| Proceeds from sale of partnership interests | 319.986 |
| Value of benefits provided | -226.380 |
| Cash distributions | -219 |
| Interest implied return | 43.631 |
| Subtotal subject to interest | 931.104 |
| Liability for residual interest | 3.840 |
| Non-current deferred revenue | 161.724 |
| Balance as of 31 December | 1.096.668 |

Horizon's relationship with the institutional investors is established through a limited liability company operating agreement that apportions the cash flows generated by the wind farms between the investors and the Company and allocates the tax benefits, which include Production Tax Credits (PTC) and accelerated depreciation, largely to the investor.

The institutional investors purchase their partnership interests for an upfront cash payment. This payment is sized so that the investors, as of the date that they purchase their interest, anticipate earning an agreed targeted internal rate of return by the end of the ten year period over which PTC's are generated. This anticipated return is computed based on the total anticipated benefit that the institutional investors will receive and includes the value of PTC's, allocated taxable income or loss and cash distributions received.

Under these structures, all operating cash flow is allocated to Horizon until the earlier of a fixed date, or when the investors recover the amount of invested capital that remains after deducting the amount of the payment received from the institutional investors from the total amount previously invested. This "cash flip" is expected to occur approximately seven to eight years from the initial closing date. Thereafter, all operating cash flow is allocated to the institutional investors until they receive the targeted internal rate of return (the "Flip Date").

Prior to the Flip Date, a significant part of the tax income and benefits generated by the partnerships are allocated to the institutional investor, with any remaining benefits allocated to Horizon.

After the Flip Date, the institutional investor retains a small minority interest for the duration of its membership in the structure. Horizon also has an option to purchase the institutional investor's residual interests at fair market value on the Flip Date.

As of 31 December 2008, Horizon had the following institutional equity partnerships:

| Structure | Wind Farm | Date Created | Cash Interest Ownership |
|---|---|---|---|
| Blue Canyon I | Blue Canyon I | Dec. 2003 | 25% |
| 2007 Vento I | Maple Ridge I[1]<br>Maple Ridge II[1]<br>Madison<br>Blue Canyon II<br>Mesquite<br>High Trail | July 2007 | 100% |
| 2007 Vento II | Twin Groves II<br>Elkhorn Valley<br>Prairie Star<br>Lone Star II | December 2007 | 100% |
| 2008 Vento III[3] | Pioneer Prairie I<br>Rattlesnake<br>Meridian Way | December 2008 | 100% |

[1] Horizon's 50% interest

[2] Post Oak contributed in 2008 upon completion of construction

[3] Pioneer Prairie II is anticipated to be contributed in the first quarter of 2009 in exchange for additional investment. At December 31, 2008, Horizon had retained 50% of the Vento III shares available for institutional investors.

Horizon records the proceeds received from the sale of the investment interests in the partnerships as a non-current liability. This liability is reduced by the value of tax attributes provided and cash distributions made to the institutional investors during the period. The value of the tax attributes delivered is recorded as non-current deferred income and is reclassified to income and is recognized pro rata over the 20 year useful life of the underlying projects.

The liability to the institutional investors is increased by an interest accrual that is a function of the outstanding liability balance and the targeted internal rate of return.

At the Flip Date, the institutional investors will be granted a 5% ownership interest in the partnerships. Horizon has the right to purchase the institutional investors' interests in the project for the then fair value of those interests.

## 34. Tax payable

This balance is analysed as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| State and other public entities: | | |
| - Income tax | 18.153 | 6.940 |
| - Withholding tax | 19.832 | 3.650 |
| - Value added tax (VAT) | 6.380 | 2.564 |
| - Other taxes | 1.896 | 491 |
| | 46.261 | 13.645 |

## 35. Derivative financial instruments

In accordance with IAS 39, the Group classifies the derivative financial instruments as a fair value hedge of an asset or liability recognised and as a cash flow hedge of recorded liabilities and forecast transactions considered highly probable.

The fair value of the derivatives portfolio as at 31 December 2008 and 31 December 2007 is as follows:

| | Group | |
|---|---|---|
| | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| **Net investment hedge** | | |
| Currency swaps | -65.478 | 37.994 |
| **Cash flow hedge** | | |
| Currency swaps | - | 7.189 |
| Power price swaps | 7.807 | - |
| Interest rate swaps | -10.481 | 4.445 |
| Currency forwards | 1.527 | - |
| Options purchase and sold | -961 | 33 |
| | -67.586 | 49.661 |

The fair value of derivative financial instruments is recorded under Debtors and other assets (note 23) or Trade and other payables (note 33), if the fair value is positive or negative, respectively.

The fair value hedge derivatives are related to the Group CIRS in USD and EUR with EDP Branch as referred in the notes 37 and 38. The fair value is based on internal valuation models, as describes in note 38.

Cash flow hedge currency swaps are related to exchange rate risk in Neólica Polska, derived from the supplying contracts defined in Euros, for which will be necessary financings in Polish Zlotis.

Fair value of cash flow hedge derivatives is based on quotes indicated by external entities (investment banks). These entities use discount cash flows techniques usually accepted and data from public markets.

Cash flow hedge power price swaps are related to the hedging of the sales price. Horizon has entered into a power price swap to hedge the variability in the spot market prices received for a portion of the production of Maple Ridge I project and NEO for the production of some of its wind farms.

## 36. Commitments

As at 31 December 2008 and 31 December 2007, the financial commitments not included in the balance sheet in respect of financial and real guarantees provided, are analysed as follows:

| | Group | |
|---|---|---|
| Type | 31 Dec 2008 Euro'000 | 31 Dec 2007 Euro'000 |
| **Guarantees of a financial nature** | | |
| - NEO Energia Group | 6.341 | 26.306 |
| - Horizon Wind Energy Group | 3.233 | 3.057 |
| | 9.574 | 29.363 |
| **Guarantees of an operational nature** | | |
| - NEO Energia Group | 401.647 | 40.034 |
| - Horizon Wind Energy Group | 907.363 | 542.564 |
| | 1.309.010 | 582.598 |
| **Total** | 1.318.584 | 611.961 |
| **Real guarantees** | 719 | 3.458 |

## 37. Related parties

**Main shareholders and shares held by company officers:**

EDP Renováveis, S.A..'s shareholder structure as at 31 December 2008 is analysed as follows:

| | N.º of Shares | % Capital | % Voting rights |
|---|---|---|---|
| EDP - Energias de Portugal, S.A. Sucursal en España (EDP Branch) | 541.027.156 | 62,02% | 62,02% |
| Hidroeléctrica del Cantábrico, S.A. | 135.256.700 | 15,51% | 15,51% |
| Other shareholders | 196.024.306 | 22,47% | 22,47% |
| | **872.308.162** | **100,00%** | **100,00%** |

The number of shares held by company officers as at 31 December 2008 are as follows:

| | 2008<br>N.º of shares |
|---|---|
| **Executive Board of Directors** | |
| Antonio Luis Guerra Nunes Mexía | 4.200 |
| Ana Mª Machado Fernandes | 1.510 |
| Joao Manuel Manso Neto | - |
| Nuno María Pestana de Almeida Alves | 5.000 |
| Antonio Fernando Melo Martins da Costa | 1.480 |
| Francisco José Queiroz de Barros de Lacerda | 620 |
| Joao Manuel de Mello Franco | 380 |
| Jorge Manuel Azevedo Henriques dos Santos | 200 |
| José Silva Lopes | 760 |
| José Fernando Maia de Araujo e Silva | 80 |
| Rafael Caldeira de Castel-Branco Valverde | - |
| Antonio do Pranto Nogueira Leite | - |
| Joao José Belard da Fonseca Lopes Raimundo | 840 |
| Daniel M. Kammen | - |
| Manuel Menéndez Menéndez | - |
| | **15.070** |

**Remuneration of company officers**

In accordance with the Company's by-laws, the remuneration of company officers is set by a Remuneration Committee appointed by the Shareholders' General Meeting, except for the fixed and variable remuneration of the members of the Executive Board of Directors, which is set by a Remuneration Committee appointed by the General and Supervisory Board.

The remuneration attributed to the members of the Executive Board of Directors (EBD) was as follows 2008 was as follows:

| | EBD<br>Euro'000 |
|---|---|
| President | 235.200 |
| Members | 277.083 |
| | **501.083** |

The remuneration of the President of Board of Directors for the year 2008 has been liquidated by EDP Energias de Portugal, S.A.. This amount will be liquidated through the management fees agreement signed by both companies.

**Balances and transactions with related parties**

As at 31 December 2008, assets and liabilities with related parties, are analysed as follows:

| | Assets<br>Euro'000 | Liabilities<br>Euro'000 | Net<br>Euro'000 |
|---|---|---|---|
| EDP Energias de Portugal, S.A. | 6.684 | 10.965 | (4.281) |
| EDP - Energias de Portugal, S.A. Sucursal en España (EDP Branch) | 24.416 | 931.140 | (906.724) |
| Group EDP companies | 120.943 | 2.000 | 118.943 |
| Hidrocantábrico Group companies | 21.464 | 6.154 | 15.310 |
| Associated companies | 14.018 | - | 14.018 |
| Jointly controlled entities | 8.344 | 840 | 7.504 |
| Other | - | 185 | (185) |
| | 195.869 | 951.284 | (755.415) |

Liabilities includes essentially loans obtained by EDP Renováveis from EDP Branch in the amounts of 862,817 thousands of Euros.

As at 31 December 2007, assets and liabilities with related parties, are analysed as follows:

| | Assets Euro'000 | Liabilities Euro'000 | Net Euro'000 |
|---|---|---|---|
| EDP Energias de Portugal, S.A. | 60.732 | 2.312.098 | (2.251.366) |
| Group EDP companies | 6 | 1.187 | (1.181) |
| Hidrocantábrico Group companies | 8.347 | 2.646 | 5.701 |
| Associates | 7.751 | 2.228 | 5.523 |
| Jointly controlled entities | 12.441 | 2.740 | 9.701 |
| Other | - | 10.691 | (10.691) |
| | 89.277 | 2.331.590 | (2.242.313) |

Transactions with related parties for the year ended 31 December 2008, are analysed as follows:

| | Operating income Euro'000 | Financial income Euro'000 | Operating expenses Euro'000 | Financial expenses Euro'000 |
|---|---|---|---|---|
| EDP Energias de Portugal, S.A. | 3.905 | 340 | (3.327) | (1.257) |
| EDP - Energias de Portugal, S.A. Sucursal en España (EDP Branch) | - | 26.791 | (2.880) | (55.309) |
| Hidrocantábrico Group companies | 93.118 | - | (4.290) | (525) |
| Group EDP companies | 96.968 | 8.755 | (3.973) | - |
| Associated companies | 1.239 | 198 | (24) | - |
| Jointly controlled entities | 707 | 471 | - | - |
| Other | - | - | - | - |
| | 195.937 | 36.555 | (14.494) | (57.091) |

Transactions with related parties for the period ended 31 December 2007, are analysed as follows:

| | Operating income Euro'000 | Financial income Euro'000 | Operating expenses Euro'000 | Financial expenses Euro'000 |
|---|---|---|---|---|
| EDP Energias de Portugal, S.A. | - | 548 | (3.288) | (6.787) |
| EDP - Energias de Portugal, S.A. Sucursal en España (EDP Branch) | - | - | (53) | (6.180) |
| Group EDP companies | 69.872 | - | (3.774) | (69.539) |
| Hidrocantábrico Group companies | 8.036 | 541 | (3.723) | (145) |
| Associates | 2.731 | 90 | (28) | - |
| Jointly controlled entities | 24.066 | (305) | - | 1.244 |
| Other | - | - | - | - |
| | 104.705 | 874 | (10.866) | (81.407) |

Additionally to the liabilities related to existing put options between NEO and Caja Madrid, of 270,964 thousand of Euros, which are stated in the caption Trade and other payables (see Note 33), NEO holds loans with Caja Madrid of approximately 104,667 thousand of Euros. These loans bear interest at market rates.

With the purpose of hedging the foreign exchange risk existing in the company and Group accounts of EDP Renováveis and in the company accounts of EDP Branch, the EDP Group settled a CIRS in USD and Euros between EDP Branch and EDP Renováveis. At each reporting date, this CIRS is revalued to its market value, which corresponds to a spot foreign exchange revaluation, resulting in a perfect hedge (revaluation of the investment in Horizon and of the USD external financing). As at 31 December 2008, the amount payable by EDP Renováveis to EDP Branch related to this CIRS amounts to 65,478 thousands of Euros (see note 33).

As part of its operational activities, the EDP Renováveis Group must present guarantees in favour of certain suppliers. Usually, these guarantees are granted by EDP, S.A., through EDP Branch. As at 31 December 2008, EDP, S.A. and Hidrocantábrico granted financial (61,654 thousands of Euros) and operational (765,510 thousands of Euros) guarantees to suppliers in favour of NEO and Horizon. The operational guarantees are issued following the commitments assumed by NEO and Horizon in relation to the acquisition of property, plant and equipment, namely turbines (see note 36).

## 38. Audit and non audit fees

KPMG has audited the consolidated annual accounts of EDP Renováveis Group for 2008. This company and the other related entities and persons in accordance with Law 19/188 of 12 July, have invoiced for the year ended in 31 December 2008, fees and expenses for professional services, acording to the following detail:

| | Spain 31 Dec 2008 Euro'000 | Other 31 Dec 2008 Euro'000 |
|---|---|---|
| Audit services | 636 | 771 |
| Audit related services | 449 | 1.502 |
| Other services | 46 | - |
| | 1.131 | 2.273 |