

Offering Circular dated 14 May 2010

BES Finance Ltd.

(incorporated with limited liability in the Cayman Islands)

€500,000,000

3.00 per cent. Guaranteed Exchangeable Bonds due 2015 exchangeable into the common shares of EDP - Energias de Portugal, S.A.

(incorporated under the laws of Portugal),

unconditionally and irrevocably guaranteed by

Banco Espírito Santo, S.A.

(incorporated with limited liability in Portugal) (acting through its London branch)

Issue Price: 100.00 per cent.

The €500,000,000 3.00 per cent. Guaranteed Exchangeable Bonds due 2015 (the **Bonds**) will be issued by BES Finance Ltd. (the **Issuer**) on 19 May 2010 (the **Closing Date**) at an issue price of 100.00 per cent. of their principal amount (the **Issue Price**). The payments of all amounts owing in respect of the Bonds will be unconditionally and irrevocably guaranteed by Banco Espírito Santo, S.A., acting through its London Branch (the **Guarantor**) pursuant to the Trust Deed (as defined herein).

Unless previously exchanged, redeemed or purchased and cancelled, the Bonds will be redeemed by the Issuer on 19 May 2015 (the **Maturity Date**) at 100.00 per cent. of their principal amount. The Bonds are subject to redemption at the option of the Issuer, in whole but not in part only, at their principal amount, together with interest accrued to the date of redemption, at any time if 85 per cent. or more in aggregate principal amount of the Bonds issued have been exchanged, redeemed or purchased and cancelled. In addition, the Issuer may, at its option, redeem all, but not some only, of the Bonds at any time at their principal amount, together with any interest accrued to the date of redemption, in the event of certain tax changes. See “*Terms and Conditions of the Bonds – Redemption and Purchase*”.

The Bonds will bear interest from (and including) 19 May 2010 at the rate of 3.00 per cent. per annum payable semi-annually in arrear on 19 May and 19 November in each year, commencing on 19 November 2010. Payments on the Bonds shall be made in Euro without deduction or withholding for or on account of any Portuguese or Cayman Islands taxes unless required by law. In the event that any such deduction or withholding is required by law, the Issuer or the Guarantor, as the case may be, will pay additional amounts in respect thereof, subject to certain exceptions as described herein. See “*Terms and Conditions of the Bonds – Taxation*”.

Subject to the Bondholders’ right to make, and the Issuer’s right to accept in the circumstances described herein, a Physical Settlement Election (as defined herein), Exchange Rights in the Bonds will be satisfied by the Issuer by payment of the Cash Amount (as defined herein) in exchange for the Bonds at any time on or after 29 June 2010 and up to the close of business on the seventh Trading Day prior to the Maturity Date (expected to be 7 May 2015) or, if such Bond shall have been called for redemption prior to the Maturity Date, then prior to the close of business on the seventh Trading Day prior to the date fixed for redemption thereof. Exchange Rights in respect of which a Physical Settlement Election is effective will be satisfied by the transfer and delivery to the relevant Bondholder of a *pro rata* share of the Exchange Property (as defined herein and which shall initially comprise common shares in EDP - Energias de Portugal, S.A. (the **EDP Shares**)), which shall be subject to adjustment pursuant to these Terms and Conditions of the Bonds. See “*Terms and Conditions of the Bonds – Exchange Rights*”. The EDP Shares are listed on the official list of Euronext Lisbon and are admitted to trading on Euronext Lisbon. On 13 May 2010, the closing price of the EDP Shares on Euronext Lisbon was EUR 2.69 per EDP Share.

Application has been made to admit the Bonds to the official list of the Luxembourg Stock Exchange and application has been made to admit the Bonds to trading on the Luxembourg Stock Exchange’s Euro MTF Market (the **Euro MTF Market**).

This Offering Circular constitutes a prospectus for the purposes of the Luxembourg Act dated 10 July 2005 relating to prospectuses for Securities.

An investment in the Bonds involves certain risks. See “Risk Factors” commencing on page 7 for a discussion of certain factors that should be carefully considered by investors.

None of the Bonds, the Guarantee or the EDP Shares to be delivered upon exchange of the Bonds have been or will be registered under the United States Securities Act of 1933, as amended (the **Securities Act**) or with any securities regulatory authority of any other jurisdiction. The Bonds are being offered and sold in offshore transactions outside the United States in reliance on Regulation S (**Regulation S**) under the Securities Act and, except in a transaction exempt from the registration requirements of the Securities Act, may not be offered, sold or delivered within the United States.

The Bonds will initially be in the form of a registered global bond (the **Global Bond**), without interest coupons, which will be deposited with and registered in the name of, a nominee for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**) on or about the Closing Date. The Global Bond will be exchangeable for definitive registered Bonds, without interest coupons, in the denomination of €50,000, only in the limited circumstances set out therein.

Lead Managers

BofA MERRILL LYNCH

CITI

CREDIT SUISSE

**ESPÍRITO SANTO
INVESTMENT**

Each of the Issuer and the Guarantor accepts responsibility for the information contained in this Offering Circular with respect to the Issuer, the Guarantor, the BES Group (as defined below) and the Bonds, and to the best of the knowledge of Issuer and the Guarantor (each having taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Offering Circular may only be used for the purposes for which it has been published.

This Offering Circular should be read and construed with any documents incorporated herein by reference, see “*Documents Incorporated by Reference*” below. This Offering Circular does not constitute an offer to sell, or a solicitation of an offer to buy, or an invitation by or on behalf of the Issuer, the Guarantor, or any of the Lead Managers (as defined below), to subscribe for or purchase any of the Bonds or the EDP Shares. The distribution of this Offering Circular and the offering of the Bonds and the EDP Shares in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor and the Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of the Bonds and the EDP Shares and distribution of this Offering Circular, see “*Subscription and Sale*” below. Information incorporated by reference in this Offering Circular relating to EDP - Energias de Portugal, S.A. (**EDP**) and its subsidiaries and subsidiary undertakings taken as a whole (the **EDP Group**) and the EDP Shares and the information contained under paragraph 11 of the section “*General Information*” (such information, the **EDP Information**) comprises and is extracted from documents which are all publicly available. Such documents were not prepared in connection with the offering of the Bonds and none of the Issuer, the Guarantor or the Lead Managers has made any investigation or enquiry with respect to such documents or the EDP Information. None of the Issuer, the Guarantor or the Lead Managers accepts responsibility for the EDP Information. The incorporation by reference of the EDP Information shall not create any implication that there has been no change relating to EDP, the EDP Group or the EDP Shares since the date thereof or that the information contained therein is current as at any time subsequent to its date. None of the Issuer, the Guarantor or the Lead Managers have had access to EDP’s books, records or other non-public information. Therefore, information concerning EDP, the EDP Group or the EDP Shares that has not been made public is not available to the Issuer, the Guarantor or the Lead Managers. None of the Issuer, the Guarantor or the Lead Managers have been involved in the preparation of the EDP Information and, for the foregoing reasons, none of the Issuer, the Guarantor or the Lead Managers is in a position to verify any such information or pass judgement on its completeness. None of the Issuer, the Guarantor or the Lead Managers makes any representations or warranties as to the accuracy, completeness or sufficiency of the EDP Information.

EDP has not participated in the preparation of this Offering Circular or in establishing the terms of the Bonds. Consequently, there can be no assurance that all events occurring prior to the date hereof (including events that would affect the accuracy or completeness of the publicly available documents referred to above or the EDP Information) that would affect the trading price of the EDP Shares (and, therefore, the trading price of the Bonds) have been publicly disclosed. Subsequent disclosure of any such events or the disclosure of, or failure to disclose, material future events concerning EDP, the EDP Group and the EDP Shares could affect the trading price of the EDP Shares and, consequently, affect the value of the Cash Amount payable upon exchange of the Bonds or the value of the Exchange Property deliverable upon exchange of the Bonds, as the case may be, and, therefore, the trading price of the Bonds.

No person is authorised to give any information or to make any representation not contained in this Offering Circular and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Guarantor or the Lead Managers. Neither the delivery of this Offering Circular nor any offer, sale or delivery made in connection with the issue of the Bonds shall, under any circumstance, constitute a representation that there has been no change or development likely to involve a change in the condition (financial or otherwise) of the Issuer, the Guarantor or the BES Group since the date hereof or create any implication that the information contained herein is correct as of any date subsequent to the date hereof or the date as of which that information is stated herein to be given.

Neither the Issuer, the Guarantor nor any of the Lead Managers is providing any advice or recommendation in this Offering Circular on the merits of the purchase, subscription for, or investment in, the Bonds or the EDP Shares or the exercise of any rights conferred by the Bonds or the EDP Shares.

No representation or warranty, express or implied, is made by the Lead Managers as to the accuracy, completeness or verification of the information set out or incorporated in this Offering Circular, and nothing set out or incorporated in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Lead Managers. The Lead Managers assume no responsibility for the accuracy, completeness or verification of this Offering Circular and accordingly disclaim, to the fullest extent permitted by applicable law, any and all liability whether arising in tort, contract or otherwise which they might otherwise be found to have in respect of this Offering Circular or any such statement. This Offering Circular (including the information incorporated by reference herein) is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Guarantor, the Trustee or the Lead Managers that any recipient of this Offering Circular should purchase the Bonds. Each potential purchaser of Bonds should determine for itself the relevance of the information set out or incorporated by reference in this Offering Circular and its purchase of Bonds should be based upon such investigations as it deems necessary.

IN CONNECTION WITH THIS ISSUE OF THE BONDS, CITIGROUP GLOBAL MARKETS LIMITED (THE **STABILISING MANAGER**), OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER, MAY OVER-ALLOT AND EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION SHALL BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS

AFTER THE CLOSING DATE AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSON(S) ACTING ON BEHALF OF IT) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

The Lead Managers are acting exclusively for the Issuer and the Guarantor and no one else in connection with the offering of the Bonds and will not be responsible to anyone other than the Issuer and the Guarantor for providing the protections afforded to its clients or for giving advice in relation to the offering of the Bonds or any transaction or arrangement referred to herein.

None of the Issuer, the Guarantor or the Lead Managers, or any of their respective representatives, is making any representation to any offeree or purchaser of the Bonds regarding the legality of an investment in the offering of the Bonds by such offeree or purchaser under the laws applicable to such offeree or purchaser. Each investor should consult with his or her own advisors as to the legal, tax, business, financial and related aspects of a purchase of the Bonds.

The investors acknowledge that they have not relied on the Lead Managers or any person affiliated with the Lead Managers in connection with any investigation of the accuracy of any information contained in this Offering Circular or their investment decision.

Unless otherwise specified or the context requires, references to (i) **EUR, Euro, euro** and **€** refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended and (ii) **BES Group** means the Guarantor and its consolidated subsidiaries.

TABLE OF CONTENTS

DOCUMENTS INCORPORATED BY REFERENCE	5
RISK FACTORS	7
TERMS AND CONDITIONS OF THE BONDS	16
SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM.....	46
USE OF PROCEEDS	48
TAXATION.....	49
SUBSCRIPTION AND SALE	55
GENERAL INFORMATION.....	58

DOCUMENTS INCORPORATED BY REFERENCE

Each document incorporated herein by reference is current only as at the date of such document, and the incorporation by reference of such documents shall not create any implication that there has been no change in the affairs of the Issuer, the Guarantor, the BES Group or EDP, as the case may be, since the date thereof or that the information contained therein is current as at any time subsequent to its date. Any statement contained therein shall be deemed to be modified or superseded for the purposes of this Offering Circular to the extent that a subsequent statement contained herein modifies or supersedes that statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

Furthermore, in relation to the EDP Programme Prospectus, the EDP Annual Report and the EDP Interim Results (each as defined below), the Issuer, the Guarantor and the Lead Managers were not involved in the preparation of such information and are not in a position to verify any such information. The Issuer, the Guarantor and the Lead Managers do not make any representations or warranties as to the accuracy, completeness or sufficiency of such information and nothing contained herein is, or shall be relied upon as, a representation or warranty on such information.

The documents set out below are incorporated herein by reference:

- (a) the following sections of the €20,000,000,000 Euro Medium Term Note Programme Prospectus of the Issuer and the Guarantor dated 18 December 2009 (the **Programme Offering Circular**):
 - (i) BES Finance Ltd. (pages 167 to 173);
 - (ii) Banco Espírito Santo, S.A. and BES Group (pages 174 to 219);
- (b) the auditors' report and audited annual financial statements of the Issuer for the financial year ended 31 December 2009, as set out on pages 1 to 56 of the Issuer's 2009 Annual Report, including:
 - (i) statements of income (pages 2 to 3);
 - (ii) balance sheet (page 4);
 - (iii) cashflow statements (page 6);
 - (iv) accounting policies and explanatory notes (pages 7 to 54); and
 - (v) auditors' report (pages 55 to 56);
- (c) the auditors' report and audited annual financial statements of the Issuer for the financial year ended 31 December 2008, as set out on pages 1 to 40 of the Issuer's 2008 Annual Report, including:
 - (i) income statement (page 3);
 - (ii) balance sheet (page 2);
 - (iii) cashflow statements (page 5);
 - (iv) accounting policies and explanatory notes (pages 6 to 40); and
 - (v) auditors' report (page 1);
- (d) the unaudited consolidated financial information of the Guarantor for the three months ended 31 March 2010 as set out in the press release dated 3 May 2010, including:
 - (i) balance sheet (page 39); and
 - (ii) statement of income (page 40);
- (e) the auditors' report and audited consolidated annual financial statements of the Guarantor for the financial year ended 31 December 2009, as set out on pages 1 to 155 of Part II of the 2009 Annual Report, including:
 - (i) statements of income (pages 3 to 4);
 - (ii) balance sheet (page 5);
 - (iii) statement of changes in consolidated equity (page 6);
 - (iv) cashflow statements (page 7);
 - (v) accounting policies and explanatory notes (pages 8 to 153); and
 - (vi) auditors' reports (pages 154 to 155);

- (f) the auditors' report and audited consolidated and non-consolidated annual financial statements of the Guarantor for the financial year ended 31 December 2008, as set out on pages 67 to 248 of the 2008 Annual Report, including:
 - (i) statements of income (page 69, 71, 165 and 167);
 - (ii) balance sheets (page 70, 72, 166 and 168);
 - (iii) statement of changes in consolidated equity (pages 73 and 169)
 - (iv) cashflow statements (page 74 and 170);
 - (v) accounting policies and explanatory notes (pages 75 to 763 and 171 to 241); and
 - (vi) auditors' reports (pages 245 to 248);
- (g) the prospectus dated 7 October 2009 (the **EDP Programme Prospectus**) in connection with the €12,500,000,000 Programme for the Issuance of Debt Instruments issued by EDP and EDP Finance B.V.;
- (h) the Annual Report 2009 of EDP (the **EDP Annual Report**); and
- (i) the unaudited consolidated financial information of EDP for the three months ended 31 March 2010 as set out in the press release dated 6 May 2010 (the **EDP Interim Results**).

All information included in the 2009 and 2008 Annual Reports of the Issuer and the Guarantor, but not expressly identified above, is provided for information purposes only. The Issuer does not currently publish interim financial statements. The Guarantor does not currently publish non-consolidated interim financial statements but does currently publish an unaudited consolidated balance sheet and a statement of income on a quarterly basis.

Documents incorporated by reference into this Offering Circular under paragraph (a) to (i) inclusive above will, for so long as any Bonds are outstanding, be available free of charge at the specified offices of the Paying, Transfer and Exchange Agents (as defined herein) and at the registered offices of the Issuer and the Guarantor. Documents incorporated by reference under (g) above should be available on the website of the Regulatory News Service operated by the London Stock Exchange plc at http://www.rns-pdf.londonstockexchange.com/rns/4189A_1-2009-10-7.pdf. Documents incorporated by reference under (h) and (i) should be available on the website of EDP at www.edp.pt.

In addition, such documents will be published on the Luxembourg Stock Exchange's web site (www.bourse.lu).

Prospective investors are advised to obtain and read the documents incorporated by reference herein before making their investment decision in relation to the Bonds.

RISK FACTORS

The Issuer and the Guarantor believe that the following factors may affect their ability to fulfil their respective obligations under the Bonds. Most of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor is in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer and the Guarantor believe may be material for the purpose of assessing the market risks associated with Bonds are also described below.

The Issuer and the Guarantor believe that the factors described below represent the principal risks inherent in investing in the Bonds, but neither the Issuer nor the Guarantor represents that the statements below regarding the risks of holding any Bonds are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular (including any documents deemed to be incorporated by reference herein) and reach their own views prior to making any investment decision.

Terms used below but not defined shall have the meaning set out under “Terms and Conditions of the Bonds”.

Risk Factors Relating to the Issuer

1. Factors that may affect the Issuer’s ability to fulfil its obligations under the Bonds

The Issuer is a funding vehicle of the BES Group. As such it raises funds to the Guarantor by way of intra-group loans. In the event that the Guarantor fails to make a payment under an intra-group loan, the Issuer may not be able to meet its payment obligations under the Bonds.

Risks Relating to the Guarantor

2. Factors that may affect Guarantor’s ability to fulfil its obligations under the Bonds

2.1 Financial system

The performance of the BES Group is generally influenced by conditions in the global financial markets and the macroeconomic context of the countries in which it operates. In particular, the global financial system has operated under difficult conditions since August 2007 and the financial markets have had particularly negative performances after the declarations of insolvency of several international financial institutions since September 2008. This situation has caused disruptions in the financial markets worldwide, without precedent, in relation to liquidity and funding in the international banking system. Furthermore, this situation in turn has put significant pressure on the core business of many investment banks, commercial banks, and insurance companies worldwide. In response to the instability and lack of liquidity in the market, some countries, including some members of the European Union and the United States, have intervened by injecting liquidity and capital into the system with the goal of stabilising these financial markets and, in some cases, with the aim of preventing the insolvency of financial institutions. Despite these measures, the volatility in the capital markets has continued at an extraordinary level compared to the past. The major industrialized countries of the world (the so-called G20) have agreed on the need to study and proceed with an economic and financial policy co-ordinated on a worldwide level to support the global economy and, in a parallel fashion, ensure greater regulation of activities on the financial markets as well. These developments have created an unfavourable environment for banking activity generally. The specific ways that the current economic environment create challenges for the BES Group, and may adversely affect its business, financial condition and results of operations, include the following:

- The circumstances mentioned above have caused a general slowdown in the business of the BES Group and increase in the cost of funding (both wholesale and retail) and a reduction in share prices and in asset values, with a corresponding reduction in profitability. If a worsening of these circumstances occurs, the BES Group could suffer further negative consequences. Any worsening of the current economic environment could jeopardise the BES Group’s strategy of selective expansion and impact its ability to meet client needs, which could adversely affect its profitability.
- The BES Group is exposed to a risk of losses if financial institutions or other counterparties to the BES Group become insolvent or, in any event, are not able to meet their obligations to the BES Group. Moreover, the performance of the BES Group may be influenced by an inability to recover the value of its own assets at percentage levels consistent with its own historical recovery estimates, which could prove to be no longer accurate within the present market context characterised by unprecedented turbulence.
- Numerous banks worldwide have been and are being supported in part by various “rescue plans” and

other types of support by their home country governments. The BES Group is uncertain for how much longer governmental support will be needed to keep these banks solvent and whether governments will have the means or the political will to continue this support. Any failure of government support to continue could result in more bank failures and heightened lack of confidence in the global banking system, thus increasing the challenges faced by the BES Group and other financial institutions.

- The adverse market environment described above has been exacerbated by several extremely large and high-profile cases of fraud on investors. The largest such scandals to emerge in recent months are those involving Bernard Madoff and Allen Stanford. Several prominent global banks have been among the financial institutions who suffered loss or reputational damage as a result of these scandals.

In general, developments relating to the current economic conditions and unfavourable financial environment, including those potential developments outlined above, could have a material adverse effect on the BES Group's business, financial condition and results of operations.

2.2 *Banking Markets*

Structural changes in the Portuguese economy over the past several years have significantly increased competition in the Portuguese banking sector. These changes principally relate to the privatisation of several sectors of the economy, including banking and insurance, as well as to the integration of the Portuguese economy into the European Union and the introduction of the Euro.

The BES Group faces intense competition in all of its areas of operation (including, among others, banking, investment banking, specialised credit and asset management). The BES Group's competitors in the Portuguese markets are Portuguese commercial banks, savings and investment banks and foreign banks, many of which have recently entered the Portuguese market. Over the last years, mergers and acquisitions involving the largest Portuguese banks have resulted in a significant concentration of market shares, a process which the Guarantor expects may continue. Competition has increased further with the emergence of non-traditional distribution channels, such as internet and telephone banking. Competition in the Portuguese market can have an adverse effect on the activities of BES Group. The structural changes in the Portuguese economy in recent years have considerably increased competition in the Portuguese banking market. Such changes were mainly related to the privatisation of large sectors of the economy, such as banking and insurance, as well as with the integration of Portuguese economy in the European Union and the establishment of the Euro.

The competition is affected by consumer demand, technological changes, impact of consolidation, regulatory actions and other factors. The Guarantor expects competition to intensify as continued merger activity in the financial industry produces larger, better-capitalised companies that are capable of offering a wider array of products and services, and at competitive prices. If the BES Group is unable to provide attractive product and service offerings that are profitable, it may lose market share or incur losses on some or all activities.

Although the Guarantor believes that it is in a strong position to continue to compete in the Portuguese market, there is no assurance that it will be able to compete effectively in the markets in which it operates, or that it will be able to maintain or increase the level of its results of operations.

2.3 *Economic Environment*

As a financial group whose core businesses is banking (taking deposits and using them to grant loans) in Portugal, the state of the Portuguese economy affects the performance of the BES Group. For the year ended 31 December 2009, approximately 66 per cent. of the BES Group's net profit was derived from its activities in Portugal. Consequently, the BES Group is particularly exposed to macroeconomic and other factors that affect growth in the Portuguese market as well as to the credit risk of its Portuguese banking private and corporate customers. After constant economic growth during the years of 1995 – 2000 the rate of growth of the Portuguese economy started to slow down in 2000. This reduction was intensified by the simultaneous slow down of the world economy. Notwithstanding the modest recovery during 2004, with the GDP reaching 1.1 per cent., in 2005 the GDP did not go over 0.3 per cent. Such decrease was largely due to the slowdown of all internal demand segments, while the net external demand registered a minor increase in comparison with the previous year. This adverse economic environment had a major impact on the demand for consumer credit in general. The demand for mortgage loans, banking products and other services was also down from previous years, as was the stagnation of investment decisions on the part of corporations, with the consequent decrease of credit demand in that field. The prevailing economic conditions in the Portuguese market and the decrease of demand for credit and financial products and services in general, together with deterioration in the quality of assets had an adverse effect in the financial condition and the results of

the BES Group. If the economic activities continue to grow at such a slow pace, the BES Group may face difficulties in accomplishing its growth strategy and the financial condition and results of BES Group may be adversely affected.

To a lesser extent, the Guarantor's performance, results of operations and financial condition are also affected by the economic conditions and levels of economic activity in other countries where the BES Group operates, such as Spain, Brazil and Angola. A downturn in the economy of any of these countries, particularly Portugal, could lead to an increase in defaults by the BES Group's customers on the loans extended to them. In addition, protracted economic declines could reduce the overall level of economic activity in the market, thereby reducing the Guarantor's ability to collect deposits and forcing it to satisfy its liquidity requirements by resorting to the more expensive capital markets as a result.

2.4 *Soundness of other financial institutions*

The Guarantor is exposed to many different counterparties in the normal course of its business; hence its exposure to counterparties in the financial services industry is significant. This exposure can arise through trading, lending, deposit-taking, clearance and settlement and numerous other activities and relationships. These counterparties include institutional clients, brokers and dealers, commercial banks, investment banks and mutuals. Many of these relationships expose the Guarantor to credit risk in the event of default of a counterparty or client. In addition, the Guarantor's credit risk may be exacerbated when the collateral it holds cannot be realised at, or is liquidated at prices not sufficient to recover, the full amount of the loan or derivative exposure it is due to cover, which could in turn affect Guarantor's ability to meet its payments under the Bonds. Many of the hedging and other risk management strategies utilized by the Guarantor also involve transactions with financial services counterparties. The insolvency of these counterparties may impair the effectiveness of the Guarantor's hedging and other risk management strategies, which could in turn affect the Guarantor's ability to meet its payments under the Bonds and may have a material adverse effect on the each of the Guarantor's financial condition and results of operations.

2.5 *Interest Rate Risk*

The BES Group is subject to the risks typical of banking activities, such as interest rate fluctuations. Interest rate risk may be defined as the impact on shareholders' equity or on net interest income due to an adverse change in market interest rates. As is the case with other banks in Portugal, the BES Group, and especially its banking and corporate operations segment, is particularly exposed to differentials between the interest rates payable by it on deposits and the interest rates that it is able to charge on loans to customers and other banks. This exposure stems from the fact that, in the Portuguese market, loans typically have variable interest rates, whereas the interest rates applicable to deposits are usually fixed for periods that may vary between three and six months. As a result, Portuguese banks, including the BES Group, frequently experience difficulties in adjusting the interest rates that they pay for deposits in line with market interest rate changes. This trend is reinforced by intense competition in the sector. The current low interest rate environment puts pressure on a bank's deposit spread.

Interest rate risk is monitored by the Assets and Liabilities Committee (ALCO), namely through the monitoring of net interest income and using repricing tables. The BES Group's exposure to interest rate risk is calculated based on Bank of International Settlements (BIS) methodology, classifying all Assets, Liabilities and off balance sheet items, excluding those from trading sources, by repricing schedules.

If the BES Group is unable to adjust interest on deposits in line with the changes in market interest rates on loans, or if the monitoring procedures are unable to adequately manage interest rate risk, its interest income could rise less or decline more than its interest expense, in which case the BES Group's results could be negatively affected.

2.6 *Credit risk*

Risks arising from changes in credit quality and the repayment of loans and amounts due from borrowers and counterparties are inherent in a wide range of the BES Group's business. Adverse changes in the credit quality of the Guarantor's borrowers and counterparties, a general deterioration in Portuguese or global economic conditions, or increased systemic risks in financial systems, could affect the recovery and value of the Guarantor's assets and require an increase in provision for bad and doubtful debts and other provisions.

The BES Group faces the risk of its borrowers and counterparties being unable to fulfill their payment obligations towards the BES Group. While the BES Group analyses its exposure to such borrowers and counterparties on a regular basis, as well as its exposure to certain economic sectors and regions which the BES Group believes to be particularly critical, payment defaults may result from circumstances which are unforeseeable or difficult to predict. In addition, the security and collateral provided to the BES Group may be insufficient to cover its exposure, for instance, as a result of sudden depreciations in the market which

dramatically reduce the value of collateral. As such, in case borrowers or other material counterparties fail to comply with their payment obligations to the BES Group, this would have a material adverse effect on each of the BES Group's financial condition and results of operations.

The BES Group is strongly dedicated to the management of credit risks and to the analysis of credit transactions. Credit portfolio management is an ongoing process that requires interaction between the various teams responsible for the management of risk during the consecutive stages of the credit process, with the purpose of improving risk control methodologies, risk assessment and control tools, as well as in procedures and decision circuits. The Guarantor uses two major internal rating systems according to their specific characteristics, which are the Internal Rating Models for Corporate Credit Portfolios and the Internal Scoring for Retail Clients' Credit Portfolios. The first is designed for large companies or institutional clients and credit ratings are assigned by a rating desk, which is organized into specialised teams, which use expert-based systems that include quantitative and qualitative variables linked to the industry sector. As per the Internal Scoring for Retail Clients' Credit Portfolios and specifically in the context of the main products available to individual clients — mortgage loans, consumer loans, credit cards, overdrafts and loan — accounts the ratings are calibrated to a probability of default within one year. The models' predictive capacity is subject to regular monitoring and the BES Group also regularly monitors other parameters required for risk quantification and management, namely losses at default and exposure at default figures (LGD and EAD). Nevertheless, the provisions regarding future credit losses may prove to be inaccurate for a number of reasons. Factors such as unexpected deterioration of global economic conditions, unexpected political events or a general lack of liquidity in economy may result in credit losses which exceed the amount of provisions of the BES Group or the maximum expected losses planned through the risk management procedures. To the extent that the BES Group transactions are mainly located in Portugal, the Guarantor is particularly exposed to the risk of a general economic contraction or to another event affecting default rates in Portugal.

An increase in the BES Group's provisions for losses resulting from defaulted loans or possible losses which exceed the amount of such provisions may have a significantly adverse effect on each of the BES Group's financial condition and results of operations.

2.7 *Operational Risk*

Operational risk represents the risk of losses or of a negative impact on the relationship with clients or other stakeholders resulting from inadequate or negligent application of internal procedures, or from people behaviour, information systems, or external events. Operational risk also includes the business/strategic risk, i.e., the risk of losses through fluctuations in volume/business/earnings/prices or costs.

Legal risk is also included in the above definition. Legal risk represents the risk of losses arising from non-compliance with the regulations in force (due to inadequate document retention, failure to change processes as required by new legislation and/or differences in the interpretation of the law) or resulting from legal action.

The BES Group is subject to certain operational risks, including interruption of service, errors, fraud by third parties (including large-scale organised frauds, as a result of the BES Group's financial operations), breach or delays in providing services and in complying with risk management requirements. The BES Group continually monitors these risks by means of, among other things, advanced administrative and information systems and insurance coverage in respect of certain operational risks.

To manage operational risk, the BES Group implemented a system that standardises, systematises and regulates the frequency of actions viewing the identification, monitoring, control and mitigation of risk.

These processes are part of a management model comprising two broad areas: the first concerns the collection and treatment of information, using tools that facilitate the identification and monitoring of risk; and the second uses the information that has been duly processed for the efficient management of risk, monitoring the more critical situations and implementing the risk management strategy. These two broad areas are coordinated through reporting to senior management and the monitoring of the mitigation measures determined.

However, the BES Group may be unable to successfully monitor, manage or prevent these risks in the future. Any failure to successfully execute the BES Group's risk management and control policies could have a material adverse effect on the BES Group's financial condition and results of operations.

2.8 *Liquidity Risk*

The liquidity risk arises from present or future inability to pay liabilities as they mature without resulting in exaggerated losses. Banks, by virtue of their business of providing long-term loans and receiving short-term deposits, are subject to liquidity risk. In recent years most banks have increasingly resorted to obtaining funds from market sources instead of from their traditional sources (retail deposits), especially in countries where savings are typically scarce due to economic stagnation, as is the case in Portugal. It is therefore important for banks to maintain a prudent and sound management of their liquidity risk, particularly in times of market turmoil.

Although the BES Group puts great effort in liquidity risk management, which is centralised in its Financial Department, focusing on maintaining surplus liquidity in the short term, the BES Group is exposed to the general risk of liquidity shortfalls and cannot ensure that the mechanisms in place to manage such risks will be suitable to eliminate liquidity risk.

2.9 *Market Risk*

The BES Group faces the risk of possible losses resulting from an adverse change in the value of financial instruments due to fluctuations in interest rates, foreign exchange rates, share prices or commodities prices.

The BES Group employs market risk management strategies and market risk management is integrated with balance sheet management through the Assets and Liabilities Committee (ALCO). This committee is responsible for defining policies for the structuring and composition of the balance sheet, and for the control of exposures to interest rate, foreign exchange and liquidity risk.

The main measure of market risk is the assessment of potential losses under adverse market conditions, for which the Value at Risk (“VaR”) valuation criteria is used. The BES Group’s VaR model uses the Monte Carlo simulation, based on a confidence level of 99 per cent. and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year.

Other initiatives have also been developed, such as back testing, consisting of comparing the losses foreseen by the VaR model with actual losses. Although these exercises permit to fine-tune the model and improve its predictive capabilities, along with stress testing which has also been developed in order to permit to assess the impact of higher potential losses than those considered using VaR valuation, the BES Group will be subject to losses whenever these procedures are insufficient to adequately manage the risk of possible losses resulting from adverse changes in the value of financial instruments.

2.10 *Regulation*

The BES Group operates in a highly regulated industry. The BES Group’s banking activities are subject to extensive regulation by, among others, the European Central Bank, the Bank of Portugal and the Portuguese Securities Commission (*Comissão do Mercado de Valores Mobiliários*), who have broad administrative powers over many aspects of the financial services business, which may include liquidity, capital adequacy and permitted investments, ethical issues, money laundering, privacy, securities (including debt instruments) issuance and offering/placement, financial intermediation issues, record-keeping, marketing and selling practices. These various regulations can significantly increase the cost structure of a bank and limit its possibilities for increasing its income. Specific examples where regulation can impact the conduct of the BES Group’s business include the following:

- Currently the minimum cash requirement applicable to Portuguese banks is currently fixed at 2 per cent. of the total amount of deposits. An increase in the minimum cash reserves or a decline in the rate accrued on those cash reserves would have an adverse impact on the BES Group’s net income.
- Portuguese banks are required to maintain a solvency ratio of at least 8.0 per cent. The solvency ratio is defined as Tier I capital plus Tier II capital divided by risk-weighted assets. At 31 December 2009, the BES Group’s total solvency ratio, Core Tier I and Tier I ratio, were 11.3 per cent., 8.0 per cent. and 8.3 per cent. (based on risk-weighted assets as at 31 December 2009), respectively, under the Basel II IRB Foundation Method. In November 2008, the Bank of Portugal issued an order recommending credit institutions to maintain, at the minimum, 8 per cent. of risk-weighted assets on a consolidated basis composed exclusively of Tier I capital starting on 30 September 2009. Although BES believes the Bank of Portugal’s order is an adequate response to the current financial and economic environment, the capital adequacy requirements applicable to the BES Group may limit the Guarantor’s ability to extend credit to customers and may require it to issue additional equity capital or subordinated debt in the future, which are expensive sources of funds. Furthermore, capital adequacy ratios such as those mandated by Basel II have a “procyclical”

effect, meaning that in difficult credit environments such as at present, a bank may find its capital ratios decreased at precisely the time that the economy is most in need of increased financing activity. Thus, as a result of this “procyclical” effect, capital adequacy requirements intended to ensure the health of banks can in fact exacerbate the effect of an economic downturn, further adding to the strain on the banking system.

- The Bank of Portugal has established minimum provisioning requirements regarding current loans, non-performing loans, overdue loans, impairment for securities and equity holdings, sovereign risk and other contingencies. Therefore, any change in these requirements could have an adverse impact on the BES Group’s results of operations.
- The Basel Committee on Banking Supervision is expected to approve new bank capital rules in the near future, particularly as a result of the capital structure weaknesses demonstrated by the banking sector during the recent financial crisis. The new bank capital rules may have a significant impact on the ongoing activities and on the capital structure of the BES Group. The establishment of a general leverage ratio for institutions, requirements as to minimum levels of liquidity and the establishment of criteria for the determination of core bank capital are expected to be the main areas of intervention of the new rules envisaged by the Basel Committee on Banking Supervision.
- The regulatory laws governing the activity of the BES Group may change at any time in ways which may have an adverse effect on its business. Furthermore, the BES Group cannot predict the timing or form of any future regulatory initiatives. Changes in existing regulatory laws may materially affect the way in which the BES Group conducts its business, the products and services it may offer and the value of its assets.

2.11 Risks associated with the implementation of its risk management policies

The BES Group is exposed to a number of risks, including, among others, market risk, credit risk, liquidity risk and operational risk. Although the Guarantor has implemented risk management policies for each of the risks that it is exposed to, taking into account worst case scenarios, the policies and procedures it employs to identify, monitor and manage these risks may not be fully effective.

2.12 Risks associated with the increasing use of sophisticated IT systems

Banking activities are highly dependent on sophisticated IT systems. IT Systems are vulnerable to a number of problems, such as software and hardware flaws, criminal intrusion, physical damage to IT vital components and informatics viruses. The harmonisation of the BES Group’s IT Systems aimed at creating a consistent IT architecture poses a great challenge. IT systems require frequent updates in order to cope with the constant changes in business as well as the increasing regulatory requirements and to cope with the development rhythm of the current transaction of the BES Group in the domestic market and abroad. The BES Group may be unable to implement the necessary updates on time and such updates may not result as previously planned.

Besides the costs which may be incurred as a result of the potential failure of its IT systems the BES Group may become subject to fines applied by regulatory entities in the banking sector in case its IT systems do not enable the BES Group to adequately comply with banking regulations or with reporting requirements. As a result, any significant interruption in the IT systems in place can have an extremely adverse effect in the activities, the results and the financial condition of the BES Group.

2.13 Risks associated with the ability to maintain the Bank’s client portfolio

The success of the BES Group is largely dependent on its ability to maintain its clients’ portfolio and to provide them with a diversified range of competitive and high quality products as well as high service levels. The BES Group seeks to achieve these goals through the segmentation of its distribution net, and as a way to better serve the needs the different clients’ segments and also by cross selling products and services of its subsidiaries.

The potential inability to maintain its client portfolio or to offer its clients a wide range of competitive and high quality products or high levels of service could have an adverse effect in the financial situation and the results of the BES Group.

2.14 Risks associated with market transactions on the Bank’s own portfolio

The BES Group performs transactions in the market using its own portfolio, which includes the entering into interest rate derivative instruments, credit, equity markets and currency rates, as well as the sale and purchase of bonds and shares issued in the domestic and in the international markets and the performance of transactions in the primary and secondary public debt markets.

The VaR associated with transaction portfolios was at the end of 2009 approximately 32.6 million Euros, which compares with 47.3 million Euros on the previous year.

While the Guarantor's involvement in these activities is limited, transactions on its own portfolio involve a certain degree of risk. The future results of such transactions will mainly depend on market conditions, and the BES Group may incur in significant losses which may negatively affect its financial condition and results.

2.15 Risks relating to the Guarantor's shareholding and corporate structure

As at 31 December 2009, the major shareholders of the Guarantor hold, directly or indirectly, approximately a 50.81 per cent. of the voting rights of the Guarantor and have the ability to exercise significant influence over or determine the outcome of certain shareholder actions.

Crédit Agricole, the second largest shareholder of the Guarantor, with a holding of 10.81 per cent., is ESFG's strategic partner (the largest shareholder, with 40 per cent. of voting rights) in banking and insurance and holds five seats on the Board of Directors of the Guarantor, with one of these members also on the Executive Committee.

2.16 Risks relating to the Guarantor's credit ratings

Credit ratings affect the cost and other terms upon which the BES Group is able to obtain funding. Rating agencies regularly evaluate the Guarantor and their ratings of its long-term debt are based on a number of factors, including its financial strength as well as conditions affecting the financial services industry generally. In light of the difficulties in the Portuguese economy, the financial services industry and the financial markets, there can be no assurance that the rating agencies will maintain the Guarantor's current ratings or outlooks. The recent downgrades of the Portuguese sovereign rating could in turn negatively affect the perception these agencies could have of the Guarantor's rating. The Guarantor's failure to maintain those ratings and outlooks could increase the cost of its funding and adversely affect its interest margins or even, in a scenario that combines a sharp ratings drop with a further worsened credit environment, result in the wholesale funding markets being entirely inaccessible to the BES Group. Currently, the Guarantor's long-term credit rating is "A1" (stable outlook) according to Moody's Investor Services, Inc., "A-" (negative outlook) according to Standard & Poor's Rating Services, a division of the McGraw-Hill Companies Inc. and "A+" (negative outlook) according to Fitch Ratings Ltd. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Risk Factors Relating to the Bonds

3. Factors which are material for the purpose of assessing the market risks associated with the Bonds

3.1 The Bonds may not be a suitable investment for all investors

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

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Offering Circular or any applicable supplement to this Offering Circular;
- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds;
- (d) understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant indices and financial markets; and
- (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

3.2 *Risks Attached to the Exercise of Exchange Rights*

Investors should be aware that the Bonds, which are either exchangeable for (i) a Cash Amount in lieu of a *pro rata* share in the Exchange Property or (ii) a *pro rata* share of the Exchange Property, bear certain additional risks. Depending on the performance of the underlying EDP Shares (or any other securities or assets comprising the Exchange Property from time to time), the value of the Exchange Property may be substantially lower than when the Bonds were initially purchased. In addition, the Cash Amount or *pro rata* share of the Exchange Property, as the case may be, to be delivered upon exchange of Bonds may vary substantially between the date on which Exchange Rights are exercised under the Bonds and the date on which such Exchange Property is delivered. See “*Terms and Conditions of the Bonds – Exchange Rights*”.

3.3 *Further issues or sales of EDP Shares*

There can be no certainty as to the effect, if any, that future issues or sales of EDP Shares, or the availability of such EDP Shares for future issue or sale, would have on the market price of the EDP Shares prevailing from time to time and, therefore, on the value of the Exchange Property and, consequently, the price of the Bonds. Although the Guarantor has agreed not to, and the Guarantor will procure that none of its Subsidiaries or any other party acting on its behalf will, subject to certain exceptions, directly or indirectly, issue, offer, sell or otherwise transfer or dispose of any EDP Shares or any securities convertible into or exercisable or exchangeable for EDP Shares, or sell or grant options, rights or warrants with respect to any EDP Shares, or enter into agreements with the same economic results, without the prior written consent of the Lead Managers (see “*Subscription and Sale*”), for a period of 90 days from 21 April 2010, sales of substantial numbers of EDP Shares in the public market, or a perception in the market that such sales could occur, could adversely affect the prevailing market price of the EDP Shares and the Bonds.

Risks related to Bonds generally

4. Certain risks relating to the Bonds generally

4.1 *Modification and substitution*

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

The conditions of the Bonds also provide that the Trustee may, without the consent of Bondholders, agree to (i) modifications of the Bonds which are not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or (ii) modifications to the Bonds or the Trust Deed of a formal, minor or technical nature or which are made to correct a manifest error or to comply with mandatory provisions of the law of the jurisdiction in which the Issuer is incorporated or (iii) the substitution of another company as principal debtor under any Bonds in place of the Issuer, in the circumstances described in Condition 16 of the Bonds.

4.2 *EU Savings Directive*

Under EC Council Directive 2003/48/EC on the taxation of savings income (the **Directive**), European Union Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to or for an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-European Union countries and territories have adopted similar measures.

The European Commission, the Council of the European Union and the European Parliament are considering a number of proposed changes to the Directive. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

If a payment in respect of the Bonds were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer, the Guarantor, any Paying, Transfer and Exchange Agent nor any other person would be obliged to pay additional amounts with respect to any Bond as a result of the imposition of such

withholding tax. The Issuer is required, where possible, to maintain a Paying, Transfer and Exchange Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

Risks related to the market generally

5. The principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk

5.1. The secondary market generally

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

5.2 Exchange rate risks and exchange controls

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

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

5.3 Interest rate risks

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

5.4 Credit ratings may not reflect all risks

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

Legal investment considerations may restrict certain investments

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

TERMS AND CONDITIONS OF THE BONDS

The issue of the €500,000,000 3.00 per cent. Guaranteed Exchangeable Bonds due 2015 (the **Bonds**) of BES Finance Ltd (the **Issuer**) was authorised by resolutions of the Board of Directors of the Issuer passed on 10 May 2010. The giving of the guarantee by Banco Espírito Santo, S.A., acting through its London Branch (the **Guarantor**) was authorised by resolutions of the Executive Committee of the Guarantor passed on 10 May 2010. The Bonds are constituted by a trust deed (the **Trust Deed**) dated 19 May 2010 (the **Closing Date**) and made between the Issuer, the Guarantor and BNY Corporate Trustee Services Limited (the **Trustee**, which term shall, where the context so permits, include all other persons or companies acting as trustee or trustees thereof) as trustee for the holders of the Bonds. The Issuer and the Guarantor have entered into a paying, transfer and exchange agency agreement (the **Agency Agreement**) with the Trustee, The Bank of New York Mellon, acting through its London branch as principal paying, transfer and exchange agent, The Bank of New York Mellon (Luxembourg) S.A. as registrar and the other paying, transfer and exchange agents named therein. The registrar, the principal paying, transfer and exchange agent and the other paying, transfer and exchange agents for the time being are referred to below, respectively, as the **Registrar**, the **Principal Paying, Transfer and Exchange Agent** and the **Paying, Transfer and Exchange Agents** (which expression shall include the Principal Paying, Transfer and Exchange Agent). The statements in these terms and conditions of the Bonds (the **Conditions**) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds. Copies of the Trust Deed and the Agency Agreement are available for inspection by Bondholders at the registered office of the Trustee being at the Closing Date at One Canada Square, London E14 5AL and at the specified office(s) of the Paying, Transfer and Exchange Agents. The Bondholders (as defined in Condition 1.2) are entitled to the benefit of the Trust Deed and are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Bonds are in registered form, serially numbered, in the denomination of €50,000 each (an **Authorised Denomination**) and are each represented by a registered certificate (each a **Certificate** and, together, the **Certificates**).

1.2 Title

Title to the Bonds will pass by transfer and registration as described in Conditions 3 and 4, respectively. In these Conditions, in relation to a Bond, **Bondholder** and **holder** means the persons in whose name a Bond is registered in the Register (as defined in Condition 3). The registered holder of any Bond will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of it) and no person will be liable for so treating the holder.

2. STATUS OF THE BONDS AND GUARANTEE

2.1 Status of the Bonds

The Bonds are direct, unconditional, unsecured (subject to the provisions of Condition 5) and unsubordinated obligations of the Issuer and rank and will rank *pari passu* with all present and future unsecured (subject as aforesaid) and unsubordinated obligations of the Issuer, without any preference among themselves by reason of priority of date of issue, currency of payment or otherwise, except for obligations given priority by law.

2.2 Guarantee of the Bonds

The Guarantor has in the Trust Deed unconditionally and irrevocably guaranteed the due and punctual payment by the Issuer of the principal of, and interest on, the Bonds and all other amounts payable under or pursuant to the Trust Deed (the **Guarantee**).

The obligations of the Guarantor under the Guarantee constitute direct, unconditional, unsecured (subject to the provisions of Condition 5) and unsubordinated obligations of the Guarantor and rank and will *rank pari passu* with all present and future unsecured (subject as aforesaid) and unsubordinated obligations (including those arising under deposits received in its banking business) of the Guarantor, except for obligations given priority by law.

3. REGISTRATION

The Issuer will cause a register (the **Register**) to be kept at the specified office of the Registrar outside the United Kingdom in which will be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers and redemptions of Bonds. For so long as any of the Bonds are outstanding, the Issuer will keep an up-to-date copy of the Register at its registered office.

4. TRANSFER OF BONDS

4.1 Transfer

Each Bond may, subject to the terms of the Agency Agreement and to Conditions 4.2, 4.3 and 4.4, be transferred in whole but not in part by lodging the Certificate in respect of the relevant Bond (with the form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the specified office of the Registrar or any Paying, Transfer and Exchange Agent.

No transfer of a Bond will be valid unless and until entered on the Register. A Bond may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number).

The Registrar will, within fourteen Business Days (in the city of the Registrar's specified office) of any duly made application for the transfer of a Bond, deliver a new Certificate in respect of the Bond to the transferee, at the specified office of the Registrar, or (at the risk and, if mailed at the request of the transferee otherwise than by ordinary mail, at the expense of the transferee) mail the Certificate in respect of the Bond by uninsured mail to such address as the transferee may request.

4.2 Formalities Free of Charge

Such transfer will be effected without charge subject to (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith and (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application.

4.3 Closed Periods

Neither the Issuer nor the Registrar will be required to register the transfer of any Bond:

- (a) during the period of 7 Business Days (in the city of the Registrar's specified office) immediately prior to the Maturity Date or any earlier date fixed for redemption of the Bonds pursuant to Condition 11.2 or Condition 11.4;
- (b) in respect of which an Exchange Notice (as defined below) has been delivered in accordance with Condition 8.2;
- (c) during the period of 14 Business Days (in the city of the Registrar's specified office) ending on (and including) any Record Date (as defined below) in respect of any payment of interest on the Bonds; or
- (d) in respect of which holders have exercised their right to require redemption pursuant to Condition 11.3.

4.4 Regulations

All transfers of Bonds and entries on the register of Bondholders will be made subject to the detailed regulations concerning transfer of Bonds set forth in the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Bondholder upon request.

5. NEGATIVE PLEDGE

So long as any of the Bonds remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor shall create or permit to be outstanding any Security Interest, mortgage, charge, lien, pledge or other similar encumbrance or security interest upon the whole or any part of its undertaking or assets, present or future (including any uncalled capital), to secure any Indebtedness (as defined below) or any guarantee or indemnity given in respect of any Indebtedness, without, in the case of the creation of any Security Interest, encumbrance or security interest, at the same time and, in any other case, promptly granting to the Bondholders either, at the option of the Issuer, an equal and rateable interest in the same or providing to the Bondholders such other security as either:

- (a) the Trustee shall, in its absolute discretion, deem to be not materially less beneficial to the Bondholders; or
- (b) as shall be approved by an Extraordinary Resolution of the Bondholders.

Indebtedness means any borrowings having an original maturity of more than one year in the form of or represented by bonds, notes, debentures or other securities (not comprising, for the avoidance of doubt preference shares or other equity securities) but excluding any Covered Bonds (as defined below):

- (a) where more than 50 per cent. in aggregate principal amount of such bonds, notes, debentures or other securities are initially offered outside the Portuguese Republic; and
- (b) which with the consent of the Issuer and the Guarantor, are, or are intended to be, listed or traded on any non-Portuguese domestic stock exchange, over-the-counter or other organised market for securities (whether or not initially distributed by way of private placing).

Covered Bonds means any covered bonds (*Obrigações Hipotecárias*) issued by the Guarantor, the obligations of which benefit from a special creditor privilege (*privilégio creditório especial*) as a result of them being collateralised by a defined pool of assets comprised of mortgage loans or other loans permitted by applicable Portuguese legislation to be included in the pool of assets and where the requirements for that collateralisation are regulated by applicable Portuguese legislation.

Security Interest means any mortgage, charge, lien, pledge or other similar encumbrance or security interest.

6. DEFINITIONS

For the purpose of these Conditions, the following words and phrases shall have the following meanings:

Additional Exchange Property has the meaning set out in Condition 8.2;

Authorised Officers has the meaning given in the Trust Deed;

Bondholder has the meaning set out in Condition 1.2;

Business Day means, in relation to any place, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments generally in such place;

Capital Distribution means:

- (a) in relation to an EDP Share, the portion determined as set out below of any Dividend in respect of any financial year, if the Fair Market Value of the proposed Dividend per EDP Share, together with the Fair Market Value per EDP Share of the aggregate of any other Dividend or Dividends on the EDP Shares in respect of such financial year (disregarding for such purpose any amount previously determined to be a Capital Distribution in respect of that financial year), exceeds the amount shown below in respect of such financial year:

in respect of the financial year ending	Amount (Euro)
31 December 2009	0.155
31 December 2010	0.155
31 December 2011	0.155
31 December 2012	0.155
31 December 2013	0.155
31 December 2014	0.000

in which case the amount of such Capital Distribution shall be the amount of such excess, (and provided that if EDP shall change its financial year end, such modification shall be made in the operation of this Clause (a) as shall be determined to be reasonable and appropriate by an independent financial institution of international repute selected by the Issuer and approved by the Trustee; and

- (b) in relation to any Relevant Security (other than EDP Shares) comprised in the Exchange Property, any Dividend paid or made in any financial period of the relevant issuer (the **Relevant Dividend**) if and to the extent that the sum of (i) the Fair Market Value of the Relevant Dividend per Relevant Security and (ii) the Fair Market Value of any other Dividend per Relevant Security paid or made in such financial period (other than any Dividend or part thereof previously determined to be a Capital Distribution in respect of such financial period), exceeds 5 per cent. of the Reference Amount, in which case the amount of such Capital Distribution shall be the amount of such excess.

For the purpose of this definition of Capital Distribution only:

- (i) **Reference Amount** means the average of the Volume Weighted Average Price of the Relevant Securities on the 60 consecutive Trading Days ending on the Trading Day immediately preceding the date on which the Relevant Dividend is announced;
- (ii) the Fair Market Value of a Dividend shall be determined as at the date of announcement of the relevant Dividend; and
- (iii) in making any such calculation, such adjustments (if any) shall be made as an independent financial institution of international repute selected by the Issuer and approved by the Trustee may consider appropriate to reflect any Sub-division, Consolidation or Redenomination of the Relevant Securities or any change in the number of Relevant Securities comprising Exchange Property pursuant to Condition 8.5 (Adjustments to the Exchange Property) in issue in relation to financial periods being compared.

Cash Amount has the meaning provided in Condition 8.1;

Change Date has the meaning provided in Condition 8.2;

Clearstream, Luxembourg means Clearstream, Banking, *société anonyme*;

CVM means the Portuguese centralised system of registration of securities managed by Interbolsa (*Central de Valores Mobiliários*);

Dividend means any dividend or distribution (determined on a gross basis), whether of cash, assets or other property, and whenever paid or made and however described and shall include any distribution or repayment of capital (and any interest on capital thereon determined on a gross basis), whether upon a reduction in the par value or nominal value of any Relevant Securities or otherwise, and howsoever described, (and a distribution of assets includes, without limitation, an issue of shares or other securities credited as fully or partly paid up) provided that:

- (a) where a cash Dividend is announced which is to be, or may at the election of a holder or holders of Relevant Securities be, satisfied by the issue or delivery of Relevant Securities or other property or assets, then the Dividend in question shall be treated as a Dividend of:
 - (i) the Fair Market Value on the date of announcement of such Dividend of the cash Dividend so announced; and/or
 - (ii) the Fair Market Value on the date of announcement of such Dividend of such Relevant Securities or other property or assets to be issued or delivered in satisfaction of such Dividend,

the Issuer being entitled to make such election as it may see fit in respect of any such Dividend for the purposes of these Conditions;

- (b) any issue of Relevant Securities falling within Condition 8.5(a) or 8.5(c) shall be disregarded;
- (c) any offer by or on behalf of a Relevant Company of Relevant Securities or other securities or options, warrants or rights to subscribe or purchase further Relevant Securities (or any of them) or other securities falling within Condition 8.5(b) shall be disregarded; and
- (d) a repurchase or redemption by or on behalf of a Relevant Company of Relevant Securities shall be disregarded;

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

EDP Shares means ordinary shares of EDP (ISIN PTEDP0AM0009) and all other (if any) shares or stock resulting from any subdivision, consolidation or reclassification of those shares which, as between themselves, have no preference in respect of dividends or amounts payable in the event of any voluntary or involuntary liquidation or winding-up of EDP;

euro and **€** means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended;

Equivalent Amount has the meaning set out in Condition 8.2;

Euroclear means Euroclear Bank S.A./N.V.;

Exchange Date has the meaning set out in Condition 8.2;

Exchange Expenses has the meaning set out in Condition 8.2;

Exchange Notice has the meaning set out in Condition 8.2;

Exchange Period has the meaning set out in Condition 8.1;

Exchange Property has the meaning set out in Condition 8.4;

Exchange Right has the meaning set out in Condition 8.1;

Extraordinary Resolution has the meaning given in the Trust Deed;

Fair Market Value means, with respect to any property on any date, the fair market value of that property as determined by an independent financial institution of international repute, acting as an expert, selected by the Issuer and approved by the Trustee; provided that:

- (a) the fair market value of a cash Dividend paid or to be paid per Relevant Security shall be the amount of such cash Dividend per Relevant Security;
- (b) where shares, options, warrants or other securities or rights are publicly traded in a market of adequate liquidity (as determined by such financial institution) the fair market value of such shares, options, warrants or other securities or rights shall equal the arithmetic mean of the daily volume weighted average price of such shares, options, warrants or other securities or rights during the period of 10 Trading Days on the relevant market commencing on the first such Trading Day such shares, options, warrants or other rights are publicly traded, or such shorter period as such shares, options, warrants or other securities or rights are publicly traded; and
- (c) in each case converted into the currency in which the Relevant Securities are traded on the Relevant Exchange (in the case of EDP Shares) or the principal stock exchange or securities market on which such Relevant Securities (if other than EDP Shares) are then listed or quoted or dealt in (if expressed in a currency other than such currency) at the Screen Rate on such date (or, in the case of (b), at the average of the Screen Rate on each Trading Day in the relevant period);

Final Date means, in relation to any Offer, the date such Offer becomes or is declared unconditional in all respects;

financial period means any annual financial period of the Relevant Company in respect of which audited financial statements are prepared, provided that if the Relevant Company shall change its financial year end, such modification shall be made in the operation of paragraph (b) of the definition of **Capital Distribution** as shall be determined to be reasonable and appropriate by an international financial institution of international repute selected by the Issuer and approved by the Trustee;

Further Amount has the meaning set out in Condition 8.2;

Interest Payment Date has the meaning set out in Condition 7.1;

Interest Period has the meaning set out in Condition 7.1;

Maturity Date means 19 May 2015;

Offer means an offer to the holders of any Relevant Securities comprising Exchange Property, whether expressed as a legal offer, an invitation to treat or in any other way, in circumstances where such offer is available to all holders of the applicable Relevant Securities (or all or substantially all such holders other than any holder who is, or is connected with, or is deemed to be acting in concert with, the person making such offer or to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any stock exchange in any territory, it is determined not to make such an offer) and that results in the person making the offer acquiring or owning at least 50 per cent. of all such outstanding and issued Relevant Securities;

Offer Consideration has the meaning set out in Condition 9;

Physical Settlement Election has the meaning set out in Condition 8.3;

Physical Settlement Election is in effect or an **effective Physical Settlement Election** means that a Physical Settlement Election has been made by a Bondholder and the Issuer has accepted and agreed to such Physical Settlement Election in the manner prescribed by these Conditions;

Presentation Date has the meaning set out in Condition 13;

pro rata share means, for each Bond at any time, a fraction of the Exchange Property the numerator of which shall be the principal amount of such Bond and the denominator of which shall be the aggregate principal amount of all the Bonds (including the Bond to which the pro rata share relates) which are outstanding at such time (excluding for this purpose the principal amount of any Bonds in respect of which Exchange Rights have been exercised by a Bondholder but the (i) Cash Amount has not yet been paid or (ii) (in the case of an effective Physical Settlement Election) the pro rata share of the Exchange Property has not yet been delivered, in each case, to the relevant Bondholder and excluding from the Exchange Property the pro rata share of the Exchange Property in respect of such Bond);

Rating Agency means Moody's Investor Services, Inc. and/or Standard & Poor's Rating Services, a division of the McGraw-Hill Companies Inc. and their respective successors or any other rating agency selected by the Issuer and approved by the Trustee;

Realisation Proceeds means the proceeds of sale (after the deduction of costs and expenses of such sale) of the relevant Exchange Property or the relevant dividends or other income or distributions or rights, as the case may be, carried out by an independent broker or financial institution selected by the Issuer and approved by the Trustee, on an arm's length basis (converted if necessary into euro at the Screen Rate on the date of receipt of such proceeds);

Record Date means the seventh Business Day (in the city of the Registrar's specified office) before the due date for the relevant payment;

Registered Securities has the meaning set out in Condition 8.2;

Registration Date in respect of any Registered Securities means the date on which the relevant Bondholder is registered as the holder of such Registered Securities;

Regulation S has the meaning set out in Condition 8.3;

Relevant Bond has the meaning set out in Condition 7.3;

Relevant Company means EDP, and any corporation or company derived from or resulting or surviving from the spin-off, incorporation, merger, consolidation, amalgamation, reconstruction or acquisition of EDP with, into or by such other corporation or company, and any other entity, all or part of the share capital of which is, or all or some of the securities of which are, at the relevant time included in the Exchange Property;

Relevant Date means whichever is the earlier of:

- (a) the day on which all sums due in respect of the Bonds up to that day are received by or on behalf of the relevant Bondholder; and
- (b) the day 7 days after that on which notice is duly given to Bondholders that, upon surrender of the relative Certificate, such payment will be made, provided that payment is in fact made upon such surrender;

Relevant Event has the meaning set out in Condition 8.5(c);

Relevant Exchange means Euronext Lisbon or, if the EDP Shares are no longer admitted to trading on Euronext Lisbon, the principal stock exchange or securities market on which the EDP Shares are traded or dealt in;

Relevant Securities means any securities of any Relevant Company which at the relevant time are included in the Exchange Property;

Reserved Matters has the meaning given in the Trust Deed;

Rights Issue has the meaning set out in Condition 8.5(b);

Screen Rate means, on any day, and, in respect of the conversion of one currency into another currency, the rate of exchange between such currencies appearing on the relevant Reuters page as at or about 12 noon (London time) on that day, or, if that page is not available or that rate of exchange does not appear on that page at that time on that day, the rate of exchange between such currencies appearing on such other screen or information service, or determined in such other manner, as the Issuer shall determine, with the approval of the Trustee;

securities means shares or other securities (including without limitation any options, warrants, convertible bonds, evidence of indebtedness or rights to subscribe or purchase shares or other securities);

Securities Act has the meaning set out in Condition 8.3;

Settlement Date means, in the case of the exercise of Exchange Rights in respect of which a Physical Settlement Election is in effect, the date falling 14 Trading Days after the relevant Exchange Date;

Settlement Period means the period from (and including) the Exchange Date to (and including) the Settlement Date.

Stamp Taxes has the meaning set out in Condition 8.2;

Sub-division, Consolidation or Redenomination has the meaning set out in Condition 8.5(a);

Subsidiary means any company which is for the time being a subsidiary within the meaning of Section 1159 of the Companies Act 2006;

Substituted Principal Obligor has the meaning set out in Condition 16;

TARGET Business Day means a day on which the TARGET System is open;

TARGET System means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System;

Trading Day means:

- (a) in respect of EDP Shares, a day (other than a Saturday or Sunday) on which the Relevant Exchange is open for business; and
- (b) in respect of any other Relevant Securities or any other securities or options, warrants or other rights, a day (other than a Saturday or Sunday) on which the stock exchange or other securities market on which such Relevant Securities or any other securities or options, warrants or other rights are principally traded is open for business;

Value of the Exchange Property on any day means the aggregate of:

- (a) the value of publicly traded securities included in the Exchange Property, which shall be deemed to be the Volume Weighted Average Price of such securities on such day, provided that if such day is not a day on which the Relevant Exchange or, as the case may be, such other stock exchange or other securities market is open for business or, if there is no such Volume Weighted Average Price, then the value of such publicly traded securities shall be the Volume Weighted Average Price on the immediately preceding such day, converted (if necessary) into euro at the Screen Rate on such day; and
- (b) the value of all other assets and of publicly traded securities for which a value cannot be determined pursuant to (a) above included in the Exchange Property, which shall be deemed to be

the value on such day (converted (if necessary) into euro as aforesaid) as certified by an independent financial institution (in the case of securities) or independent appraiser (in the case of other assets (other than cash)) of international repute selected by the Issuer and approved by the Trustee; and

- (c) the value of cash shall be deemed to be the amount thereof (converted (if necessary) into euro as aforesaid),

provided that (A) if on any day any such publicly traded securities are quoted on the Relevant Exchange or, as the case may be, such stock exchange or other securities market as aforesaid cum any dividend or other entitlement, or any assets or publicly traded securities the value of which is to be determined pursuant to (b) above have the benefit of, or are entitled to, or carry the right to, any dividend or other entitlement, in any such case in respect of which the record date or other due date for the establishment of entitlement falls prior to the relevant Exchange Date, then the value of any such assets or publicly traded securities on such day shall be reduced by an amount equal to the gross amount of any such dividend or other cash entitlement or, as the case may be, the value (as determined by an independent financial institution as aforesaid) of any entitlement or dividend where that is other than cash and (B) if on any day any such publicly traded securities are quoted on the Relevant Exchange or, as the case may be, such stock exchange or other securities market as aforesaid ex any dividend or other entitlement, or any assets or publicly traded securities the value of which is to be determined pursuant to (b) above do not have the benefit of, or are not entitled to, or do not carry the right to, any dividend or other entitlement, in any such case in respect of which the record date or other due date for the establishment of entitlement falls on or after the relevant Exchange Date, then the value of any such assets or publicly traded securities on such day shall be increased by an amount equal to the gross amount of any such dividend or other cash entitlement or, as the case may be, the value (as determined by an independent financial institution as aforesaid) of any entitlement or dividend where that is other than cash less (in any such case) the amount (if any) in respect of any such dividend, entitlement or, as the case may be, value to which the Bondholder is otherwise entitled pursuant to any other provision of these Conditions;

Volume Weighted Average Price means, in respect of any Trading Day:

- (a) in the case of EDP Shares, the volume weighted average price of the EDP Shares as obtained or derived from the Relevant Exchange on that Trading Day or if no transaction in respect of the EDP Shares takes place on that Trading Day, the average of the closing bid and offer prices on that day in respect of the EDP Shares as derived from the Relevant Exchange, and
- (b) in the case of any other Relevant Security, the volume weighted average price as obtained or derived from the stock exchange or other securities market on which such Relevant Security is principally traded on that Trading Day or if no transaction in respect of the Relevant Security takes place on that Trading Day, the average of the closing bid and offer prices on that day in respect of the Relevant Security as derived from such stock exchange or other securities market.

7. INTEREST

7.1 Interest Rate

Each Bond bears interest on its principal amount from (and including) the Closing Date at the rate of 3.00 per cent. per annum, payable semi-annually in arrear in equal instalments on 19 November and 19 May of each year (each an **Interest Payment Date**), the first Interest Payment Date being 19 November 2010 and the amount of interest payable on each Bond on each Interest Payment Date will amount to €750 per €50,000 principal amount of a Bond. The period beginning on (and including) the Closing Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date is called an **Interest Period**.

If interest is required to be calculated for a period of less than a full Interest Period, the day-count fraction used will be the number of days in the relevant period, from and including the date from which interest

begins to accrue to but excluding the date on which it falls due, divided by the product of (i) the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last) and (ii) the number of Interest Periods normally ending in any year.

7.2 **Accrual of Interest**

Each Bond will cease to bear interest:

- (a) where the Exchange Right (as defined below) shall have been exercised in respect thereof, from (and including) the Interest Payment Date immediately preceding the relevant Exchange Date or, if none, the Closing Date (but without prejudice to Condition 7.3); or
- (b) where such Bond is redeemed, from, and including, the due date for redemption unless, upon due surrender of the relative Certificate, payment of the full amount due is improperly withheld or refused, in which event such Bond shall continue to bear interest (both before and after judgment) as provided in the Trust Deed.

7.3 **Interest upon Exchange prior to Early Redemption**

If:

- (a) any notice requiring the redemption of any Bonds is given pursuant to Condition 11.2 or Condition 11.4 on or after (or within 15 days before) the record date or other due date for the establishment of entitlement in respect of any dividend, distribution or interest payable in respect of the EDP Shares (or other Relevant Securities comprising on such date more than one-quarter by Value of the Exchange Property);
- (b) such notice specifies a date for redemption falling on or before (or within 14 days after) the Record Date in respect of the next following Interest Payment Date; and
- (c) the Exchange Date in respect of any Bond which is the subject of any such notice (a **Relevant Bond**) falls after such record date or other due date for the establishment of entitlement and on or before the Record Date in respect of the Interest Payment Date next following such record date or other due date for the establishment of entitlement,

then interest shall accrue on each Relevant Bond from, and including, the preceding Interest Payment Date (or, if the relevant Exchange Date falls on or before the first Interest Payment Date, from, and including, the Closing Date) to, but excluding, the relevant Exchange Date.

Any such interest shall be paid by the Issuer not later than 14 days after the relevant Exchange Date by transfer to a euro account maintained with a bank in a city in which banks have access to the TARGET System in accordance with instructions given by the relevant Bondholder in the relevant Exchange Notice.

8. **EXCHANGE RIGHT**

8.1 **Exchange Period, Exchange Rights and Cash Amount**

Each Bondholder shall have the right at any time during the Exchange Period (the **Exchange Right**) to (i) require the Issuer to deliver the Cash Amount in exchange for the Bonds or (ii) make a Physical Settlement Election (as defined in Condition 8.3).

Upon the delivery of an Exchange Notice by a Bondholder as set out in Condition 8.2, the Issuer shall (i) (unless a Physical Settlement Election is in effect) on the Cash Payment Date (as defined below) satisfy the Exchange Rights in respect of the relevant Bonds by making a payment to the relevant Bondholder of the Cash Amount (together with any amounts which may be payable by the Issuer in respect of, or following, such exercise, including any interest payable pursuant to Condition 7.3) by transfer to a euro account maintained with a bank in a city in which banks have access to the TARGET System in accordance with

instructions given by the relevant Bondholder in the relevant Exchange Notice or (ii) (where a Physical Settlement Election is in effect) deliver to the relevant Bondholder on the Settlement Date (as defined in Condition 6) a pro rata share of the Exchange Property in the manner specified in Condition 8.2.

Cash Amount means a sum in cash in euro equal to the average of the Value on each Trading Day in the Cash Averaging Period of the relevant pro rata share of the Exchange Property.

Cash Averaging Period means the period of 20 consecutive Trading Days commencing on (a) the relevant Exchange Date or (b) where a Bondholder makes a Physical Settlement Election, on the date on which (i) the Issuer gives notice to that Bondholder of the Issuer's rejection of that Bondholder's Physical Settlement Election or (ii) that Bondholder's Physical Settlement Election is deemed to have been rejected, in each case in accordance with Condition 8.3.

Cash Payment Date means the date falling 5 TARGET Business Days after the last day of the Cash Averaging Period.

Subject to and upon compliance with these Conditions, the Exchange Right attaching to any Bond may be exercised by the holder thereof at any time on and after 29 June 2010 up to (and including) the close of business (at the place where the Certificate in respect of such Bond is deposited for exchange) on the date which falls 7 Trading Days prior to the Maturity Date or if such Bond shall have been called for redemption pursuant to Condition 11.2 or Condition 11.4 prior to the Maturity Date, then up to the close of business (at the place aforesaid) on the date which falls 7 Trading Days prior to the date fixed for redemption thereof unless there shall be default in making payment in respect of such Bond on such date fixed for redemption, in which event the Exchange Right shall extend up to the close of business (at the place aforesaid) on the date on which the full amount of such payment is made, or if earlier, the date on which notice is duly given to Bondholders that, upon surrender of the relative Certificate, such payment will be made (provided that payment is in fact made upon such surrender) or, if earlier, the Maturity Date subject as provided in Condition 8.2.

If the Trustee shall give notice to the Issuer (with a copy to the Guarantor) declaring the Bonds to be immediately due and repayable pursuant to Condition 14, notice of such fact shall forthwith be given by the Issuer to the Bondholders in accordance with Condition 18 and each Bondholder shall (whether or not the Exchange Right attaching to its Bond is then otherwise exercisable) be entitled at any time after the date on which the Bonds become so due and repayable (the **Due Date**) until the date being the last day of the period of two weeks after the Due Date (but not thereafter) to elect (by delivering in accordance with the provisions of this Condition 8 a duly signed and completed Exchange Notice, together with the relevant Certificate, to the specified office of any Paying, Transfer and Exchange Agent) in lieu of having his Bond repaid, to exercise the Exchange Right in respect of such Bond as at the Due Date (and references to the Exchange Date shall be construed accordingly), save that no such election may be made in respect of a Bond the Certificate in respect of which has been presented for payment on or after the Due Date (provided that payment in full of all amounts then due on the relevant Bond is made upon such presentation). Subject as provided in this Condition 8, Exchange Rights shall lapse in the event that the Trustee shall give notice to the Issuer that the Bonds are immediately due and repayable.

Exchange Rights may not be exercised in respect of a Bond in respect of which the relevant holder shall have exercised its rights to require redemption pursuant to Condition 11.3.

The period during which Bondholders shall be entitled to exercise Exchange Rights pursuant to these Conditions is referred to as the **Exchange Period**.

Where a Physical Settlement Election is in effect in respect of an exercise of Exchange Rights, no fraction of a Relevant Security or any other property comprised in the Exchange Property which is not divisible shall be delivered on exercise of the Exchange Rights and the Issuer shall not be under any obligation to make any payment to Bondholders in respect of any such fraction and any such fraction will be rounded down to the nearest whole multiple of a Relevant Security or unit of any such other property, as the case may be.

Where a Physical Settlement Election is not in effect in respect of an exercise of Exchange Rights, then in determining the relevant pro rata share of the Exchange Property for the purposes of determining the Cash Amount payable in respect of such exercise, any Relevant Security or any other property constituting the relevant pro rata share of the Exchange Property shall, if necessary, be rounded down to 4 decimal places.

If more than one Bond is to be exchanged by a Bondholder pursuant to any one Exchange Notice, the Cash Amount to be paid or (where a Physical Settlement Election is in effect) the Exchange Property to be delivered, together with any sum payable to that Bondholder, shall be calculated on the basis of the aggregate principal amount of such Bonds the subject of the relevant Exchange Notice.

8.2 Procedure for Exchange

- (a) To exercise the Exchange Right in respect of any Bond, the holder thereof must complete, execute and deposit at his own expense at any time during the Exchange Period and during normal business hours at the specified office of any Paying, Transfer and Exchange Agent, a notice of exchange (an **Exchange Notice**) containing, where applicable, the information prescribed by Condition 8.3, in the form (for the time being current) obtainable from the specified office of each Paying, Transfer and Exchange Agent, together with the Certificate in respect of such Bond and any amount to be paid by the Bondholder pursuant to this Condition 8.2. An Exchange Notice once delivered shall be irrevocable.

Exchange Rights may only be exercised in respect of an Authorised Denomination.

- (b) The exchange date in respect of a Bond (the **Exchange Date**) in respect of which the Exchange Right shall have been exercised by a Bondholder will be the Business Day in Lisbon immediately following (i) the date of the delivery of the Exchange Notice and the Certificate in respect of the relevant Bond and (ii) in the case of Bonds in respect of which a Physical Settlement Election is made, the date on which any payment required to be made by such Bondholder under these Conditions in connection with the exercise of such Exchange Rights has been made.
- (c) The Issuer, failing whom the Guarantor, will pay any stamp, registration, documentary, transfer or other similar taxes or duties (including penalties) arising on the transfer or delivery of any Exchange Property to or to the order of a Bondholder pursuant to the exercise of Exchange Rights in respect of which a Physical Settlement Election is in effect (**Stamp Taxes**) which are payable or imposed in the Cayman Islands, Portugal and the jurisdiction in which the relevant Exchange Property is situated (and for this purpose any securities in registered form comprising Exchange Property shall be deemed to be situated in the jurisdiction in which the register (or in the case of more than one register, the principal register or the register on which such securities are recorded or maintained) is located). Subject to the above, a Bondholder exercising Exchange Rights in respect of which a Physical Settlement Election is in effect must pay any taxes and capital, stamp, issue, registration, documentary, transfer or other duties (including penalties) arising on exchange and/or on the transfer, delivery or other disposition of Exchange Property arising on exercise of such Exchange Rights (**Exchange Expenses**). If the Issuer, failing whom the Guarantor, shall fail to pay any Stamp Taxes for which it is responsible as provided above, the relevant holder shall be entitled to tender and pay the same and the Issuer, failing whom the Guarantor, as a separate and independent stipulation, covenants to reimburse each such Bondholder in respect of the payment of such Stamp Taxes and any penalties payable in respect thereof. Each Bondholder must pay all, if any, taxes arising by reference to any disposal or deemed disposal of a Bond in connection with the exercise of Exchange Rights.
- (d) Where a Physical Settlement Election is in effect, the Issuer shall as soon as practicable, and in any event not later than the Settlement Date (and subject as provided in these Conditions):
- (i) in respect of EDP Shares (or other shares, debentures, subscription warrants, participation certificates or other securities of companies incorporated in Portugal) effect delivery of such EDP Shares through the CVM to the person designated for such purpose in the relevant Exchange Notice;

- (ii) procure that Relevant Securities (other than EDP Shares or other shares, debentures, subscription warrants, participation certificates or other securities of companies incorporated in Lisbon) comprising the relevant pro rata share of the Exchange Property to be delivered on exercise of Exchange Rights are transferred into such name as the Bondholder shall direct pursuant to the Exchange Notice and shall procure that forms of transfer and certificates (if certificates for the Relevant Securities are then generally being issued) together with all other documents of title and evidence of ownership and all other documents necessary to transfer or evidence the transfer of such Relevant Securities will be despatched by mail, and free of charge (but uninsured and at the risk of the person entitled thereto) to such address, subject to applicable securities laws, as the Bondholder may request (as specified in the relevant Exchange Notice); and
- (iii) procure that such documents of title and evidence of ownership of any other Exchange Property to be delivered on exercise of Exchange Rights shall be despatched and that payment of any part of the Exchange Property comprising cash to be delivered on exercise of Exchange Rights (converted if necessary into euro at the Screen Rate on the relevant Exchange Date) shall be made, in each case in accordance with directions given by the relevant Bondholder in the Exchange Notice.

Notwithstanding (i) to (iii) above, in the event that the Issuer delivers a certificate to the Trustee signed by two Authorised Officers to the effect that the CVM (or, where the Exchange Property is comprised of Relevant Securities other than EDP Shares and certificates for such Relevant Securities are not then generally being issued, the clearing system through which the transfer of such Relevant Securities is required to be effected) has been closed for a continuous period of 2 or more days (excluding Saturdays and Sundays and save by reason of holidays, statutory or otherwise) in the Settlement Period, then the Issuer will notify the relevant Bondholder in accordance with Condition 18 or at the address of the Bondholder specified in the relevant Exchange Notice (as the Issuer may determine) and the date for such delivery shall be the later of a date falling within the Settlement Period and the earliest practicable date on which the relevant Exchange Property may be delivered or transferred to the relevant Bondholder designated in the relevant Exchange Notice or, as the case may be, the relevant clearing system.

Neither the Issuer nor the Guarantor shall be responsible or liable to any person for any delay in the delivery of any property comprising Exchange Property following exercise of Exchange Rights arising as a result of a failure by the relevant Bondholder to supply all information and details as required by the relevant Exchange Notice.

If the Exchange Property has changed in whole or in part as a result of an Offer or as a result of the compulsory acquisition of any Relevant Securities following an Offer, then the Issuer will deliver the relevant Exchange Property as soon as is reasonable practicable.

- (e) If, at any time when the transfer or delivery of any Exchange Property (other than cash) is required pursuant to an effective Physical Settlement Election, such transfer or delivery would, as certified to the Trustee by two Authorised Officers of the Issuer, be unlawful under the laws of any applicable jurisdiction or contrary to any official declaration, order, directive or regulation in any applicable jurisdiction, the Issuer will notify the relevant Bondholder in accordance with Condition 18 or at the address of the Bondholder specified in the relevant Exchange Notice (as the Issuer may determine) and the Issuer will make a cash payment equal to the aggregate of the Realisation Proceeds. The Issuer will pay any such amount to the relevant Bondholder not later than 10 TARGET Business Days after the relevant Settlement Date.
- (f) If:
 - (i) the Exchange Date in respect of any Bond shall be on or after the date of any public announcement affecting the composition of any part of the Exchange Property (other than EDP Shares or other securities in registered form (Registered Securities) in circumstances where the relevant entitlement is determined by reference to a record date in respect thereof), but before the date on which such change is effective; or

- (ii) the Exchange Date in respect of any Bond shall be after the record date or other due date for the establishment of the relevant entitlement in respect of any Rights Issue or any Subdivision, Consolidation or Redenomination or Relevant Event in respect of any Registered Securities comprising Exchange Property but before the date on which adjustment of the Exchange Property becomes effective; or
- (iii) the Exchange Date in respect of any Bond shall be on or before the record date or other due date for the establishment of the relevant entitlement in respect of any Rights Issue or any Subdivision, Consolidation or Redenomination or Relevant Event in respect of any Registered Securities comprising Exchange Property in circumstances where the Registration Date in respect of such Registered Securities is after such record date or other due date for the establishment of the relevant entitlement and the relevant Bondholder would not otherwise receive the relevant entitlement but the Issuer has received or is entitled to receive such entitlement,

then, in each case, the relevant Bondholder shall be entitled to receive (i) a further cash amount (**Further Amount**), equal to the Value of the additional pro rata amount of the Exchange Property by reference to which the Cash Amount would have been determined or (ii) (where a Physical Settlement Election is in effect in respect of the exercise of such Bondholder's Exchange Rights and unless the Issuer is able to confer on or deliver to the relevant Bondholder the relevant entitlement) such pro rata amount or, as the case may be, a further pro rata amount of the Exchange Property (**Additional Exchange Property**) as would have been receivable, in each case, had the relevant Exchange Date occurred immediately after the date on which such change in the composition of the Exchange Property became effective or, as the case may be, had the relevant Registration Date in respect of such Registered Securities been immediately before such record date. In the case of (i) above, such Value shall be determined as at the date on which the relevant change in the composition of the Exchange Property is or would be effective (the **Change Date**) and the Further Amount shall be paid by transfer to a euro account by not later than the latest of (a) 5 TARGET Business Days after the Change Date and (b) the Cash Payment Date in accordance with instructions given by the relevant Bondholder in the relevant Exchange Notice.

- (g) Where a Physical Settlement Election is in effect in respect of the exercise of Exchange Rights, the relevant Bondholder (or the person designated in the relevant Exchange Notice) will be the owner of the pro rata share of the Exchange Property to be delivered upon exchange with effect from the Exchange Date and, in respect of any Additional Exchange Property, will be entitled to all rights, distributions or payments in respect of such Additional Exchange Property from the Exchange Date for the Exchange Property previously delivered pursuant to such exchange.
- (h) Subject as provided herein, Exchange Property delivered on exercise of Exchange Rights in respect of which a Physical Settlement Election is in effect shall not include any dividends or other income thereon or other distributions or rights in respect thereof, declared, paid or made by reference to a record date or other due date for the establishment of the relevant entitlement falling prior to the relevant Exchange Date.

Exchange Property delivered or transferred or to be delivered or transferred upon exchange in satisfaction of an effective Physical Settlement Election shall rank for and be entitled to all dividends, interest and other income, payments and distributions and rights thereon or in respect thereof declared, paid, made or granted by reference to a record date or other due date for the establishment of entitlement falling on or after the relevant Exchange Date.

- (i) If, where a Physical Settlement Election is in effect, the record date or other due date for the establishment of the relevant entitlement for the payment of any dividend, interest or other income, payment or distribution or rights on or in respect of the Exchange Property delivered or transferred or to be delivered or transferred upon exchange in satisfaction of an effective Physical Settlement Election falls on or after the Exchange Date but before the relevant Settlement Date (or any other date from which the relevant Bondholder is treated as the owner of, or entitled to all rights and entitlement to, such Exchange Property) with the effect that the relevant Bondholder is not entitled to such dividend, interest or other income, payment or distribution of rights, the Issuer will (unless it is able to confer on or deliver to the relevant Bondholder an entitlement to receive such dividend, interest or other income, or distribution or rights or

unless and to the extent that the same is taken into account for the purposes of paragraph (f) of this Condition 8.2):

- (i) (in the case of dividends, interest or other income or distributions or rights to be paid in cash) pay, or procure the payment to, the exchanging Bondholder in lieu of such dividend, interest or other income or distribution or rights, an amount equal thereto, converted if necessary into euro at the Screen Rate on the date of receipt thereof by the Issuer (the **Equivalent Amount**);
- (ii) (in the case of dividends, or other income or distributions or rights satisfied or made otherwise than in cash) deliver, or procure the delivery of, the same to the relevant Bondholder not later than 10 TARGET Business Days after the receipt by the Issuer of such dividend or other income or distribution or rights, save that if, at any time when the delivery of any such dividend or other income or distribution or rights is required, delivery would, as certified to the Trustee by two Authorised Officers of the Issuer, be unlawful under the laws of any applicable jurisdiction or contrary to any official declaration, order, directive or regulation in any applicable jurisdiction, the Issuer, failing whom the Guarantor, will make a cash payment equal to the aggregate Realisation Proceeds of such dividend or other income or distribution or rights; and
- (iii) the Issuer, failing whom the Guarantor, will pay the Equivalent Amount or any such cash amount referred to in (ii) above to the relevant Bondholders not later than 10 TARGET Business Days after the receipt by the Issuer of such dividend, interest or other income, payment or distribution or rights.

8.3 Physical Settlement Election and Exchange Notices

A Bondholder shall be entitled to elect in an Exchange Notice to receive its respective pro rata share to the Exchange Property in lieu of the Cash Amount (a **Physical Settlement Election**), but the Issuer shall have absolute discretion to accept or reject such Physical Settlement Election. To the extent that the Issuer, in its absolute discretion, chooses to reject or is deemed to have rejected a Physical Settlement Election of a Bondholder, the relevant Bondholder will automatically, and by default, receive the Cash Amount in accordance with the foregoing provisions of these Conditions.

The Issuer shall give an irrevocable notice of its acceptance or rejection of a Physical Settlement Election to the relevant Bondholder at the address specified by the relevant Bondholder in the relevant Exchange Notice by no later than 7 TARGET Business Days after the relevant Exchange Date save that failure to give such notice by such time shall not constitute an Event of Default and, if no such notice is given by such time, the Issuer shall be deemed to have rejected the relevant Physical Settlement Election.

An Exchange Notice delivered pursuant to these Conditions shall:

- (i) specify the name and address of the Bondholder;
- (ii) specify the number and aggregate principal amount of Bonds being exchanged;
- (iii) (where the Bond(s) is/are represented by a Global Bond held by a common depository for Euroclear and Clearstream, Luxembourg) specify the Bondholder's account at Euroclear or Clearstream, Luxembourg to be debited with such Bonds, and an irrevocable authorisation to Euroclear or Clearstream, Luxembourg to effect such debit;
- (iv) contain a representation and warranty from the Bondholder that the Bonds to be exchanged are owned by it (or a person for whose account it holds the Bonds) free from all liens, charges, encumbrances and other third party rights;
- (v) specify whether or not a Physical Settlement Election is being made;
- (vi) (where a Physical Settlement Election is made) specify in the case of Exchange Property comprising securities, the number and account name of the security account(s) at Euroclear,

Clearstream, Luxembourg or such other clearing system through which such securities are cleared and which is to be credited with any such Exchange Property or, in the case of any securities comprised in the Exchange Property that are not cleared through a clearing system, the address to which any relevant certificates are to be sent, uninsured and at the risk of the relevant Bondholder;

- (vii) (where a Physical Settlement Election is made) contain an indemnity from the Bondholder to the Issuer in respect of all Exchange Expenses that may be payable in respect of the exchange;
- (viii) specify a euro account with a bank in a city in which banks have access to the TARGET System to which the Cash Amount, any Exchange Property comprising cash and any other amount payable by the Issuer, is to be paid by or on behalf of the Issuer and the number and account name of a euro account with a bank in a city in which banks have access to the TARGET System from which any Exchange Expenses and any other expenses payable by the Bondholder and arising out of the exercise of its Exchange Right as set forth in these Conditions and/or the Exchange Notice shall be debited, the delivery of such Exchange Notice to any Paying, Transfer and Exchange Agent constituting authorisation of such debit by the exchanging Bondholder;
- (ix) (where a Physical Settlement Election is made) contain a representation and warranty from the Bondholder that, at the time of signing and delivery of the Exchange Notice, (A) it is not “a person resident in the United States” within the meaning of Section 12(g) of the U.S. Securities Exchange Act, as amended and Rule 12g-3-2(a) thereunder, (B) it understands that the EDP Shares and/or any other part of the Exchange Property have not been registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**) and (C) it is not a U.S. person nor acting for the account or benefit of a U.S. person and is located outside the United States within the meaning of Regulation S (**Regulation S**) under the Securities Act, is acquiring the EDP Shares and/or any other part of the Exchange Property in an offshore transaction (as defined in Regulation S) in accordance with Rule 903 or 904 of Regulation S and understands that the EDP Shares and/or any other part of the Exchange Property may not be delivered within the United States upon exchange of the Bonds and may not be resold in the United States except pursuant to an exemption from the registration requirements of the Securities Act; and
- (x) contain an authorisation from the Bondholder authorising the production of such Exchange Notice in any applicable administrative or legal proceedings.

8.4 The Exchange Property

The **Exchange Property** shall initially comprise 131,582,410 EDP Shares and shall include all Relevant Securities and other property arising out of or derived or resulting therefrom and such other property, in each case as may be deemed or required to comprise all or part of the Exchange Property pursuant to these Conditions, but excluding any such property as may or may be deemed to have ceased to form part of the Exchange Property.

On the exercise of Exchange Rights, the pro rata share of the Exchange Property in respect of each €50,000 principal amount of Bonds will initially comprise 13,158.241 EDP Shares (based on an initial Exchange Price of €3.7999 per EDP Share) subject to adjustment pursuant to these Conditions.

All Exchange Property transferred or delivered upon exercise of Exchange Rights shall be transferred or delivered with full title guarantee and free from any and all security interests or other adverse interests.

Except in the circumstances provided in these Conditions, dividends and other income and other benefits and rights derived from the Exchange Property shall not comprise part of the Exchange Property.

8.5 Adjustments to the Exchange Property

(a) *Sub-division, Consolidation or Redenomination*

If any Relevant Securities comprising the Exchange Property shall be sub-divided or consolidated, re-classified or re-denominated or in any other manner have their par value changed (**Sub-division, Consolidation or Redenomination**) then the securities resulting from such Consolidation, Sub-division or Redenomination so far as attributable to the Exchange Property, shall be included in the Exchange Property.

(b) *Rights issues*

If further Relevant Securities or other securities, or options, warrants or rights to subscribe or purchase further Relevant Securities (or any of them) or other securities, shall be offered by way of rights to holders of Relevant Securities (or any of them) (a **Rights Issue**), then the Issuer shall notify the Trustee and, by not later than the latest day for accepting or taking up any such rights (or by such other time as the Trustee may approve), either:

- (i) on an arm's length basis in good faith, procure the sale by an independent broker or financial institution selected by the Issuer and approved by the Trustee of sufficient rights to enable the whole of the balance of such rights to be taken up and procure the application of the proceeds of sale, after the deduction of the costs and expenses of such sale, in the taking up of such rights (with any excess proceeds of sale being added to and forming part of the Exchange Property); or
- (ii) add to the Exchange Property such number of EDP Shares or other securities or options, warrants or rights as would have been subscribed or purchased if sufficient rights had been sold on an arm's length basis in good faith to enable (after the deduction of the costs and expenses of such sale) the whole of the balance of such rights to be taken up, together with an amount equal to what would have been any such excess proceeds of sale as aforesaid, and, in the absence of any such election, paragraph (i) shall apply and provided that, if such rights may not be sold, the Issuer shall use any part of the Exchange Property comprising cash to take up such rights and/or, on an arm's length basis, sell sufficient Relevant Securities to enable (after the deduction of the costs and expenses of such sale) the whole of the balance of such rights to be taken up, with, in any such case, any excess proceeds of sale being added to and forming part of the Exchange Property.

Any Relevant Securities or other securities or options, warrants or rights taken up pursuant to this paragraph and any excess proceeds of sale as aforesaid shall be added to and form part of the Exchange Property. Pending application of the provisions of this paragraph, such rights shall form part of the Exchange Property.

(c) *Bonus Issues, Capital Distributions and Reorganisation*

If any of the following events occurs (each a **Relevant Event**):

- (i) Relevant Securities or other securities are issued credited as fully paid to holders of Relevant Securities comprised in the Exchange Property by way of capitalisation of profits or reserves or otherwise by virtue of being holders of Relevant Securities (otherwise than in lieu of the whole or any part of a cash dividend which such holders would or could otherwise have received);
- (ii) any Capital Distribution is made (including from 21 April 2010 to the Closing Date) in respect of any Relevant Securities comprised in the Exchange Property;
- (iii) (subject as provided in Condition 8.10(B)) a Relevant Company (or any person by or on behalf of a Relevant Company) purchases or redeems any Relevant Securities comprising Exchange Property; or

- (iv) pursuant to any scheme of arrangement, reorganisation, amalgamation, reconstruction, merger, demerger or any like or similar event of any company or companies (whether or not involving liquidation or dissolution), any further Relevant Securities or other securities, property or assets (including cash) are issued, distributed or otherwise made available to holders of Relevant Securities or other securities comprised in the Exchange Property,

then the further Relevant Securities, securities or other property or assets (including cash) received in relation to the Relevant Event, so far as attributable to the Exchange Property or, as the case may be, the Capital Distribution in respect of the Relevant Securities comprising the Exchange Property, shall be included as part of the Exchange Property (and, if applicable, applied in accordance with Condition 8.8).

8.6 Notice of Change in Exchange Property

The Issuer shall give notice to the Trustee, to the Bondholders in accordance with Condition 18, to the Principal Paying, Transfer and Exchange Agent and to the Luxembourg Stock Exchange (so long as the Bonds are listed on the Luxembourg Stock Exchange) of any change in composition of the Exchange Property as soon as reasonably practicable following such change, and shall give such details as the Trustee may require of the pro rata share of the Exchange Property in respect of each Bond following such change.

8.7 Release from the Exchange Property

Upon (i) payment of the Cash Amount or (ii) (where a Physical Settlement Election is in effect) delivery of Exchange Property to the relevant Bondholder or (iii) upon redemption of the Bonds or upon any purchase and cancellation of the Bonds, the pro rata share of the Exchange Property or the relevant part thereof attributable to each relevant Bond shall cease to be part of the Exchange Property and the Exchange Property shall be reduced accordingly.

8.8 Purchase of Relevant Securities etc.

If any cash amount or securities or other property is received under or pursuant to these Conditions in respect of Exchange Property which is to be added to and form part of the Exchange Property (other than (i) any EDP Shares or Relevant Securities of a class already comprised in the Exchange Property, (ii) as included in the Offer Consideration added to and forming part of the Exchange Property pursuant to Condition 9 and (iii) any amount to be sold pursuant to this Condition 8) before the Exchange Rights lapse, such cash amount shall be applied, and such securities or other property shall be sold by the Issuer and the proceeds of such sale (net of any costs and expenses incurred in connection with such sale) shall be applied, by the Issuer as soon as reasonably practicable and to the extent possible in purchasing additional EDP Shares (not then comprised in the Exchange Property) or, where the Exchange Property comprises Relevant Securities other than EDP Shares, additional units of such securities. Any such additional EDP Shares or other securities purchased shall thereafter form part of the Exchange Property.

8.9 Voting Rights etc.

Bondholders and the Trustee shall have no voting rights in respect of the EDP Shares or any other part of the Exchange Property.

Where a cash Dividend is announced by a Relevant Company in respect of Relevant Securities which may, at the election of a holder or holders of such Relevant Securities, be satisfied by the issue or delivery of Relevant Securities or other property or assets, the Issuer shall be entitled to make such election as it may determine in its sole discretion.

In exercising any voting rights attaching to the EDP Shares and other Relevant Securities that it may have or making any such election to which it may be entitled, neither the Issuer nor the Guarantor is obliged to take account of the interests of the Bondholders and it is therefore possible that the Issuer or the Guarantor may act in a manner which is contrary to the best interests of the Bondholders.

8.10 Maintenance of Exchange Property

Exchange Rights are not exercisable in respect of any specific EDP Shares or other property comprising Exchange Property from time to time and no EDP Shares or other Exchange Property has been or will be charged or otherwise placed in custody or escrow or set aside to secure or satisfy the Issuer's obligations in respect of the exercise of Exchange Rights. At any time the Issuer and/or the Guarantor may or may not be the owner of the whole or any part of EDP Shares or other property comprising Exchange Property from time to time and neither the Issuer nor the Guarantor is under any obligation to hold any EDP Shares and/or other Exchange Property and may sell or otherwise dispose of the same at any time. The composition of the Exchange Property may also change as a result of the operation of the Conditions.

The arrangements described herein do not amount to any security interest in favour of Bondholders to secure the debt obligations of the Bonds or to secure performance of the Exchange Rights thereunder.

Accordingly, in the event that any of the Issuer or the Guarantor at any time hold any EDP Shares or other property comprising Exchange Property from time to time and such person is or becomes insolvent, bankrupt or in liquidation, such Exchange Property will form part of the assets of such person available on a pari passu basis to all unsecured creditors of such person.

Ownership of Exchange Property: At any particular time, the Issuer may or may not hold or be the beneficial owner of any Exchange Property. However, these Conditions shall be read and construed as though at all times the Issuer was the holder and beneficial owner of the Exchange Property underlying the outstanding Bonds. Accordingly, subject as provided in (B), for the purposes of determining whether and to what extent any adjustment should be made to the Exchange Property at any time, for the purposes of these Conditions, the Issuer shall be deemed to be entitled to receive such further or other EDP Shares, Relevant Securities, securities, property or assets including cash and/or consideration on the date the Issuer would have been entitled to receive the same, and to make any relevant elections in respect thereof or relating thereto, as it would have been entitled to receive and or make had it at all relevant times been the holder and beneficial owner of such Exchange Property in respect of all outstanding Bonds, and references in these Conditions to the Exchange Property being adjusted shall be construed accordingly. In particular (and without limitation):

- (A) (i) *Rights Issues:* in the case of a Rights Issue, the Exchange Property shall be increased by the Relevant Securities or other securities or options, warrants or rights and any excess proceeds of sale which would have been added to the Exchange Property had the Issuer been the holder and beneficial owner of the Relevant Securities or other securities comprising the Exchange Property at all relevant times and complied with its obligations under Condition 8.5(b) in relation thereto;
- (ii) *Purchase or Redemption of Relevant Securities etc.:* If pursuant to Condition 8.8 the Issuer is required to purchase additional EDP Shares or other securities and at the relevant time the Issuer is not the holder and beneficial owner of sufficient Exchange Property in respect of all outstanding Bonds, such additional EDP Shares or other securities as could have been purchased with the relevant amount of cash or, as the case may be, the net proceeds of sale of the relevant securities or other property if the Issuer had been the holder or beneficial owner of such sufficient Exchange Property shall be added to the Exchange Property;
- (iii) *Dividends:* for the purposes of proviso (a) to the definition of "Dividend" and Condition 8.9, if and to the extent that the Issuer does not own the Relevant Securities at the relevant time, then the Issuer shall be entitled to specify by notice to the Trustee (by not later than the last day on which a holder of the Relevant Securities would be required to make the relevant election referred to in that definition) that it is to be treated as if it had made such election as it shall specify in such notice, failing which the Dividend shall be treated as a Dividend of the higher of (i) the Fair Market Value of the cash Dividend so announced and (ii) the Fair Market Value on the date of announcement of such Dividend of such Relevant Securities or other property or assets;

- (iv) *Realisation Proceeds*: if, at any time when the Realisation Proceeds are to be determined, the Issuer is not at the relevant time the holder and beneficial owner of sufficient Exchange Property to make the relevant sale or disposal, then the Realisation Proceeds in respect thereof will be calculated as if the Issuer had, at the relevant time, been the holder and beneficial owner of sufficient Exchange Property and had sold the same as provided in these Conditions;
 - (v) *Sale of Exchange Property*: where any of the provisions of the Trust Deed or these Conditions require the Issuer to sell any property comprising Exchange Property or deriving therefrom or received in respect thereof, then such provisions shall operate as if the Issuer had sold the same as provided in these Conditions, and an amount equal to that which would have been the net proceeds of such sale and required to be applied as provided in these Conditions (whether in the purchase of other assets or securities to comprise or be added to the Exchange Property, in payment to Bondholders or otherwise) shall be or, as the case may be, be treated as being so applied by the Issuer, with any amount representing what would have been the balance of proceeds of any such sale being treated as being applied as so provided;
 - (vi) *Time or date of receipt*: any reference in the Trust Deed or these Conditions to the time or date of receipt by the Issuer of any property or assets shall be construed as a reference to the time at, or date on, which the Issuer would otherwise have received or would have first been entitled to receive the same had it been the holder and beneficial owner of sufficient Exchange Property in respect of all outstanding Bonds at all relevant times; and
 - (vii) *Delivery of Exchange Property*: any provisions of the Trust Deed or these Conditions in respect of the obligation of the Issuer to deliver or distribute all or any part of the Exchange Property or other property or assets (including cash) shall operate as if at all relevant times the Issuer was the holder and beneficial owner of sufficient Exchange Property in respect of all outstanding Bonds at all relevant times, and the Issuer shall be required to deliver or distribute the same accordingly.
- (B) *Purchase or Redemption of Relevant Securities*: Condition 8.5(c)(iii) shall be disregarded unless thereafter the total outstanding Relevant Securities are less than the number required to be comprised in the Exchange Property, in which case to the extent of such shortfall, the Issuer shall be treated as if it were the holder and beneficial owner of such Relevant Securities and the provisions of Condition 8.5(c)(iii) shall apply accordingly in respect of the number of Relevant Securities representing such shortfall.

8.11 Other Adjustments to the Exchange Property

If the Issuer (with the prior written approval of the Trustee) determines that an adjustment should be made to the Exchange Property as a result of one or more events or circumstances not referred to in Condition 8.5 even if the relevant event is or circumstances are specifically excluded from the operation of Condition 8.5, the Issuer shall, at its own expense and acting reasonably, request an independent financial institution of international repute (selected by the Issuer and approved in writing by the Trustee), acting as an expert, to determine as soon as practicable what adjustment (if any) to the Exchange Property is fair and reasonable to take account thereof and the date on which such adjustment should take effect and upon such determination the Issuer and the Trustee shall procure that such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this Condition 8.11 if such financial institution is so requested to make such determination in writing, not more than 21 days after the occurrence of the relevant event or circumstance.

9. GENERAL OFFERS

In the event of an Offer for Relevant Securities in a Relevant Company, then, with effect from the Final Date, the Exchange Property will be deemed to consist, in whole or in part, of the consideration for the

Relevant Securities acquired under the Offer or if there is alternative consideration, such consideration as the Issuer may elect for the purposes of these Conditions to be treated as the consideration in respect of the relevant Offer (the **Offer Consideration**).

The Issuer shall, to the extent that, at the time of any Offer, it is a holder of any Relevant Securities subject of such Offer, give notice to the Trustee and the Bondholders in accordance with Condition 18 forthwith upon becoming aware of the existence of such Offer.

In the event that the Offer Consideration consists wholly or partly of cash, such cash shall be added to and form part of the Exchange Property and if the Exchange Date in respect of any Bond falls after the Final Date, then the relevant Bondholder shall be entitled to receive, in addition to a Cash Amount or, where a Physical Settlement Election is in effect, the pro rata share of the Exchange Property, in each case, pursuant to Condition 8, an amount (the **Premium Compensation Amount**) in respect of each Bond surrendered for exchange calculated in accordance with the following formula:

$$PC = K^2 * (\text{Principal} - IP) * (T/C) * (CB/(CB+CS))$$

Where:

PC = Premium Compensation Amount per Bond

K = the lesser of (a) IP/MP and (b) MP/IP

Principal = €50,000

IP = €38,461.54

CB = the Offered Cash Amount

CS = the Offered Property Value

MP = Value of the pro rata share of the Exchange Property for one Bond on the last day for acceptance of the Offer, or if the Offer is extended, the last day for acceptance of the Offer as so extended (the **Offer Record Date**)

C = 1826 days, being the number of days from (but excluding) the Closing Date to (and including) the Maturity Date

T = the number of days from (but excluding) the Offer Record Date to (and including) the Maturity Date (which shall be zero if the Offer Record Date occurs after such date)

For the purposes of calculating the Premium Compensation Amount:

Offered Cash Amount means the cash amount in euro (or, where applicable, converted into euro at the applicable Screen Rate (if the relevant Offer Consideration is expressed in any currency other than euro), on the Final Date) comprising the whole or part of the Offer Consideration for one Relevant Security in the Offer (other than cash paid in respect of fractional entitlements to the Offered Property) provided that if the Offered Property comprises securities that are not shares (such as (i) debt instruments not linked to the variation of a share price or debt instruments not giving rights to subscribe for shares by way of conversion, exchange or reimbursement, (ii) securities representing optional contracts or (iii) specific rights (certificates of guaranteed value, warrants to subscribe or acquire shares or others)) having a limited duration, such securities will be deemed, for the purpose of this definition, to form part of the Offered Cash Amount in an amount equal to their Fair Market Value at the close of business on the Final Date;

Offered Property means the Offer Consideration for one Relevant Security in the Offer (excluding the Offered Cash Amount); and

Offered Property Value means the Fair Market Value of the Offered Property at the close of business on the Final Date. In the case of an Offer the Offer Consideration in respect of which is entirely in cash, the Offered Property Value shall be zero.

The provisions of this Condition 9 shall apply *mutatis mutandis* to any subsequent Offer, with the result that such Bondholder may become entitled to receive more than one Premium Compensation Amount.

10. UNDERTAKINGS

The Issuer undertakes to use all reasonable endeavours to maintain the listing of the Bonds on the Luxembourg Stock Exchange's Euro MTF market. If the Issuer is unable to maintain such listing, the Issuer undertakes to use all reasonable endeavours to obtain and maintain a listing for the Bonds on such other stock exchange as the Issuer may from time to time determine and as may be approved by the Trustee, and the Issuer will forthwith give notice to the Bondholders in accordance with Condition 18 of the listing or delisting of the Bonds by any of such stock exchanges.

The Issuer undertakes to obtain and/or maintain all applicable consents and approvals which are required for the performance of its obligations under the Bonds and the Trust Deed.

If a payment calculated by reference to the Realisation Proceeds is to be made pursuant to these Conditions, the Issuer shall procure that the relevant sale is made as soon as reasonably practicable and in any event in such time to enable the relevant payment to be made by the time specified in these Conditions.

11. REDEMPTION AND PURCHASE

11.1 Final Redemption

Unless previously redeemed, exchanged or purchased and cancelled, the Issuer will redeem the Bonds at their principal amount on the Maturity Date.

11.2 Redemption at the Option of the Issuer

Subject to what follows, the Bonds may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount, together with accrued interest to such date:

- (a) at any time on or after 10 June 2013, provided that the Value of the pro rata share of the Exchange Property in respect of a Bond in the principal amount of €50,000 on each of not less than 20 Trading Days in any period of 30 consecutive Trading Days prior to the date on which the notice of redemption is given by the Issuer to the Bondholders shall have exceeded €65,000; or
- (b) at any time if prior to the date on which the relevant notice of redemption is given by the Issuer, 85 per cent. or more in aggregate principal amount of the Bonds issued has been redeemed, exchanged or purchased and cancelled.

In order to exercise such option the Issuer shall give not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 18 (which notice shall be irrevocable and shall oblige the Issuer to redeem the Bonds on the date for redemption specified in such notice).

Such notice shall specify:

- (i) the date when the relevant redemption will take place;
- (ii) the last day on which Exchange Rights may be exercised by a Bondholder; and
- (iii) the Value of the pro rata share of the Exchange Property attributable to each Bond as at the most recent practicable date prior to the giving of the relevant notice.

11.3 Redemption at the option of the Bondholders (Put Event)

Upon any Bondholder giving to the Issuer through a Paying, Transfer and Exchange Agent not more than 90 nor less than 20 days prior notice (the **notice period**), the Issuer will redeem in whole (but not in part) the Bonds the subject of such notice on 19 May 2013 at their principal amount. To exercise the right to require redemption of any Bonds, the holder of the Bonds must deliver at the specified office of any Paying, Transfer and Exchange Agent on any Business Day in the place of such specified office falling within the notice period, a duly signed and completed notice of exercise in the form (for the time being current and which may, if the Certificate for such Bonds is held in Euroclear or Clearstream, Luxembourg, be any form acceptable to Euroclear and Clearstream, Luxembourg delivered in any manner acceptable to Euroclear and Clearstream, Luxembourg) obtainable from any specified office of any Paying, Transfer and Exchange Agent (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this paragraph accompanied by the Certificate for such Bonds or evidence satisfactory to the Paying, Transfer and Exchange Agent concerned that the Certificate for such Bonds will, following the delivery of the Put Notice, be held to its order or under its control. A Put Notice given by a holder of any Bond shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the Put Notice

11.4 Redemption for Tax Reasons

The Bonds may be redeemed at the option of the Issuer in whole, but not in part (subject as provided below), at any time on giving not less than 30 nor more than 60 days' notice to the Trustee and, in accordance with Condition 18, the Bondholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Bonds on the date for redemption specified in such notice (the **Tax Redemption Date**)), if:

- (a) on the occasion of the next payment due under the Bonds, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 13 or the Guarantor would be unable for reasons outside its control to procure payment by the Issuer and in making payment itself would be required to pay such additional amounts, in either case as a result of any change in, or amendment to, the laws or regulations of any Relevant Tax Jurisdiction or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Closing Date;
- (b) the Issuer satisfies the Trustee immediately prior to the giving of such notice as to (a) above; and
- (c) such obligation cannot be avoided by the Issuer or the Guarantor taking reasonable measures available to it,

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

Prior to the publication of any notice of redemption pursuant to this Condition 11.4, the Issuer shall deliver to the Trustee a certificate signed by two Authorised Officers of the Guarantor stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer or the Guarantor has or will become obliged to pay such additional amounts as a result of such change or amendment. The Trustee shall be entitled to accept any such certificate and opinion delivered to it as sufficient evidence of the satisfaction of such conditions precedent in which event they shall be conclusive and binding on the Bondholders.

Bonds redeemed pursuant to this Condition 11.4 will be redeemed at their principal amount, together with interest accrued to (but excluding) the Tax Redemption Date.

Relevant Tax Jurisdiction means (i), in respect of payments made by the Issuer, the Cayman Islands and (ii) in respect of payments made by the Guarantor, the United Kingdom and Portugal.

If the Issuer gives a notice of redemption pursuant to this Condition 11.4, each Bondholder will have the right to elect that his Bonds shall not be redeemed and that the provisions of Condition 13 shall not apply in respect of any payment of interest to be made on such Bonds which falls due after the relevant Tax Redemption Date, whereupon no additional amounts shall be payable in respect thereof pursuant to Condition 13 and payment of all amounts of interest on the Bonds shall be made subject to the deduction or withholding of any taxation required to be withheld or deducted by or on behalf of any Relevant Tax Jurisdiction. To exercise such right, the holder of the relevant Bond must present the relevant Bond for annotation to, and complete, sign and deposit a duly completed and signed notice of election (in the form for the time being current and obtainable from the specified offices of the Issuer, the Guarantor and the Principal Paying, Transfer and Exchange Agent) at the specified offices of the Issuer, the Guarantor and the Principal Paying, Transfer and Exchange Agent on or before the day falling 10 days prior to the Tax Redemption Date.

11.5 Purchase

The Issuer, the Guarantor or any of their respective Subsidiaries may at any time purchase Bonds in the open market or otherwise at any price.

11.6 Cancellation

Bonds purchased by the Issuer, the Guarantor or any of their respective Subsidiaries may be held, re-issued (in the case of the Issuer) or sold or cancelled. All Bonds redeemed or exchanged will be cancelled and may not be re-issued or resold.

12. PAYMENT

12.1 Payments in respect of Bonds

Payment of principal and interest due on the Bonds will be made by transfer to the persons shown in the Register at the close of business on the Record Date and, other than in the case of a payment of interest on an Interest Payment Date, subject to the surrender of the Certificates in respect of the Bonds at the specified office of the Registrar or any of the Paying, Transfer and Exchange Agents. Payment of all other amounts will be made as provided in these Conditions.

12.2 Method of Payments

Each payment referred to in Condition 12.1 will be made in euro by transfer to a euro account specified by the relevant Bondholder maintained with a bank in a city in which banks have access to the TARGET System.

12.3 Agents

The names of the initial Paying, Transfer and Exchange Agents and their initial specified offices are set out below. The Issuer reserves the right under the Agency Agreement at any time with the prior written approval of the Trustee to remove any Paying, Transfer and Exchange Agent, and to appoint other or further Paying, Transfer and Exchange Agents, provided that there will at all times be:

- (a) a Principal Paying, Transfer and Exchange Agent and a Registrar;
- (b) a Paying, Transfer and Exchange Agent having specified offices in a city in continental Western Europe (which shall be Luxembourg, so long as the Bonds are listed on the Luxembourg Stock Exchange); and

- (c) where possible, a Paying, Transfer and Exchange Agent in a European Union member state that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notice of any such removal or appointment and of any change in the specified office of any Paying, Transfer and Exchange Agent will be given as soon as practicable to Bondholders in accordance with Condition 18.

12.4 Payments subject to fiscal laws

All payments in respect of the Bonds are subject in all cases to any applicable fiscal or other laws and regulations. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

12.5 Fractions

When making payments to Bondholders, if the relevant payment is not of an amount which is a whole multiple of the smallest unit of the relevant currency in which such payment is to be made, such payment will be rounded down to the nearest unit.

12.6 Delay in payment

Bondholders will not be entitled to any interest or other payment, including in respect of or relating to the exercise of Exchange Rights, for any delay after the due date in receiving the amount due:

- (a) as a result of the due date not being a TARGET Business Day or a Business Day in the place of the specified office of the Principal Paying, Transfer and Exchange Agent where the relevant Certificate is surrendered (where such surrender is required as a precondition to payment); or
- (b) if the Bondholder is late in surrendering the Certificate in respect of the relevant Bond (if required to do so).

13. TAXATION

All payments of principal and interest in respect of the Bonds by the Issuer or the Guarantor will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Relevant Tax Jurisdiction (as defined above) or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In such event, the Issuer or the Guarantor, as the case may be, will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Bonds after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Bonds in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Bond:

- (a) to or on behalf of, a Bondholder which is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of its having some connection with the Relevant Tax Jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Bond; and/or
- (b) where such withholding or deduction is imposed on a payment to or for an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and/or
- (c) (other than in the case of a payment of interest on an Interest Payment Date) surrendered for payment more than 30 days after the Presentation Date, except to the extent that the Bondholder would have been entitled to an additional amount on surrendering the same for payment on such thirtieth day.

The provisions of this Condition 13 shall not apply in respect of any payments of interest in respect of any Bonds which are the subject of a Bondholder election pursuant to Condition 11.4.

In this Condition 13, **Presentation Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying, Transfer and Exchange Agent or the Trustee on or prior to such date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Bondholders in accordance with Condition 18.

14. EVENTS OF DEFAULT

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

- (a) default is made in the payment of any principal or interest due in respect of the Bonds or any of them and such default continues, in the case of principal, for a period of 5 Business Days in Lisbon or, in the case of interest, for a period of 10 Business Days in Lisbon; or
- (b) the Issuer or the Guarantor fails to perform or observe any of its other obligations in respect of the Bonds or under the Trust Deed and (except where in the opinion of the Trustee such default is not capable of remedy where no such continuation or notice as is hereinafter referred to will be required) such failure continues for the period of 30 days (or such longer period as the Trustee may permit) after notice has been given to the Issuer or, as the case may be, the Guarantor requiring the same to be remedied; or
- (c) the repayment of any indebtedness owing by the Issuer or by the Guarantor is accelerated by reason of default and such acceleration has not been rescinded or annulled, or the Issuer or the Guarantor defaults (after whichever is the longer of any originally applicable period of grace and 14 days after the due date) in any payment of any indebtedness or in the honouring of any guarantee or indemnity in respect of any indebtedness provided that no such event shall constitute an Event of Default unless the indebtedness whether alone or when aggregated with other indebtedness relating to all (if any) other such events which shall have occurred shall exceed U.S.\$10,000,000 (or its equivalent in any other currency or currencies) or, if greater, an amount equal to 1 per cent. of the Guarantor's Shareholders' Funds; or
- (d) any order shall be made by any competent court or resolution passed for the winding up or dissolution of the Issuer or the Guarantor (other than for the purpose of an amalgamation, merger or reconstruction approved by the Trustee or by an Extraordinary Resolution of the Bondholders); or
- (e) the Issuer or the Guarantor shall cease to carry on the whole or substantially the whole of its business (other than for the purpose of an amalgamation, merger or reconstruction approved by the Trustee or by an Extraordinary Resolution of the Bondholders); or
- (f) the Issuer or the Guarantor shall stop payment or shall be unable to, or shall admit inability to, pay its debts as they fall due, or shall be adjudicated or found bankrupt or insolvent by a court of competent jurisdiction or shall make a conveyance or assignment for the benefit of, or shall enter into any composition or other arrangement with, its creditors generally; or
- (g) a receiver, trustee or other similar official shall be appointed in relation to the Issuer or the Guarantor or in relation to the whole or a substantial part of the assets of either of them or a temporary manager of the Guarantor is appointed by the Bank of Portugal or an encumbrancer shall take possession of the whole or a substantial part of the assets of the Issuer or the Guarantor, or a distress or execution or other process shall be levied or enforced upon or sued out against the whole or a substantial part of the assets of either of them and in any of the foregoing cases it or he shall not be discharged within 60 days; or

- (h) the Guarantor sells, transfers, lends or otherwise disposes of the whole or a major part of its undertaking or assets (including shareholdings in its Subsidiaries or associated companies) and such disposal is substantial in relation to the assets of the Bank and its Subsidiaries as a whole, other than selling, transferring, lending or otherwise disposing on an arm's length basis; or
- (i) except where the Issuer has been substituted as principal debtor pursuant to Condition 16, the Issuer ceases to be a Subsidiary wholly owned and controlled, directly or indirectly, by the Guarantor; or
- (j) the Guarantee is terminated or shall cease to be in full force and effect,

then the Trustee at its discretion may, and if so requested in writing by the holders of not less than 20 per cent. of the principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders shall (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction), give notice to the Issuer that the Bonds are, and they shall accordingly thereby forthwith become, immediately due and repayable at their principal amount, together with accrued interest (as provided in the Trust Deed) provided that, in the case of any such Events of Default other than those described in sub-paragraphs (a) and (d) above, the Trustee shall have certified to the Issuer that such Event of Default is in its opinion materially prejudicial to the interests of the Bondholders.

As used above:

Guarantor's Shareholders' Funds means, at any relevant time, a sum equal to the aggregate of the Guarantor's shareholders' equity as certified by the Auditors (as defined in the Trust Deed) of the Guarantor by reference to the latest audited consolidated financial statements of the Guarantor.

15. PRESCRIPTION

Claims in respect of principal or interest or other amounts payable on the Bonds will become void unless made within 10 years (in the case of principal or such other amounts) and 5 years (in the case of interest) from the Relevant Date in respect thereof.

16. MEETINGS OF BONDHOLDERS, MODIFICATION AND WAIVER, ENTITLEMENT OF TRUSTEE, SUBSTITUTION, CHANGE AND INDEMNIFICATION OF TRUSTEE

The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any provisions of these Conditions or any relevant provisions of the Trust Deed. Such a meeting may be convened by the Issuer, the Guarantor, the Trustee or at the request of Bondholders holding not less than 5 per cent. in principal amount of the Bonds for the time being outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons present holding or representing not less than a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more persons present whatever the principal amount of the Bonds so held or represented by it or them, except that at any meeting the business of which includes the modification of Reserved Matters, the quorum shall be one or more persons present holding or representing not less than two-thirds in principal amount of the Bonds for the time being outstanding, or at any adjourned such meeting one or more persons present holding or representing not less than one-third in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Bondholders shall be binding on all the Bondholders, whether or not they are present at the meeting. The Trust Deed provides that a written resolution signed by or on behalf of the holders of not less than 90 per cent. in principal amount of Bonds outstanding shall be as valid and effective as a duly passed Extraordinary Resolution.

The Trust Deed provides that the Trustee may agree, without the consent of the Bondholders, to any modification of, or to any waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed, or may determine that any condition, event or act which, but for such determination, would constitute an Event of Default or Potential Event of Default (as

defined in the Trust Deed), shall not be treated as such which in any such case, in the opinion of the Trustee, is not materially prejudicial to the interests of the Bondholders or to any modification of any of these Conditions of the Bonds or any of the provisions of the Trust Deed or the Agency Agreement which is (in the opinion of the Trustee) of a formal, minor or technical nature or which is made to correct a manifest or (to the satisfaction of the Trustee) proven error or to comply with mandatory provisions of law. Any such modification, waiver, authorisation or determination shall be binding on the Bondholders and, unless the Trustee agrees otherwise, shall be notified to the Bondholders as soon as practicable thereafter in accordance with Condition 18.

In connection with the exercise by it of any of its trusts, powers, authorities or discretions (including, but without limitation, any modification, determination, waiver, authorisation or substitution), the Trustee shall have regard to the interests of the Bondholders as a class but shall not have regard to any interests arising from circumstances particular to individual Bondholders (whatever their number) and, in particular, but without limitation, shall not have regard to the consequences of such exercise for individual Bondholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders, except to the extent already provided for in Condition 13 and/or any undertaking given in addition to, or in substitution for, Condition 13 pursuant to the Trust Deed.

The Trust Deed contains provisions permitting the Trustee to agree (if it is satisfied that to do so would not be materially prejudicial to the interests of Bondholders), without the consent of the Bondholders, to the substitution at any time or times of any other entity in the place of the Issuer as the principal debtor (a **Substituted Principal Obligor**) under the Trust Deed and the Bonds. By subscribing to or purchasing the Bonds, the Bondholders expressly consent to any such substitution of the Issuer and expressly consent to the release of the Issuer from any and all obligations in respect of the Bonds and are deemed to have expressly accepted such substitution. Such agreement shall be subject to the relevant provisions of the Trust Deed, including an irrevocable and unconditional guarantee by the Guarantor in form and substance satisfactory to the Trustee, the making of appropriate arrangements to safeguard the Exchange Rights, the preparation of a supplement with certain supplementary information in relation to the Substituted Principal Obligor to be filed with the Luxembourg Stock Exchange (as long as the Bonds are listed on the Luxembourg Stock Exchange), and the Issuer having confirmed in writing to the Trustee (such confirmation to be signed by two Authorised Officers of the Issuer) that the Bonds have a credit rating from a Rating Agency and that following the substitution of the Substituted Principal Obligor the credit rating of any Rating Agency applicable to the Bonds will not be lower than the credit rating applicable to the Bonds immediately prior to such substitution. Notice of the substitution will be given by the Issuer to the Bondholders in accordance with Condition 18.

The Trust Deed contains general provisions for the retirement and removal of the Trustee.

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce repayment or taking steps to enforce the Exchange Rights unless indemnified and/or secured and/or prefunded to its satisfaction. The Trustee has no responsibility for the validity or value of the Exchange Property nor for any insufficiency of the Exchange Property resulting from the Trustee or the Issuer being liable for tax in respect of the Exchange Property. The Trust Deed absolves the Trustee from responsibility for loss, diminution in value or theft of all or part of the Exchange Property.

The Trustee is entitled to enter into business transactions with the Issuer and/or the Guarantor and/or any other entity whose securities are from time to time comprised in the Exchange Property or any entity related to any of them without accounting for any profit as more particularly described in the Trust Deed.

Any certificate or report of any expert or other person called for by or provided to the Trustee (whether or not addressed to the Trustee) in accordance with or for the purposes of the Trust Deed may be relied upon by the Trustee as sufficient evidence of the facts therein notwithstanding that such certificate or report

and/or any engagement letter or any other document entered into by the Trustee in connection therewith contains a monetary or other limit on the liability of such expert or such other person in respect thereof.

17. REPLACEMENT OF BONDS

If any Certificate is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the specified office of the Paying, Transfer and Exchange Agent in Luxembourg upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

18. NOTICES

18.1 Notices to the Bondholders

All notices regarding the Bonds shall be mailed to Bondholders at their respective addresses in the Register and will be deemed to have been given on the fourth weekday after the date of mailing. So long as Bonds are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, notices shall also be published on the Luxembourg Stock Exchange's website, www.bourse.lu. Any such notice will be deemed to have been given on the date of the first publication. If publication as provided above is not practicable, notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee may approve.

18.2 Notices from the Bondholders

Notices to be given by any Bondholder shall be in writing and given by lodging the same, together with the relative Certificate, with the Registrar or, if the Certificates are held in Euroclear or Clearstream, Luxembourg, may be given through Euroclear and Clearstream, Luxembourg in accordance with its standard rules and procedure

19. FURTHER ISSUES

The Issuer may from time to time without the consent of the Bondholders and in accordance with the Trust Deed create and issue further securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue provided that, in the case of any further bonds consolidated and forming a single series with the Bonds, the pro rata share of the Exchange Property of a Bondholder immediately before such consolidation shall be the same as his pro rata share of the Exchange Property immediately following such consolidation. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition 19 and forming a single series with the Bonds. Any further securities forming a single series with the outstanding securities of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee) be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of securities of other series where the Trustee so decides.

20. ENFORCEMENT

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the provisions of the Trust Deed and/or the Bonds, but it shall not be bound to take any proceedings or any other action in relation to the Trust Deed and/or the Bonds unless:

- (a) it shall have been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by the holders of at least 20 per cent. in principal amount of the Bonds then outstanding, and
- (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

No Bondholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and such failure shall be continuing.

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

21. GOVERNING LAW AND SUBMISSION TO JURISDICTION

The Bonds and the Trust Deed (and any non-contractual obligations arising out of or in connection with the Bonds and/or the Trust Deed) are governed by, and shall be construed in accordance, with English law.

Each of the Issuer and the Guarantor has agreed in the Trust Deed for the benefit of the Bondholders and the Trustee that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Bonds and the Trust Deed (including a dispute relating to any non-contractual obligations arising out of or in connection with the Bonds and/or the Trust Deed) (respectively, **Proceedings** and **Disputes**) and, for such purposes, irrevocably submits to the jurisdiction of such courts.

Each of the Issuer and the Guarantor has in the Trust Deed waived any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agreed not to claim that any such court is not a convenient or appropriate forum. The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of any Bondholder or the Trustee to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

Each of the Issuer and the Guarantor appoints the London branch of the Guarantor at its office in London for the time being (being as at the Closing Date at 33 Queen Street, London EC4 1ES) as its agent for service of process, and undertakes that, in the event of the London branch of the Guarantor ceasing so to act, it will appoint another person as its agent for service of process in England in respect of any Proceedings.

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

The Bonds will upon issue be represented by a Global Bond in registered form, deposited with, and registered in the name of, a common depository for Euroclear and Clearstream, Luxembourg. Interests in the Global Bond will be exchangeable for definitive Bonds in registered form only in the limited circumstances described below.

The Global Bond will contain provisions which apply to the Bonds while they are in global form, some of which modify the effect of the Conditions set out in this document. The following is a summary of certain of these provisions.

Capitalised terms used in this section and not otherwise defined have the meanings given to them in the Conditions.

1. Exchange

The Global Bond will be exchangeable (free of charge to the holder and the Bondholders) in whole, but not in part, for the definitive certificates representing the Bonds described below if, but only if, (i) the Global Bond is held on behalf of Clearstream, Luxembourg and/or Euroclear and either such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available.

On or after the Bond Exchange Date (as defined below), the Issuer will deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated certificates in registered form, printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed. On exchange of the Global Bond, the Issuer will, if the holder of the Global Bond so requests, procure that it is cancelled and returned to the holder together with any relevant certificates.

Bond Exchange Date means a day falling not less than 40 days after that on which the notice requiring exchange is given by the holder of the Global Bond to the Trustee, the Bondholders and the Principal Paying, Transfer and Exchange Agent and on which banks are open for business in the city in which the specified office of the Principal Paying, Transfer and Exchange Agent is located, except in the case of exchange pursuant to (i) above, in the cities in which Euroclear and Clearstream, Luxembourg are located.

2. Exchange Rights

Exchange Rights in respect of Bonds represented by the Global Bond are exercisable by presentation of the Global Bond to or to the order of the Principal Paying, Transfer and Exchange Agent for notation of exercise of the Exchange Rights, together with one or more duly completed exchange notices (which may be in electronic form and given in accordance with the rules and procedures of the relevant clearing system) (and an appropriate entry will be made in the register maintained in respect of the Bonds). Delivery of the exchange notice will constitute confirmation by the beneficial owner of the Bonds to be exchanged that the information and the representations in the exchange notice are true and accurate on the date of delivery.

3. Redemption for Tax Reasons

The right of a Bondholder provided for in Condition 11.4 to elect not to have his Bonds redeemed may be exercised by the relevant accountholder giving a notice of such election in relation to the principal amount of the Bonds in respect of which such right is exercised within the time limits set forth in that Condition and/or as required by the relevant clearing system and at the same time presenting or procuring the presentation of the Global Bond to the Principal Paying, Transfer and Exchange Agent for notation accordingly. Any such notice shall be given in accordance with the standard procedures of Euroclear and/or Clearstream, Luxembourg (which may include notice being given on the instruction of the relevant accountholder by the relevant clearing system or any common depository therefor to the Principal Paying, Transfer and Exchange Agent by electronic means) in a form acceptable to the relevant clearing system from time to time.

4. Put Option

For so long as all of the Bonds are represented by the Global Bond and such Global Bond is held on behalf of the Registrar, the option of the Bondholders provided for in Condition 11.3 may be exercised by a relevant accountholder giving notice to the Principal Paying, Transfer and Exchange Agent in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instructions by Euroclear or Clearstream, Luxembourg or any common depository for them to

the Principal Paying, Transfer and Exchange Agent by electronic means) of the principal amount of the Bonds in respect of which such option is exercised and at the same time presenting or procuring the presentation of the Global Bond to the Principal Paying Agent for notation accordingly within the time limits set forth in that Condition.

5. Redemption, Purchase and Cancellation

Cancellation of any Bond represented by the Global Bond which is to be cancelled following its redemption or purchase or exchange will be effected (i) by reduction in the principal amount of the Global Bond, and (ii) by an appropriate entry in the Register.

6. Notices

So long as all the Bonds are represented by the Global Bond, and such Global Bond is held on behalf of Clearstream, Luxembourg and/or Euroclear, notices to Bondholders may be given by delivery of the relevant notice to Clearstream, Luxembourg and/or Euroclear for communication by them to entitled accountholders in substitution for notification as required by the Conditions, except that so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, notices shall also be published on the Luxembourg Stock Exchange's website, *www.bourse.lu*. Any such notice shall be deemed to have been given on the day the same has been delivered to the relevant clearing systems.

7. Prescription

Claims against the Issuer in respect of principal or interest or other amounts payable on the Bonds while the Bonds are represented by the Global Bond will become void unless the Global Bond is presented for payment within a period of 10 years (in the case of principal and such other amounts) and 5 years (in the case of interest) from the appropriate Relevant Date in respect thereof.

8. Trustee's Powers

In considering the interests of Bondholders in circumstances where the Global Bond is held on behalf of Euroclear and/or Clearstream, Luxembourg, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, have regard to such information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of the Bonds represented by the Global Bond and may consider such interests as if such accountholders were the holders of the Bonds represented by the Global Bond.

9. Clearing Systems

Any reference herein to Clearstream, Luxembourg and/or Euroclear shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Issuer, the Principal Paying, Transfer and Exchange Agent and the Trustee.

10. Meetings

The holder of the Global Bond will be treated as having one vote in respect of each €50,000 in principal amount of Bonds for which such Global Bond may be exchanged at any meeting of Bondholders.

USE OF PROCEEDS

The net proceeds of the offering of the Bonds, which will amount to approximately €496,740,000, will be used by the Issuer for general funding requirements of the BES Group.

TAXATION

The following summary of certain taxation matters of the Cayman Islands and Portugal is based on the laws and practice in force as of the date of this Offering Circular and is subject to any changes in law and practices (and the interpretation and application thereof) occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds, or to exchange Bonds for EDP Shares, and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rules. This summary is of a general nature based on the understanding of the Issuer and the Guarantor of current law and practice. Investors should consult their professional advisers on the possible tax consequences of their subscribing for, purchasing, holding, selling or redeeming Bonds and exchanging Bonds for EDP Shares under the laws of their country of citizenship, residence, domicile or incorporation.

Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Bonds under the laws of their country of citizenship, residence or domicile.

Cayman Islands

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the Bonds. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Existing Cayman Islands Laws

Payments of interest and principal on the Bonds will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal or a dividend or capital to any holder of the Bonds nor will gains derived from the disposal of the Bonds be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax.

No stamp duty is payable in respect of the issue of the Bonds or certificates representing the Bonds. An instrument of transfer in respect of a Bond or a certificate representing a Bond is stampable if executed in or brought into the Cayman Islands.

The Issuer has been incorporated under the laws of the Cayman Islands as an exempted company with limited liability and, as such, has obtained an undertaking from the Governor in Council (now the Governor in Cabinet) of the Cayman Islands in the following form:

The Tax Concessions Law 1999 Revision – Undertaking as to Tax Concessions

In accordance with the provision of section 6 of The Tax Concessions Law (1999 Revision), the Governor in Council undertakes with the Issuer:

- § that no law which is hereafter enacted in the Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Issuer or its operations; and
- § in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of the Issuer; or
 - (ii) by way of the withholding in whole or part, of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

These concessions shall be for a period of 20 years from the 14 January 1997.

Luxembourg

The following summary is of a general nature and is included herein solely for information purposes. It is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Bonds should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Withholding Tax

- (i) *Non-resident holders of Bonds*

Under Luxembourg general tax laws currently in force and subject to the laws of 21 June 2005 (the **Laws**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Bonds, nor on accrued but unpaid interest in respect of the Bonds, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Bonds held by non-resident holders of Bonds.

Under the Laws implementing the EC Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the **Territories**), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner or a residual entity, as defined by the Laws, which is a resident of, or established in, an EU Member State (other than Luxembourg) or one of the Territories will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the fiscal authorities of his/her/its country of residence or establishment, or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Where withholding tax is applied, it is currently levied at a rate of 20 per cent. and will be levied at a rate of 35 per cent. as of 1 July 2011. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Bonds coming within the scope of the Laws would at present be subject to withholding tax of 20 per cent.

(ii) Resident holders of Bonds

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005 (the **Law**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Bonds, nor on accrued but unpaid interest in respect of Bonds, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Bonds held by Luxembourg resident holders of Bonds.

Under the Law, payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the benefit of an individual beneficial owner who is a resident of Luxembourg will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Bonds coming within the scope of the Law would be subject to withholding tax of 10 per cent.

Portugal

Portuguese Tax Considerations in respect of the Bonds

The following is a summary of the Portuguese withholding tax treatment at the date hereof in relation to certain aspects of the Portuguese taxation of payments of principal and interest in respect of the Bonds. This summary does not deal with other Portuguese tax aspects regarding the Bonds and relates only to the position of persons who are absolute beneficial owners of the Bonds. The following is a general guide, does not constitute tax or legal advice and should be treated with appropriate caution. Bondholders who are in any doubt as to their tax position should consult their professional advisers.

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

Bondholder’s Income Tax

Income generated by the holding (distributions) or disposal (capital gains) of the Bonds is generally subject to the Portuguese tax regime for debt securities (*obrigações*).

Economic benefits derived from interest, amortisation, reimbursement premiums and other instances of remuneration arising from the Bonds are designated as investment income for Portuguese tax purposes.

Withholding tax

Under current Portuguese law, investment income (including interest) payments arising from the Bonds made by the Issuer to Portuguese tax resident companies and by non resident legal persons with a permanent establishment in Portugal to which the income is attributable are subject to progressive corporate tax rate according to which a 12.5 per cent. tax rate will be applicable on the first €12,500 of taxable income and a 25 per cent. tax rate will be applicable on taxable income exceeding €12,500, to which is added a municipal surcharge of up to 1.5 per cent. over the taxable profits, where applicable.

As regards investment income (including interest) payments arising from the Bonds and made by the Issuer to Portuguese tax resident individuals, they are subject to personal income tax which shall be withheld at the current final withholding rate of 20 per cent. if there is a Portuguese resident paying agent, unless the individual elects to include it in his taxable income, subject to tax at progressive rates of up to 42 per cent. In this case, the tax withheld is deemed to be a payment on account of the final tax due.

Investment income payments due by the Issuer to Portuguese tax resident individuals are subject to an autonomous taxation at a rate of 20 per cent. whenever those payments are not subject to Portuguese withholding tax.

Investment income (including interest) payments arising from the Bonds, made by the Issuer to individuals or companies that are not resident in Portugal for tax purposes and without permanent establishment to which the income may be attributable are not subject to Portuguese income tax.

Payments of principal on the Bonds are not subject to Portuguese withholding tax. For these purposes, principal shall mean all payments carried out without any remuneration component.

Capital Gains

Under current Portuguese law, capital gains obtained by Portuguese tax resident companies and by non-resident legal persons with a permanent establishment in Portugal to which the capital gains are attributable on the disposal of the Bonds issued by non resident entities, are subject to progressive corporate tax rate according to which a 12.5 per cent. tax rate will be applicable on the first €12,500 of taxable income and a 25 per cent. tax rate will be applicable on taxable income exceeding €12,500, to which is added a municipal surcharge of up to 1.5 per cent. over the Portuguese corporate Bondholders taxable profits, where applicable.

Capital gains obtained by individuals who are resident in Portugal for tax purposes on the disposal of the Bonds issued by non resident entities are not subject to Portuguese income tax.

Stamp tax

No stamp tax applies to the acquisition through gift or inheritance of the Bonds by individuals resident in Portugal for tax purposes.

The acquisition through gift or inheritance of the Bonds by companies resident in Portugal for tax purposes and non resident companies acting through a Portuguese permanent establishment is subject to progressive corporate tax rate according to which a 12.5 per cent. tax rate will be applicable on the first €12,500 of taxable income and a 25 per cent. tax rate will be applicable on taxable income exceeding €12,500, to which is added a municipal surcharge of up to 1.5 per cent. over the Portuguese corporate Bondholders taxable profits, where applicable.

Portugal has implemented the EC Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income into the Portuguese law through Decree-Law no 62/2005, of 11 March 2005, as amended by Law no 39-A/2005, of 29 July 2005.

Portuguese Tax Considerations in respect of the EDP Shares

A. Payment of dividends

Individual shareholders

(a) Non-residents

As a general rule, dividends distributed by resident entities to non-resident individuals are subject to a final withholding tax at a rate of 20 per cent.

The domestic withholding tax may be reduced, as general rule, to a 15 per cent. or 10 per cent. rate under the applicable Double Tax Treaty concluded between Portugal and the other state. In order to be able to benefit from the Double Tax Treaty provisions certain requirements should be met (such as the Portuguese entity must be in possession of the official tax form 21.º RFI duly certified by the recipient entities' tax authorities on due time).

(b) Residents

As a general rule, dividends distributed by resident entities to resident individuals are subject to a final withholding tax at a rate of 20 per cent.

If the shareholder opts to include the dividends on his taxable amount, only 50 per cent. of such amount will be subject to a personal income tax rate of up to 42 per cent. In this case, the withholding tax rate of 20 per

cent. will be on account of the final tax bill.

Corporate shareholders

(a) Non-residents

As a general rule, dividends distributed by resident entities to non-resident companies are subject to a final withholding tax at a rate of 20 per cent. However, it should be taken into account that Portugal has implemented the European Parent Subsidiary Directive 90/435/EEC of the Council, of 23 July 1990 (the **Parent Subsidiary Directive**). As a consequence, dividends paid by companies whose shares are held by companies resident in another EU Member State in the conditions set forth in the Parent Subsidiary Directive shall be exempt from withholding tax provided the following conditions are met:

- (i) the participation is held directly by said EU resident company through a share capital participation equivalent to not less than 10 per cent or with an acquisition cost of at least €20,000,000.00; and
- (ii) the participation has been held, uninterruptedly, during the one year preceding the date of distribution of profits.

In order to benefit from exemption under the Parent Subsidiary Directive, evidence requirements (declaration issued and duly authenticated by the relevant tax authorities of the Member State of the beneficiary stating that the said is under article 2 of the Parent Subsidiary Directive) should be met prior to the date dividends will be considered available for tax purposes.

If the Parent Subsidiary Directive requirements are not complied with, the domestic withholding tax may be reduced, as general rule, to a 15 per cent. or 10 per cent. rate under the applicable Double Tax Treaty concluded between Portugal and the other state. In order to be able to benefit from the Double Tax Treaty provisions certain requirements should be met (such as, the Portuguese entity must be in possession of the official tax form 21.º RFI duly certified by the recipient entities' tax authorities on due time).

(b) Residents

As a general rule, dividends distributed by resident entities to resident companies are subject to a withholding tax at a 20 per cent. rate on account of the final tax bill.

Companies resident (which are not subject to the tax transparency regime) in Portugal for tax purposes may exclude from their taxable income the dividends paid by companies subject to corporate income tax and with head office or effective management in Portugal provided the following conditions are met:

- (i) the participation is held directly by the resident company through a share capital participation equivalent to not less than 10 per cent. or with an acquisition cost of at least €20,000,000.00; and
- (ii) the participation has been held, uninterruptedly, during the one year preceding the date of distribution of profits. In this scenario, distributions made before the expiry of the 1 year holding period may also qualify for the participation exemption, provided that the holding period is completed afterwards.

This regime applies to SGPS and Venture Capital companies, regardless of the percentage or value of the participation held.

Whenever the requirements regarding the tax transparency regime, the shareholding percentage or the holding period are not met, the deduction is limited to 50 per cent. of the dividends paid.

No withholding tax will apply on dividends paid to entities in which the participation is held directly by the said resident company through a share capital participation equivalent to not less than 10 per cent. or with an acquisition cost of at least €20,000,000.00; and the participation has been held, uninterruptedly, during the one year preceding the date of distribution of profits. No withholding tax will also be applicable whenever the dividends are namely paid to Pension Funds or Venture Capital Funds incorporated under the laws of Portugal.

Dividends paid to financial institutions liable to Portuguese corporate income tax are subject to a withholding tax at a 20 per cent. rate on account of the final tax bill.

B. Capital Gains

Individual shareholders

(a) Residents

No Portuguese capital gains taxation applies on the disposal of shares if such shares are held for more than 12 months. This exclusion from taxation does not apply to capital gains arising from shares in companies whose assets are composed, directly or indirectly, in more than 50 per cent by immovable property located in the

Portuguese territory.

If the shares are held for up to (and including) 12 months, the positive balance between capital gains and capital losses incurred in connection with trades carried out in the relevant fiscal year is subject to capital gains taxation at the special rate of 10 per cent., except if the shareholder opts to include such positive balance in his taxable income subject to a personal income tax rate of up to 42 per cent.

(b) Non-residents

If the shares are held for more than 12 months, no capital gains taxation will apply on the disposal of the shares in Portugal.

If the shares are held for up to (and including) 12 months, capital gains that derive from the disposal of shares will be exempt from taxation in Portugal, except if:

- (i) the shareholder is resident in a country included in the “tax havens” list approved by Ministerial order n. 150/2004 of 13 February, or
- (ii) the transfer of participations held in the share capital of the Portuguese resident company whose assets are constituted, in more than 50 per cent., by real estate located in Portugal.

Corporate shareholders

(a) Residents

The positive balance between capital gains and capital losses incurred in connection with trades carried out in the relevant fiscal year is regarded for taxation purposes as income, being as such subject to progressive corporate tax rate according to which a 12.5 per cent. tax rate will be applicable on the first €12,500 of taxable income and a 25 per cent. tax rate will be applicable on taxable income exceeding €12,500, to which is added a municipal surcharge of up to 1.5 per cent. over the Portuguese corporate shareholders’ taxable profits, where applicable.

The positive balance between capital gains and capital losses incurred in the relevant fiscal year in connection with trades of Portuguese shares may be taxed in 50 per cent. provided the requirements regarding the reinvestment regime foreseen on article 48.º of the Portuguese Corporate Income Tax Code are met.

As a rule, capital gains and losses derived by an SGPS or Venture Capital companies from the disposal of shares in the share capital of the companies, as well as financial expenses incurred with their acquisition, whenever the shares have been held for a minimum period of 1 year, are not excluded from taxation. If the shares have been acquired from related parties the exemption will apply only if a minimum of holding period of three years is met.

(b) Non-residents

Capital gains arising from the disposal of shares will be exempt from taxation in Portugal except if:

- (i) The shareholder is directly or indirectly held in more than 25 per cent by resident entities;
- (ii) The shareholder is resident in a country included in the “tax havens” list approved by Ministerial order n. 150/2004 of 13 February;
- (iii) The transferred shares refer to a Portuguese resident company whose assets are comprised, in more than 50 per cent, by immovable property located in Portugal; or
- (iv) The transferred shares refer to an SGPS holding shares in subsidiary companies whose assets are comprised, in more than 50 per cent, by immovable property located in Portugal.

If the exemption does not apply, the gains will be subject to tax at 25 per cent. Under the Double Tax Treaties entered into by Portugal, such gains are usually not subject to Portuguese tax, but the applicable rules should be confirmed on a case by case basis.

General

EU Savings Directive

Under European Council Directive 2003/48/EC on the taxation of savings income (the **Directive**), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-European Union countries and territories have adopted similar measures.

The European Commission, the Council of the European Union and the European Parliament are considering a

number of proposed changes to the Directive. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

SUBSCRIPTION AND SALE

Banco Espírito Santo de Investimento, S.A., Sucursal en España, Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited and Merrill Lynch International (the **Lead Managers**) have, pursuant to a Subscription Agreement dated 21 April 2010, agreed with the Issuer and the Guarantor, subject to the satisfaction of certain conditions, to subscribe the Bonds on a several (but not joint) basis. In addition, the Issuer and the Guarantor have agreed to reimburse the Lead Managers for certain of their expenses in connection with the issue of the Bonds. The Subscription Agreement entitles the Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer on the Closing Date.

Each of the Issuer and the Guarantor has agreed that, during the period commencing on 21 April 2010 and ending 90 days thereafter (both dates inclusive), it will not and it will procure that none of its subsidiaries, Affiliates or any other party acting on its or their behalf (other than the Lead Managers) will, without the prior written consent of the Lead Managers (not to be unreasonably withheld or delayed) (i) directly or indirectly, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, any EDP Shares or any securities convertible into or exercisable or exchangeable for EDP Shares or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, any of the economic consequences of ownership of EDP Shares, whether any such swap or transaction described in paragraph (i) or (ii) above is to be settled by delivery of EDP Shares or such other securities, in cash or otherwise, save that the parties to the Subscription Agreement have agreed that the foregoing restrictions do not apply to (A) the issue of the Bonds and/or (B) any delivery of EDP Shares to a Bondholder following the exercise by that Bondholder of its Exchange Right, in each case pursuant to Condition 8, and/or (C) trading in the EDP Shares for the account and/or on behalf of the Issuer's or the Guarantor's or any of their subsidiaries' clients and/or normal market making or hedging activities by the Issuer and/or the Guarantor and/or any of their subsidiaries in the ordinary course of business or, in the case of hedging activities, for the purposes of heading its obligations under the Bonds, and provided further, in the case of any such hedging activities, such hedging is (I) in respect of obligations existing before 21 April 2010 and/or (II) does not create any actual, or apparent, active trading in or have the effect of raising, stabilising or maintaining the price of the EDP Shares, respectively, and/or (D) any transfers of the EDP Shares between any members of the BES Group or to any Affiliate of the Issuer or the Guarantor, subject to the transferee in the case of any such transfer being subject to all of the above restrictions in respect of any further transaction involving or in any way relating to such EDP Shares.

In the above paragraph, **EDP Shares** shall include participation certificates and any depositary or other receipt, instrument, rights or entitlement representing EDP Shares, and **Affiliate** means any person controlling, controlled by or under common control with that person from time to time (and its respective directors, officers, employees and agents from time to time).

Selling Restrictions

United States

The Bonds and the EDP Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**) and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Bonds will not be offered or sold within the United States except in accordance with Rule 903 of Regulation S under the Securities Act and no directed selling efforts will be engaged with respect to the Bonds and the EDP Shares to be issued or delivered on exchange of the Bonds.

Cayman Islands

No invitation will be made to the public in the Cayman Islands to subscribe for or purchase any Bonds, whether directly or indirectly.

Portugal

(i) No document, circular, advertisement or any offering material in relation to the Bonds has been or will be subject to approval by the Portuguese Securities Market Commission (*Comissão do Mercado de Valores Mobiliários*, the **CMVM**); (ii) no Bonds will be directly or indirectly advertised, offered, submitted to an investment gathering procedure or sold or re-sold or re-offered in circumstances which could qualify as a public offer of securities (*oferta pública*) pursuant to the Portuguese Securities Code (*Código dos Valores Mobiliários*, the **CVM**); (iii) the Offering Circular or any other offering material relating to the Bonds will not be distributed to the public in Portugal; (iv) all offers, sales and distributions of the Bonds have been and will

only be made in Portugal in circumstances that, pursuant to the CVM, do not qualify as a public placement of Bonds (*oferta pública*); (v) pursuant to the CVM, a private placement (*oferta particular*) of Bonds in Portugal or to Portuguese residents by public companies (*sociedades abertas*) or by companies that are issuers of securities listed on a market needs to be notified to the CMVM for statistical purposes; and (vi) all applicable provisions of the CVM and any applicable CMVM Regulations and all relevant laws and regulations have been complied with regarding the Bonds, in any matters involving Portugal and the placement or distribution of Bonds in the Portuguese market. All applicable laws and regulations in force in Portugal and the Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003, regarding the placement of any Bonds in the Portuguese jurisdiction or to any entities which are resident in Portugal, including the publication of an Offering Circular, when applicable, will be complied with, and such placement shall only be authorised and performed to the extent that there is full compliance with such laws and regulations.

United Kingdom

- (a) All applicable provisions of the FSMA with respect to anything done in relation to the Bonds in, from or otherwise involving the United Kingdom, have been and will be complied with; and
- (b) any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue of any Bonds has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor.

Switzerland

This Offering Circular as well as any other material relating to the Bonds which are the subject of the offering contemplated by this Offering Circular do not constitute an issue prospectus pursuant to Articles 652a and/or 1156 of the Swiss Code of Obligations. The Bonds will not be listed on the SIX Swiss Exchange and, therefore, the documents relating to the Bonds, including, but not limited to this Offering Circular, do not claim to comply with the disclosure standards of the listing rules of the SIX Swiss Exchange and corresponding prospectus schemes annexed to the listing rules of the SIX Swiss Exchange.

The Bonds are being offered in Switzerland by way of a private placement, i.e. to a small number of selected investors only, without any public offer and only to investors who do not purchase the Bonds with the intention to distribute them to the public.

This Offering Circular may not be copied and/or distributed to the public in (or from) Switzerland.

General

No action will be taken in any jurisdiction by the Lead Managers, the Issuer or the Guarantor that would permit a public offering of the Bonds, or possession or distribution of the Offering Circular (in preliminary, proof or final form) or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required. All applicable laws and regulations in each jurisdiction will be complied with in which each Lead Manager acquires, offers, sells or delivers Bonds or has in its possession or distributes the Offering Circular (in preliminary, proof or final form) or any such other material, in all cases at its own expense. No obligations shall be imposed on the Issuer, the Guarantor or any other Lead Manager in any such jurisdiction as a result of any of the foregoing actions. The Issuer, the Guarantor and the other Lead Managers will have no responsibility for, and each Lead Manager will obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery.

Purchase of Bonds and Stabilising Activities

The Bonds are a new issue of securities with no established trading market. Accordingly, neither the Issuer nor the Guarantor can assure the liquidity of the trading market for the Bonds.

Purchasers who purchase Bonds from the Lead Managers may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the Issue Price set out on the cover page of this Offering Circular.

In connection with the offering of the Bonds, the Lead Managers are permitted to engage in certain transactions that stabilise the price of the Bonds. These transactions may consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the Bonds.

In addition, if the Lead Managers over-allot by selling more Bonds than are set out on the cover page of this Offering Circular, and thereby create a short position in the Bonds in connection with the offering, the Lead Managers may reduce that short position by purchasing Bonds in the open market.

In general, purchases of a security for the purpose of stabilising or reducing a syndicate short position could cause the price of the security to be higher than it might otherwise be in the absence of such purchases.

Neither the Issuer nor the Guarantor nor the Lead Managers makes any representation or prediction as to the direction or magnitude of any effect that the transaction described above may have on the price of the EDP Shares or the price of the Bonds. In addition, neither the Issuer nor the Guarantor nor the Lead Managers makes any representation that the Lead Managers will engage in such transactions or that such transactions will not be discounted without notice, once they are commenced.

From time to time, the Lead Managers and their respective affiliates have or may have provided, and may continue to provide, investment banking services to members of the BES Group for which they have been or will be paid customary fees.

In connection with the offering of the Bonds, the Lead Managers and/or their respective affiliates may act as an investor for their own account and may take up Bonds in the offering and in that capacity may retain, purchase or sell for their own account such securities and any securities of the Issuer or Guarantor or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering. Accordingly, references herein to the Bonds being offered or placed should be read as including any offering or placement of Bonds to the Lead Managers and/or their respective affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

GENERAL INFORMATION

1. The creation and issue of the Bonds has been authorised by resolutions of the Board of Directors of the Issuer passed on 10 May 2010. The giving of the guarantee by the Guarantor was authorised by resolutions of the Executive Committee of the Guarantor passed on 10 May 2010.
2. Save as disclosed in this Offering Circular and the unaudited consolidated financial information of the Guarantor for the three months ended 31 March 2010, there has been no significant change in the financial or trading position of the Issuer since 31 December 2009 or of the Guarantor or the BES Group since 31 March 2010, and no material adverse change in the financial position or prospects of the Issuer, the Guarantor or the BES Group since 31 December 2009.
3. There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which either Issuer or the Guarantor is aware) which may have or have had in the past 12 months a significant effect on the financial position or profitability of either the Issuer, the Guarantor or the BES Group nor is the Issuer or the Guarantor aware of any such proceedings being threatened.
4. KPMG & Associados, SROC, S.A. Edifício Monumental, Avenida Praia da Vitória, 71A, 11° 1069 -006, Lisbon, Portugal, chartered accountants and registered auditors, a member of *Ordem dos Revisores Oficiais de Contas*, are the appointed auditors of the Issuer and have audited the respective financial statements of the Issuer for the years ending 31 December 2009 and 2008, prepared in accordance with International Financial Reporting Standards as adopted by the European Union.
5. KPMG & Associados, SROC, S.A. Edifício Monumental, Avenida Praia da Vitória, 71A, 11° 1069 -006, Lisbon, Portugal, chartered accountants and registered auditors, a member of *Ordem dos Revisores Oficiais de Contas*, are the appointed auditors of the Guarantor and have audited the respective financial statements of the Guarantor for the years ending 31 December 2009 and 2008, prepared in accordance with International Financial Reporting Standards as adopted by the European Union.
6. For so long as any Bonds are outstanding, executed copies of the following documents in respect of the Bonds will, when published, be available for inspection free of charge during usual business hours at the specified offices of the Paying, Transfer and Exchange Agents:
 - (a) this Offering Circular and the Programme Offering Circular;
 - (b) the Trust Deed;
 - (c) the Paying, Transfer and Exchange Agency Agreement;
 - (d) the constitutional documents of the Issuer and the Guarantor;
 - (e) the auditors' report and audited annual financial statements of the Issuer for the financial year ended 31 December 2009;
 - (f) the auditors' report and audited annual financial statements of the Issuer for the financial year ended 31 December 2008;
 - (g) the unaudited consolidated financial information of the Guarantor for the three months ended 31 March 2010;
 - (h) the auditors' report and audited consolidated and non-consolidated annual financial statements of the Guarantor for the financial year ended 31 December 2009;
 - (i) the auditors' report and audited consolidated and non-consolidated annual financial statements of the Guarantor for the financial year ended 31 December 2008; and
 - (j) the most recently published audited annual financial statements and unaudited interim financial statements of the Issuer and the most recently published audited consolidated and non-consolidated annual financial statements and consolidated or non-consolidated interim financial statements of the Guarantor, in each case together with any audit or review reports prepared in connection therewith.
7. The yield to maturity of the Bonds is 3.00 per cent. per annum. The yield to maturity is calculated at the Closing Date on the basis of the initial issue price. It is not an indication of future yield.

8. The Bonds have been accepted for clearance through the Clearstream, Luxembourg and Euroclear systems with a Common Code of 050514129. The International Securities Identification Number for the Bonds is XS0505141290.
9. Save for any fees payable to the Lead Managers, so far as the Issuer is aware, no person involved in the issue of the Bonds has an interest material to the offer.
10. The estimated total expenses related to the admission to trading of the Bonds are Euro 5,850.
11. The EDP Shares are traded under the symbol “EDP”. The table below sets out, for the periods indicated, the reported high and low closing sales prices per EDP Share on Euronext Lisbon, the principal market for the EDP Shares.

Period	<i>Price per EDP Share</i>	
	<i>High</i>	<i>Low</i>
2007		
First Quarter	€4.34	€3.80
Second Quarter	€4.28	€3.94
Third Quarter	€4.25	€3.88
Fourth Quarter	€4.91	€4.10
2008		
First Quarter	€4.66	€3.62
Second Quarter	€4.21	€3.32
Third Quarter	€3.59	€2.70
Fourth Quarter	€2.96	€2.24
2009		
First Quarter	€2.81	€2.35
Second Quarter	€2.93	€2.59
Third Quarter	€3.13	€2.74
Fourth Quarter	€3.20	€3.00
2010		
First Quarter	€3.18	€2.67
Second Quarter (up to 13 May)	€3.04	€2.58

(Source: Bloomberg. Prices are adjusted for stock splits and stock dividends)

Information about the past and the further performance of the EDP Shares and their volatility can be obtained from the EDP Group website (www.edp.pt).

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