

OFFERING CIRCULAR

**U.S.\$650,000,000**  
**C.A. LA ELECTRICIDAD DE CARACAS**

(a corporation (*compañía anónima*) organized under the laws of the Bolivarian Republic of Venezuela)

**8.50% Notes due 2018**



The 8.50% Notes due 2018 (the "Notes") are being offered (the "Offering") by C.A. La Electricidad de Caracas (the "Issuer"), a corporation (*compañía anónima*) organized under the laws of the Bolivarian Republic of Venezuela ("Venezuela"). The Notes will be the unsecured, senior obligations of the Issuer. The Notes will mature on April 10, 2018, and will bear interest at the rate of 8.50% per annum payable semiannually on April 10 and October 10 of each year, commencing October 10, 2008. The Notes may be redeemed at any time and from time to time in whole or in part, at the option of the Issuer, by paying the principal amount thereof and a "make-whole" amount, if applicable, plus in each case accrued interest and additional amounts, if any. The Notes may also be redeemed as a whole but not in part at 100% of the outstanding principal amount thereof, plus accrued and unpaid interest and additional amounts, if any, in the event of specific changes affecting the taxation of the Notes. See "Description of the Notes — Redemption — Optional Redemption." Principal and interest on the Notes will be paid in U.S. dollars free and clear of any withholding or deduction for, or on account of, taxes imposed by Venezuela.

**This offering circular (the "Offering Circular") is intended for use only in connection with an offer and sale of the Notes outside the United States and has not been sent or given to any person within the United States. The Notes have not been nor will they be registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act") or any state securities laws and are being offered and sold outside the United States only in accordance with Regulation S under the U.S. Securities Act. You are not eligible to receive or review this document or to invest in the Notes unless you either: (1) are not in the United States (as contemplated in Rule 903(a)(1) of Regulation S under the U.S. Securities Act) and are not a "U.S. person" (as defined in Rule 902(o) of Regulation S under the U.S. Securities Act) or (2) are a dealer or other professional fiduciary organized, incorporated, or (if an individual) resident in the United States holding a discretionary account or similar account (other than an estate or trust) for the benefit or account of a non-U.S. person (as contemplated by Rule 903(a)(1) of Regulation S under the U.S. Securities Act). For a description of certain restrictions on resale or transfer of the Notes, see "Transfer Restrictions." The Notes are exempted from registration with the Venezuelan Securities Commission (*Comisión Nacional de Valores*) pursuant to article 1 of the Venezuelan Capital Markets Law (*Ley de Mercado de Capitales*). It is expected that delivery of the Notes will be made in book-entry form only through the facilities of Euroclear Bank S.A./N.V. as operator of the Euroclear System, or Euroclear, and Clearstream Banking, société anonyme, or Clearstream Luxembourg, on or about April 10, 2008.**

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trade them on the Euro MTF Market of such exchange. This Offering Circular constitutes a prospectus for purposes of the Luxembourg Law on Prospectuses for Securities of July 10, 2005.

On March 7, 2008, the Issuer's wholly owned subsidiary, Electricidad de Caracas Finance B.V. ("EDC Finance"), commenced an offer to purchase for cash any and all of its outstanding 10.25% Senior Notes due 2014 (the "EDC Finance Notes") and solicited consents from the holders thereof to eliminate substantially all of the restrictive covenants of the indenture governing the EDC Finance Notes (collectively, the "Offer and Consent Solicitation"). The closing of the Offer and Consent Solicitation is conditioned, among others, to the consummation of this offering (the "Financing Condition") and the receipt of validly tendered notes and valid consents of holders of a majority of the aggregate principal amount of EDC Finance Notes pursuant to the Offer and Consent Solicitation (the "Majority Tender Condition"). The closing of this offering is conditioned upon the satisfaction or waiver of the closing conditions of the Offer and Consent Solicitation. As of March 28, 2008, EDC Finance had received valid irrevocable tenders and consents from approximately 94% in aggregate principal amount of the EDC Finance Notes pursuant to the Offer and Consent Solicitation. See "Summary — EDC Finance Offer to Purchase and Consent Solicitation" and "Use of Proceeds."

**See "Risk Factors" to read about factors you should consider before buying the Notes.**

**Price: 105% plus accrued interest, if any, from April 10, 2008.**

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**ABN AMRO**

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March 31, 2008

This Offering Circular does not constitute an offer to sell, or a solicitation of an offer to buy, any Notes in any jurisdiction in which it is unlawful to make such an offer or solicitation. Neither the delivery of this Offering Circular nor any sale made under this Offering Circular will under any circumstances imply that there has been no change in our affairs or that the information set forth in this Offering Circular is correct as of any date subsequent to the date of this Offering Circular.

ABN AMRO Bank N.V. (the "Dealer Manager"), makes no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this Offering Circular. Nothing contained in this Offering Circular is, or should be relied upon as, a promise or representation by the Dealer Manager as to the past or future. The Dealer Manager assumes no responsibility for the accuracy or completeness of any such information.

This Offering Circular does not constitute an offer to any other person or to the public in general to subscribe for or otherwise acquire the Notes. Distribution of this Offering Circular by you to any person other than those persons retained to advise you is unauthorized.

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trade them on the Euro MTF Market of such exchange. If, as a result of applicable rules and regulations relating to trading on the Euro MTF market, we are required to publish financial information either more regularly than we otherwise would be required to or according to accounting principles which are materially different from the accounting principles which we would otherwise use to prepare our published financial information, we may delist the Notes from the Euro MTF or seek an alternate admission to listing, trading and/or quotation for the Notes on a different section of the Luxembourg Stock Exchange or by such other listing authority, stock exchange and/or quotation system inside or outside the European Union as we may decide.

We have prepared this Offering Circular solely for use in connection with the offer of the Notes and take responsibility for its contents. No other person is responsible for its contents. We and other sources we believe to be reliable have furnished the information contained in this Offering Circular. Nothing contained in this Offering Circular is or shall be relied upon as a promise or representation, whether as to the past or the future. The opinions and intentions expressed in this Offering Circular with regard to us are honestly held, have been reached after considering all known relevant circumstances and are based on reasonable assumptions, and all reasonable inquiries have been made by us to ascertain such facts and to verify the accuracy of all such information and statements. We accept responsibility accordingly.

You must comply with all laws and regulations in force in any jurisdiction in connection with the possession or distribution of this Offering Circular and the purchase, offer or sale of the Notes, and you must obtain any required consent, approval or permission for the purchase, offer or sale by you of the Notes under the laws and regulations applicable to you in force in any jurisdiction to which you are subject or in which you make purchases, offers or sales, and neither we nor the Dealer Manager has any responsibility for those transactions. See "Transfer Restrictions."

You acknowledge that (1) you have been afforded an opportunity to request from us, and to review, all additional information considered by you to be necessary to verify the accuracy of, or to supplement, the information contained in this Offering Circular, (2) you have not relied on us, the Dealer Manager or any person affiliated with us or the Dealer Manager in connection with your investigation of the accuracy of the information or your investment decision, and (3) no person has been authorized to give any information or to make any representation concerning us or the Notes other than as contained in this Offering Circular. If given or made, that other information or representation should not be relied upon as having been authorized by us or the Dealer Manager.

In making an investment decision, you must rely on your own examination of our business and the terms of the offering, including the merits and risks involved. The Notes have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, these authorities have not confirmed the accuracy or determined the adequacy of this Offering Circular. Any representation to the contrary is a criminal offense.

The Notes have not been, and will not be, registered under the U.S. Securities Act or the securities of any state or other jurisdiction of the United States and may not be offered or sold in the United States except in transactions exempt from or not subject to the registration requirements of the Securities Act and any applicable state securities

laws. The Notes are being sold outside the United States in offshore transactions as defined in, and in reliance on, Regulation S under the U.S. Securities Act. In addition, until 40 days after commencement of this offering, an offer or sale of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act.

#### **Notice to Venezuelan investors**

Investors in Venezuela may initially purchase and pay for the Notes in Bolívares Fuertes at the settlement date at the official exchange rate of Bs. F.2.15 per U.S.\$1.00. Purchase of the Notes must be made by or through a financial institution that has an account at the Central Bank of Venezuela ("*Banco Central de Venezuela*" or "BCV") by instructing the BCV to debit the institution's account in Bolívares Fuertes in an amount equal to the purchase price of the Notes at the official exchange rate.

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#### **Enforcement of Judgments**

Under Venezuelan law, neither us nor any of our property have any immunity from the jurisdiction of any court or from set-off or any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution of judgment, execution or otherwise), except that pursuant to article 97 of the Law of the Office of the Attorney General of Venezuela (*Ley Orgánica de la Procuraduría General de la República*) an attachment prior to judgment, attachment in aid of execution, execution or otherwise, on our properties located in Venezuela that are affected to the rendering of a public service, such as electricity generation, transmission and distribution, must be stayed for a period of 45 days after notice is given to the Venezuelan Attorney General pursuant to which the Venezuelan government may take any action in order to avoid interruption of the services, including taking possession of such assets if such attachment endangers the continuity, quality or security of the services provided. If the Venezuelan Attorney General does not notify the court about the provisional measures taken by the relevant entity to avoid discontinuance of the service within such 45-days notice, the court may continue with such enforcement or foreclosure.

A judgment arising in connection with the Notes or the indenture governing the Notes rendered by any court referred to above would be enforceable against us in the courts of Venezuela subject to obtaining a confirmatory judgment (*exequatur*) from the Supreme Tribunal of Justice in Venezuela in accordance with the provisions and conditions of the Venezuelan Private International Law (*Ley de Derecho Internacional Privado*), without a review of the merits of the judgment, provided that: (i) the foreign judgment concerns matters of private civil or commercial law only; (ii) the foreign judgment constitutes *res judicata* under the laws of the jurisdiction where it was rendered; (iii) the foreign judgment does not relate to real property interests over real property located in Venezuela and the exclusive jurisdiction of Venezuelan courts over the matter has not been violated; (iv) the foreign courts have jurisdiction over the matter pursuant to the general principles of jurisdiction set forth in Chapter IX of the Venezuelan *Ley de Derecho Internacional Privado*; (v) we are duly served, with sufficient time to appear in the proceedings and are granted with due process; (vi) the foreign judgment is not incompatible with a prior judgment that constitutes *res judicata* and no proceeding initiated prior to the rendering of the foreign judgment is pending before Venezuelan courts on the same subject matter among the same parties to litigation; and, (vii) the foreign judgment does not contravene the essential principles of Venezuelan public policy.

#### **Notice to Prospective Investors in the EEA**

In any European Economic Area ("EEA") Member State that has implemented Directive 2003/71/EC (together with any applicable implementing measures in any Member State, the "Prospectus Directive"), this communication is only addressed to and is only directed at qualified investors in that Member State within the meaning of the Prospectus Directive. This Offering Circular has been prepared on the basis that all offers of the Notes will be made pursuant to an exemption under the Prospectus Directive, as implemented in Member States of the EEA, from the requirement to produce a prospectus for offers of the Notes. Accordingly, any person making or intending to make any offer within the EEA of Notes which are the subject of the placement contemplated in this Offering Circular should only do so in circumstances in which no obligation arises for us or the Dealer Manager to produce a prospectus for such offer. Neither we nor the Dealer Manager have authorized, nor do they authorize, the making of any offer of notes through any financial intermediary, other than offers made by us which constitute the final placement of Notes contemplated in this Offering Circular.

## Notices to Residents of the United Kingdom

All applicable provisions of the Financial Services and Markets Act 2000 ("FSMA") with respect to anything done by any person in relation to securities in, from or otherwise involving the United Kingdom must be complied with. Within the United Kingdom, this Offering Circular is directed only at persons who have professional experience in matters relating to investments and who qualify either as investment professionals in accordance with Article 19(5), or as high net worth companies, unincorporated associations, partnerships or trustees in accordance with Article 49(2) of the Financial Services and Markets Act 2000 (Financial Promotion) Order (together, "Exempt Persons"). It may not be passed on except to Exempt Persons or other persons in circumstances in which Section 21(1) of FSMA does not apply to the Issuer (all such persons together being referred to as "Relevant Persons"). This Offering Circular must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this relates is available only to relevant persons and will be engaged in only with relevant persons. Any persons other than relevant persons should not act or rely on this Offering Circular.

### Presentation of Information

As used in this Offering Circular, unless the context requires otherwise, the terms "EDC," "we," "us" and "our" refer to *C.A. La Electricidad de Caracas* and its consolidated subsidiaries. *C.A. La Electricidad de Caracas* is a holding company that owns regulated electricity businesses in Venezuela, as well as an independent power plant, telecommunications businesses and certain ancillary businesses. *C.A. La Electricidad de Caracas* is also an operating company that owns generation, transmission, distribution and retail assets for its regulated electricity business.

In this Offering Circular, unless otherwise specified, references to "U.S. dollars," "dollars," "\$" or "U.S.\$" are to United States dollars, the legal currency of the United States of America, references to "bolívares" or "Bs. " are to Bolívares, the legal currency of Venezuela prior to January 1, 2008, and references to "bolívares fuertes" or "Bs. F" are to Bolívares Fuertes, the reconverted Bolívares effective January 1, 2008.

### Forward-Looking Statements

This Offering Circular contains forward-looking statements as described under the U.S. Private Securities Litigation Reform Act of 1995, as amended, specifically, certain statements relating to the expected results of business related activities, capital expenditures and investments, environmental compliance and remediation and related capital expenditures, sales and taxes. Words such as "anticipate," "estimate," "project," "expect," "intend" and similar expressions are used to identify forward-looking statements. Forward-looking statements are subject to risks and uncertainties related to Venezuelan electricity generation and distribution markets, inflation, the availability of continued access to capital markets and financing on favorable terms, regulatory compliance requirements, changes in levies or taxes and changes in prices or demand for our products as a result of actions of our competitors or economic factors. Those statements are also subject to the risks of costs and anticipated performance capabilities of technology and performance by third parties of their contractual obligations. Should one or more of these risks or uncertainties materialize, actual results may vary materially from those estimated, anticipated or projected. Although we believe that the expectations reflected by such forward looking statements are reasonable based on information currently available, readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Offering Circular, including statements about:

- political and economic conditions in Venezuela;
- EDC's assets, growth and financing plans, as well as those of its affiliates and subsidiaries;
- trends affecting EDC's financial condition or results of operations, as well as those of its affiliates and subsidiaries; and
- the future impact of competition and regulation.

These statements are based upon a number of assumptions and estimates that are subject to uncertainties and contingencies, many of which are beyond EDC's control, including:

- political, economic, regulatory and demographic developments in Venezuela;
- EDC's ability, as well as that of its subsidiaries, to implement its investment programs, including its ability to arrange financing where required;
- EDC's ability to attract new customers in the markets that it currently serves;
- EDC's ability to implement technological improvements in its electricity generation, transmission and distribution operations necessary for it to remain competitive; and
- the nature and extent of future competition in EDC's principal markets and those of EDC's subsidiaries.

These factors should not be construed as exhaustive. We undertake no obligation to publicly release any revision to these forward-looking statements to reflect events or circumstances after the date of this Offering Circular. Such forward-looking statements are principally contained in the "Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and "Selected Financial Information" and include our expectations with respect to our business following the completion of the offering.

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Investors in the Notes should rely only on the information contained in this Offering Circular. EDC has not authorized anyone to provide investors with information that is different. This Offering Circular may only be used where it is legal to sell the Notes. The information contained in this Offering Circular may be accurate only as of the date of this Offering Circular.

## GLOSSARY OF CERTAIN TECHNICAL TERMS

The following contains definitions or explanations of certain technical terms in this Offering Circular.

<b>Term</b>	<b>Meaning</b>
"GWh"	Gigawatt hours. One Gigawatt hour is equal to 1,000 MWh.
"Installed Capacity"	The value assigned to each generating unit that corresponds to the results of capacity tests undertaken by OPSIS (as defined herein) with respect to such generating unit.
"km"	Kilometers.
"km <sup>2</sup> "	Square kilometers.
"kV"	Kilovolts, which, when multiplied by amperes, yield kW.
"kVA"	Kilovolt amperes.
"kW"	One kilowatt, which is equal to 1,000 watts.
"kWh"	Kilowatt hours.
"m <sup>3</sup> "	Cubic meters.
"MVA"	Megavolt amperes.
"MW"	One megawatt, which is equal to 1,000 kW.
"MWh"	Megawatt hours.
"NO <sub>x</sub> "	Nitrogen oxide.

## PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

### General

The financial information presented herein is derived from EDC's bolívar-denominated consolidated financial statements for the periods indicated. EDC's consolidated balance sheets as of December 31, 2007, 2006 and 2005, and the related statements of income, stockholders' equity, and cash flows for each of the three years in the periods ended December 31, 2007, 2006 and 2005 (which have been included in pages F-1 through F-82 of this Offering Circular and are referred to herein as the "Audited Financial Statements") were prepared in Venezuelan bolívares and in accordance with generally accepted accounting principles in Venezuela ("Venezuelan GAAP"). EDC's audited consolidated financial statements as of and for each of the years ended December 31, 2006 and 2005 have been audited by Lara Marambio & Asociados, a member firm of Deloitte Touche Tohmatsu, EDC's independent auditors until June 8, 2007. EDC's audited consolidated financial statements as of and for the year ended December 31, 2007 have been audited by Alcaraz Cabrera Vazquez, a member firm of KPMG International, EDC's independent auditors since September 27, 2007. Except where otherwise indicated, figures presented in this Offering Circular are derived from EDC's consolidated financial statements prepared in constant bolívares as of December 31, 2007 to reflect the purchasing power of the bolívar as of that date. See "Annex A — Principal Differences between U.S. GAAP and Venezuelan GAAP."

EDC's fiscal year commences on January 1 and ends on December 31 of each year.

### Monetary Correction, Effects of Exchange Controls and Devaluation

Venezuela has experienced high rates of inflation in recent years. Venezuelan GAAP requires bolívar-denominated financial statements to be restated to express them in constant currency as of the most recent period end to which such financial statements relate so as to address the distorting impact of inflation on comparisons of balance sheet and income statement items between dates or periods, although applying monetary correction to financial statement items will not eliminate all of the distortions arising from fluctuations in the value of foreign currency assets, liabilities and revenues.

The rate of devaluation of the bolívar in relation to the U.S. dollar has not at all times corresponded directly with the rate of Venezuelan inflation. Distortions in comparisons of financial statement items also arise during periods in which the rate of inflation is different from the rate of devaluation of the bolívar. Accordingly, meaningful comparisons of period-to-period financial performance may be difficult for such periods.

On January 21, 2003, the Ministry of Popular Power for Finance (the "Finance Ministry") and the BCV suspended the free trading and convertibility of foreign currencies in Venezuela. On February 5, 2003, the Venezuelan government and the BCV adopted an exchange control regime. Since that time a series of exchange agreements, decrees and regulations have been established to set the final framework of the above-mentioned regime. Effective January 1, 2008, the currency of Venezuela has been converted to the Bolívar Fuerte, which represents one thousand bolívares. Accordingly, from that date the U.S. dollar exchange rate has been set at Bs. F 2.14=U.S.\$1.00 for purchase operations and Bs. F 2.15=U.S.\$1.00 for sale operations.

The rates of exchange and devaluation for each period are compared in the following table with inflation as measured by the consumer price index for the Caracas metropolitan area ("CPI") used under Venezuelan GAAP for monetary correction to adjust for the effects of inflation.

At Year Ended December 31,	Period-end rate of exchange	Period-average rate of exchange <sup>(1)</sup>	Devaluation <sup>(2)</sup>	CPI
	<i>(bolívares per U.S.\$1.00)</i>		(%)	(%)
2003 <sup>(3)</sup> .....	1,600.00	1,610.49	14.05	27.08
2004 .....	1,920.00	1,886.38	20.00	19.18
2005 .....	2,150.00	2,112.87	11.98	14.35
2006 .....	2,150.00	2,150.00	-	16.96
2007 .....	2,150.00	2,150.00	-	22.45

(1) The period-average exchange rate has been calculated as the average of the monthly selling rates of exchange published by Banco Central de Venezuela during the relevant period.

- (2) As measured against the U.S. dollar.
- (3) Exchange control regime adopted.

Principal and interest on the Notes will be paid in U.S. dollars free and clear of any withholding or deduction for, or on account of, taxes imposed by Venezuela. EDC expects to obtain the U.S. dollars necessary for payment of principal and interests under the Notes through PDVSA, under the rights provided to PDVSA and its subsidiaries pursuant to either *Convenio Cambiario N° 9* ("Exchange Agreement N° 9") between the Venezuelan government and the BCV or *Convenio Cambiario N° 7* ("Exchange Agreement N° 7") between the Venezuelan government and the BCV. Pursuant to article 2 of Exchange Agreement N° 9, PDVSA and its subsidiaries can hold as foreign currency funds abroad, which can currently total U.S.\$2 billion, as approved by the Board of Directors of the BCV. Such funds can be managed without limitation by PDVSA and its subsidiaries to meet the external component of their foreign currency obligations. Pursuant to article 2 of Exchange Agreement N° 7, all public sector entities owned by Venezuela may request foreign currency from the BCV to comply with their foreign currency obligations.

For more information regarding the exchange control regime, see "Risk Factors — Risk Factors Relating to Venezuela — Venezuela's exchange control regime could have a material adverse effect on our results of operations, financial condition and, ultimately, our ability to repay the Notes."

### **Translation Methodology for Dollar Figures**

The U.S. dollar equivalents presented herein have not been translated in accordance with U.S. GAAP. See "Annex A — Principal Differences between U.S. GAAP and Venezuelan GAAP." They were translated for the convenience of readers into U.S. dollars from EDC's bolívar-denominated consolidated financial statements. These translations should not be construed as representations that the bolívar amounts actually represent such U.S. dollar amounts or could have been or could be converted into U.S. dollars at the rates indicated. Except where otherwise specified, U.S. dollar figures in this Offering Circular that are derived from EDC's bolívar-denominated consolidated financial statements have been translated at the BCV selling rate of exchange in effect on December 31, 2007 of Bs. 2,150=U.S.\$1.00. Such translations may result in presentation of U.S. dollar amounts that differ from the amounts that would have been obtained by translating the same financial information in constant bolívares as of another date or at the then-prevailing exchange rate.

For more information regarding the effect of currency devaluations on EDC's financial statements, see "Risk Factors — Risk Factors Relating to Venezuela."

## SUMMARY

*The following information does not purport to be complete and is qualified in its entirety by the detailed information appearing elsewhere in this Offering Circular, including, without limitation, the section entitled "Risk Factors" and the Audited Financial Statements and the related notes thereto. Certain terms used in this Offering Circular have the meanings ascribed to them in the "Glossary of Certain Technical Terms" contained herein.*

### **The Issuer**

C.A. La Electricidad de Caracas, a corporation (*compañía anónima*) organized under the laws of Venezuela, was founded in 1895 and is one of the oldest electricity utilities in Latin America and one of the largest electricity utilities in Venezuela based on its Installed Capacity and number of users. The principal business of EDC is that of a vertically integrated electric utility company which generates, transmits and distributes electricity in Venezuela, primarily in the metropolitan area of Caracas and its surrounding areas.

From the year 2000 until May 2007, EDC was a majority owned subsidiary of The AES Corporation. In January 2007, Venezuelan President Hugo Chávez announced a plan to nationalize various areas of the economy including the electricity sector. In February 2007, Petróleos de Venezuela, S.A. ("PDVSA"), an entity wholly-owned by the Bolivarian Republic of Venezuela, agreed to purchase The AES Corporation's 82% interest in EDC pursuant to a tender offer open to all holders of EDC's common stock, and in May 2007 The AES Corporation tendered its 82% interest in EDC to PDVSA. As of December 2007 the Bolivarian Republic of Venezuela, through PDVSA, controlled an approximately 93.62% interest in EDC. See "—EDC's Controlling Shareholder" and "—Ownership and Corporate Structure."

EDC is a vertically integrated company that directly owns and operates generation, transmission and distribution assets for its regulated electricity business in Venezuela. EDC also indirectly owns regulated electricity businesses, as well as an independent power plant, telecommunications businesses and certain ancillary businesses. See "—Ownership and Corporate Structure."

EDC had total consolidated assets of approximately Bs.6.06 trillion (approximately U.S.\$2.82 billion) at December 31, 2007. For the year ended December 31, 2007, EDC had total operating revenues of approximately Bs.1.67 trillion (approximately U.S.\$777.78 million), consisting of sales of electricity of approximately Bs.1.59 trillion (approximately U.S.\$738.31 million) and other sales of services rendered of approximately Bs.84.88 billion (approximately U.S.\$39.47 million). EDC's operating expenses for the same period were approximately Bs.1.62 trillion (approximately U.S.\$753.33 million), which includes Bs. 0.32 trillion (approximately U.S.\$149.42 million) of general and administrative expenses, with net income for 2007 amounting to approximately Bs.99.88 billion (approximately U.S.\$46.46 million). EDC had outstanding total debt of approximately Bs.564.08 billion (approximately U.S.\$262.36 million) at December 31, 2007.

### ***EDC's Regulated Electricity Business***

EDC serves its regulated electricity business directly as an operating company and indirectly through its subsidiary C.A. Luz Eléctrica del Yaracuy ("CALEY"). At December 31, 2007, EDC's regulated electricity business had an Installed Capacity of 2,316 MW, comprising 17 generating units. EDC's regulated electricity business' aggregate generating capacity represented approximately 9.57% of the total Installed Capacity of the Venezuelan electricity system at December 31, 2007. At December 31, 2007, EDC estimates that it provided electricity services to approximately 20.00% of Venezuela's total population and 23.70% of Venezuela's total customers through the public electricity distribution system.

Gross electricity generation from units owned by EDC (net of electricity used for its own operations but before technical and non-technical losses), for the years ended December 31, 2007, 2006, and 2005 was 11,407 GWh, 10,405 GWh, and 10,160 GWh, respectively. As of December 31, 2007, EDC's regulated electricity business had 29 substations and 2,353 km of installed high voltage transmission lines, consisting of 388 km of 230 kV lines, 1,464 km of 69 kV lines and 501 km of 30 kV lines, as well as 117 substations and 6,674 km of installed low voltage transmission lines, consisting of 5,053 km of 12.47 kV lines, 224 km of 8.3 kV lines and 1,367 km of 4.8 kV lines.

EDC's regulated electricity business distributed electricity over an aggregate area of 5,176 square kilometers to a total of 1,153,833 customers at December 31, 2007. Its total sales of electricity (from its own generation plus purchases from state-owned companies, primarily CVG — *Electrificación del Caroní, C.A.* ("EDELCA")), for the years ended December 31, 2007, 2006 and 2005 were 11,749 GWh, 11,392 GWh and 10,525 GWh, respectively.

On December 31, 2001, the National Assembly enacted the *Ley Orgánica del Servicio Eléctrico* (the "Electric Service Law"), which, as amended, forms the basis for the regulatory framework applicable to the electricity sector in Venezuela.

In 2004, EDC's former subsidiaries C.A. Luz Eléctrica de Venezuela ("CALEV") and Electricidad de Guarenas y Guatire ("ELEGGUA") were merged into EDC to comply with the then applicable requirements of the Electric Service Law. As a result of the merger, EDC assumed all assets and liabilities of CALEV and ELEGGUA, which assets and liabilities are part of EDC's regulated electricity business. See "Business—EDC 2004 Corporate Reorganization."

On May 2, 2007, President Chávez, based on a Law enacted by the National Assembly granting legislative powers to the Executive branch, issued Decree N° 5,330, with force of organic law, to reorganize the electricity sector. Decree N° 5,330 provides for the establishment of the *Corporación Eléctrica Nacional* ("CEN"), a state-owned *compañía anónima*, that will become the state owned enterprise engaged in operating the electricity sector, including the generation, transmission, distribution and retail of electric power and energy. Pursuant to Decree N° 5,330, 75% of the shares of CEN will be owned by the Bolivarian Republic of Venezuela, and 25% will be owned by PDVSA. Under Decree N° 5,330, PDVSA's shares in EDC are required to be transferred to CEN. As a result, EDC temporarily will become a subsidiary of CEN because pursuant to Decree N° 5,330, all subsidiaries of CEN shall be merged into CEN on or before May 2, 2010, the date three years after issuance of Decree N° 5,330. Until EDC is merged into CEN, EDC expects to continue performing its current electricity services. In addition, EDC intends to operate and maintain electricity generation and distribution facilities in the States of Aragua, Miranda and Nueva Esparta, in accordance with Resolution N° 190 of October 8, 2007, issued by the Ministry of the Popular Power for Energy and Petroleum (the "Energy Ministry"). See "The Electricity Industry in Venezuela — Regulation and Regulatory Control."

### ***GENEVAPCA***

*Generación de Vapor GENEVAPCA, C.A.* ("GENEVAPCA") is a wholly owned subsidiary of EDC. GENEVAPCA's principal business is to provide electricity and steam to PDVSA Petróleo, S.A. ("PDVSA Petróleo"), a subsidiary of PDVSA, under a take-or-pay contract. Under the terms of the take-or-pay contract, PDVSA Petróleo must purchase a minimum amount of electricity and steam from GENEVAPCA at specified U.S. dollar prices, payable in bolívares. GENEVAPCA also provides electricity and steam to one other small purchaser and electricity to *Compañía Anónima de Administración y Fomento Eléctrico* ("CADAFE"). GENEVAPCA has three single combustion turbines with an Installed Capacity of approximately 100 MW each and four boilers with an Installed Capacity of 50 metric tons each. For the year ended December 31, 2007, GENEVAPCA sold 1,741 GWh of electricity and 1,149,238 metric tons of steam. For more information regarding GENEVAPCA and the take-or-pay contract with PDVSA Petróleo, see "Business — GENEVAPCA" and "Business — Related Party Transactions."

### ***Other Businesses***

EDC's other businesses include companies involved in providing telecommunications and payment collection services on behalf of third parties, such as waste management and municipal tax authorities.

### **Strategy**

EDC's strategy is to continue to be a strategic investment of the Bolivarian Republic of Venezuela by consolidating its position as a key participant in the electricity sector in Venezuela, focusing on achieving operational, financial and strategic excellence, and providing safe and reliable electricity services to meet the electricity needs of the Venezuelan population. EDC's strategy is part of Venezuela's national economic and social development plan for the period from 2007 to 2013.

EDC expects to implement its strategy by keeping a strong operational and financial performance in its service areas, reinforcing a culture of efficiency and human and social commitment aimed at providing safe and reliable electricity services and ensuring a successful integration process toward the creation of the CEN.

EDC's key strategic milestones for the coming years include:

- maintaining and enhancing its position as an efficient cash generator in order to undertake any necessary investments to achieve operational excellence and allow low-income communities to have access to electricity at affordable prices;
- increasing the capacity and efficiency of its generating activities;
- leveraging on bilateral trade agreements between the Bolivarian Republic of Venezuela and other nations to finance EDC's capital expenditures, including the Venezuela-China agreement;
- promoting the use of alternative energy sources;
- reducing electricity losses; and
- introducing new and important behavioral changes in EDC's personnel to establish a culture of efficiency and human and social commitment towards fulfillment of the company's strategic objectives.

### **Competitive Strengths**

EDC believes that the following competitive strengths will enable it to continue to operate efficiently and provide it with the platform from which to achieve its strategic objectives:

- strategic public utility for the success of Venezuela's national economic and social development plan;
- proven track record of operational efficiency in generation, transmission, distribution and retail of electricity;
- experienced management and high degree of commitment from its employees;
- access to a diverse universe of domestic and international lenders and investors;
- up-to-date infrastructure, technology and system platforms; and
- low level of electricity losses.

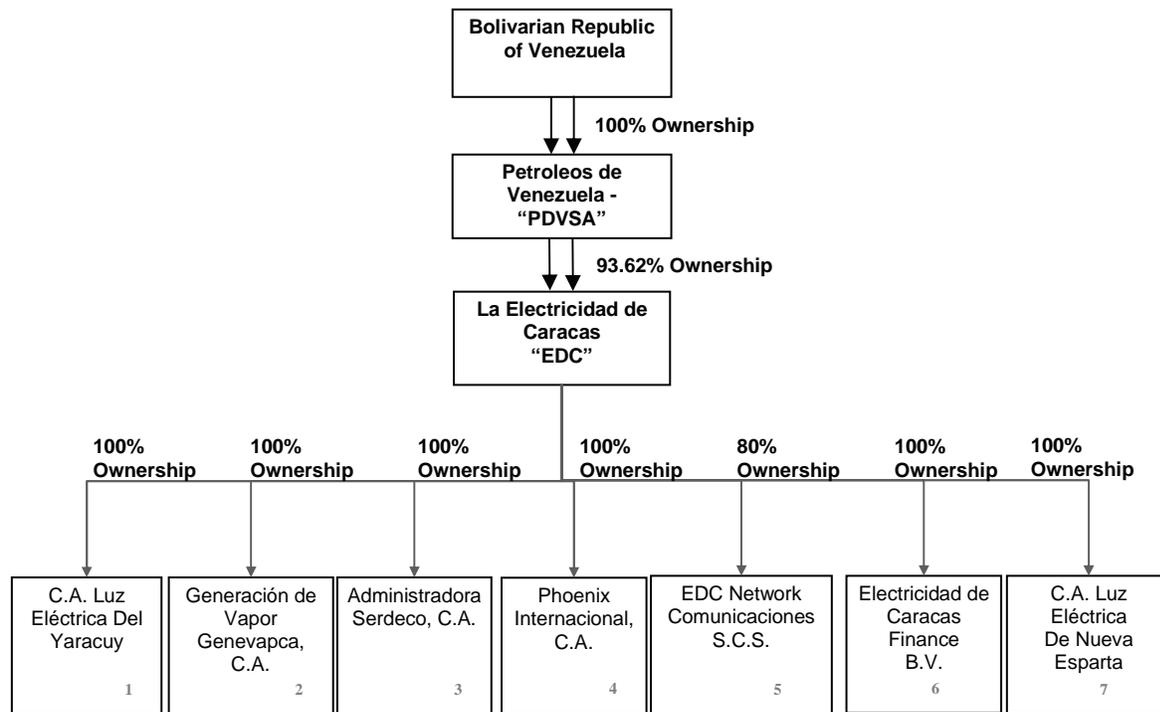
### **EDC's Controlling Shareholder**

As of December 31, 2007, the Bolivarian Republic of Venezuela, through PDVSA, controlled an approximately 93.62% interest in EDC. For more information on the Bolivarian Republic of Venezuela and its indirect ownership interest in EDC through PDVSA, see "Principal Shareholders."

Neither the Bolivarian Republic of Venezuela nor PDVSA has any obligation under the Notes, or is providing any guaranty relating to our obligations under the Notes.

### **Ownership and Corporate Structure**

EDC is an operating company and also conducts some of its business through subsidiaries. As of December 31, 2007, EDC's regulated electricity business and GENEVAPCA generated approximately 94.9% of EDC's revenues. The following diagram sets forth the ownership and corporate structure of EDC and its subsidiaries as of December 31, 2007.



1. C.A. Luz Eléctrica del Yaracuy: vertically integrated company that transmits, distributes and commercializes electricity to the Municipalities of the State of Yaracuy.
2. Generación de Vapor GENEVAPCA, C.A.: independent power producer formed to design, construct, operate, sell, lease, maintain and administrate energy generating facilities within Venezuela.
3. Administradora Serdeco, C.A.: entity formed to provide billing services and perform any actions related to, incidental to or in connection with such billing services.
4. Phoenix Internacional, C.A.: entity formed to provide marketing services and to sell and supply unfinished products to the oil industry and the operations systems of water treatment plants, filtration and injection of water and other liquids, generation and injection of steam for the secondary or tertiary recovery of hydrocarbons.
5. EDC Network Comunicaciones, S.C.S.: entity formed to establish and exploit telecommunication networks as permitted by applicable law; including as a carrier between points of presence of telecommunications operators located in Venezuela.
6. Electricidad de Caracas Finance B.V.: entity formed in connection with the issuance of the EDC Finance Notes.
7. C.A. Luz Eléctrica de Nueva Esparta: entity formed to generate, transport, distribute and sell electricity.

### Social Development

The Venezuelan National Constitution and the Electric Service Law mandate EDC to contribute manpower and financial resources to social programs developed and administered by the Venezuelan government. These social programs, such as *"Mesas Eléctricas"* and *"Misión Revolución Energética,"* are intended to educate our customers on the importance of efficient use of electricity and to enhance their quality of life. We intend to make valuable contributions to these social programs, promoting and participating in the Venezuelan social and economic development.

### EDC Finance Offer to Purchase and Consent Solicitation

On March 7, 2008, EDC Finance commenced the Offer and Consent Solicitation. The closing of the Offer and Consent Solicitation is conditioned, among others, to the Financing Condition and the Majority Tender Condition. The closing of this offering, in turn, is conditioned upon the satisfaction or waiver of the closing

conditions of the Offer and Consent Solicitation. As of March 28, 2008, EDC Finance had received valid irrevocable tenders and consents from approximately 94% in aggregate principal amount of the outstanding EDC Finance Notes pursuant to the Offer and Consent Solicitation. See "Risk Factors — The closing of this offering is conditioned upon the satisfaction or waiver of the closing conditions of the Offer and Consent Solicitation," "Use of Proceeds" and "Managements Discussion and Analysis of Financial Condition and Results of Operations—Indebtedness—EDC Finance Notes."

## THE OFFERING

For a more detailed description of the terms of the Notes, see "Description of the Notes."

Issuer .....	C.A. La Electricidad de Caracas.
Securities Offered .....	U.S.\$650,000,000 aggregate principal amount of 8.50% Notes due 2018.
Issue Price.....	105% of the aggregate principal amount.
Maturity .....	April 10, 2018.
Interest Rate.....	The Notes will bear interest at a rate of 8.50% per annum from April 10, 2008 based upon a 360-day year consisting of twelve 30-day months.
Interest Payment Dates .....	Interest on the Notes will be payable semi-annually on April 10 and October 10 of each year, commencing on October 10, 2008.
Ranking.....	The Notes will be senior obligations of EDC, ranking <i>pari passu</i> in right of payment with all our other existing and future unsubordinated obligations (other than obligations preferred by statute or operation of law) and senior in right of payment to all our existing and future obligations expressly subordinated in right of payment to the Notes.
Use of Proceeds .....	The gross proceeds from the sale of the Notes will be used by EDC (i) to fund the repurchase by EDC Finance of any and all of its 10.25% Notes due 2014 pursuant to the Offer and Consent Solicitation and (ii) for general corporate purposes. See "Use of Proceeds."
Payment of Additional Amounts ....	All payments made in respect of the Notes will be made free and clear of, and without withholding or deduction for or on account of, any present or future Venezuelan taxes, unless such withholding or deduction is required by law. Subject to certain exceptions, in the event of any such withholding or deduction EDC will pay such additional amounts ("Additional Amounts") as may be necessary so that the net amount received by each holder after such withholding or deduction would not be less than the amount such holder would have received absent the withholding or deduction. See "Description of the Notes—Additional Amounts."
Optional Redemption.....	<p>The Notes may be redeemed at any time and from time to time in whole or in part, at the option of EDC, by paying the principal amount thereof and a "make-whole" amount, if applicable, plus in each case accrued interest and Additional Amounts, if any, as described under "Description of the Notes — Redemption — Optional Redemption."</p> <p>The Notes may also be redeemed as a whole but not in part at 100% of the outstanding principal amount thereof, plus accrued and unpaid interest and Additional Amounts, if any, in the event of specific changes affecting the taxation of the Notes. See "Description of the Notes — Redemption — Optional Redemption."</p>
Form and Denomination.....	The Notes will be issued in the form of one or more global notes in registered form without coupons (the "Global Notes") and in denominations of U.S.\$1,000 and in integral multiples of U.S.\$1,000 in excess thereof.
Listing .....	Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trade them on the Euro MTF Market of such exchange.

Transfer Restrictions.....	The Notes have not been, and will not be, registered under the U.S. Securities Act or under any state securities laws and are subject to certain restrictions on transfer and resale. There is currently no market for the Notes and there can be no assurance as to the development or liquidity of a market for the Notes. See "Transfer Restrictions."
Governing Law .....	New York.
Trustee, Transfer Agent and Registrar.....	The Bank of New York.
Risk Factors .....	For a discussion of certain considerations relevant to an investment in the Notes, see "Risk Factors."

## SUMMARY FINANCIAL DATA

The following consolidated balance sheet data as of December 31, 2007, 2006 and 2005, and the consolidated income statement data for each of the three years ended December 31, 2007, 2006 and 2005 are derived from EDC's Audited Financial Statements included in this Offering Circular. Except where otherwise indicated, all the figures presented below have been expressed in constant bolívares as of December 31, 2007 to reflect the purchasing power of the bolívar as of that date. Except where otherwise indicated, the figures presented in U.S. dollars below have been translated for the convenience of the reader at the bolívar/U.S. dollar exchange rate in effect as of December 31, 2007 of Bs. 2,150 = U.S.\$1.00. EDC's Audited Financial Statements are prepared in accordance with Venezuelan GAAP, which differs in certain respects from U.S. GAAP. For information concerning the differences between U.S. GAAP and Venezuelan GAAP, see "Annex A — Principal Differences Between U.S. GAAP and Venezuelan GAAP." For information as to the manner in which financial information is presented in this Offering Circular, see "Presentation of Certain Financial and Other Information."

	<b>At or for the Year Ended December 31</b>			
	<b>2007</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>(in millions of U.S.\$, except for ratios)</i>	<i>(in millions of constant bolívares, except for ratios)</i>		
<b>Consolidated Balance Sheet Data</b>				
Cash and cash equivalents .....	141.5	304,288	502,154	439,404
Restricted cash .....	-	-	-	124,368
Current assets .....	317.1	681,705	981,035	984,369
Total assets .....	2,819.2	6,061,373	6,431,625	6,765,059
Short-term debt .....	4.5	9,580	110,023	243,323
Long-term debt .....	257.9	554,499	686,501	961,924
Total debt .....	262.4	564,079	796,524	1,205,247
Total liabilities .....	661.9	1,423,137	1,586,399	1,968,668
Total stockholders' equity .....	2,155.1	4,633,397	4,841,601	4,793,434
<b>Consolidated Income Statement Data</b>				
Total operating revenues .....	777.8	1,672,244	1,912,808	1,949,522
Operating income .....	24.5	52,595	374,237	406,205
Interest expense, net .....	39.0	83,798	90,173	168,183
EBITDA <sup>(1)</sup> .....	255.3	548,849	903,257	962,619
<b>Ratios and Other Data:</b>				
CAPEX .....	160.4	344,793	242,570	189,939
EBITDA / Interest expense, net .....	6.6	6.6	10.0	5.7
Debt / EBITDA .....	1.0	1.0	0.9	1.3
(EBITDA-CAPEX) / Interest expense, net....	2.4	2.4	7.3	4.6

(1) EDC presents EBITDA (earnings before interest, taxes, depreciation and amortization) as a supplemental measure of performance because it believes that EBITDA provides a more thorough understanding of EDC's operating performance before the impact of investing and financing transactions. EBITDA is among the more significant factors in management's evaluation of company-wide performance. EBITDA can be computed by adding depreciation and amortization (included in operating expenses) to operating income (loss). EBITDA should not be considered as an alternative to any measure of operating results as promulgated under Venezuelan GAAP or U.S. GAAP such as operating income or net income, nor should it be considered as an indicator of EDC's overall financial performance. EBITDA does not fully consider the impact of investing or financing transactions as it specifically excludes depreciation and interest charges, which should also be considered in the overall evaluation of results. Moreover, EDC's method for calculating EBITDA may differ from the method utilized by other companies and therefore comparability may be limited.

## **RISK FACTORS**

*Before making any investment decision, prospective purchasers of the Notes should carefully read this Offering Circular and should consider carefully, in light of their own financial circumstances and investment objectives, all of the information set forth in this Offering Circular and, in particular, certain matters relating to EDC and other matters associated with investments in securities of issuers in countries that do not have highly developed capital markets, including, without limitation, the risk factors set forth below. Additional risks not presently known to EDC or that EDC currently deems immaterial may also impair the business and operations of EDC.*

*EDC's business, financial condition, results of operations and ability to satisfy its obligations under the Notes, including EDC's obligation to repay the Notes, could be materially adversely affected by any of these risks. The trading price of the Notes could decline due to these risks.*

### **Risks Factors Relating to Venezuela**

*The Venezuelan government has exercised and continues to exercise significant influence over the Venezuelan economy; Venezuelan political and economic conditions have a direct impact on our business.*

The Venezuelan government frequently intervenes in the Venezuelan economy and occasionally makes significant changes in policy. Recently, the Venezuelan government's actions to control inflation and implement other policies have involved wage and price controls, currency devaluations, currency exchange controls and limits on imports, among other things. Our business, financial condition and results of operations may be adversely affected by changes in policy involving tariffs, exchange controls and other matters, as well as factors such as:

- currency devaluation;
- inflation;
- interest rates;
- changes in Government leadership or Government policy;
- taxation;
- changes in the Electric Service Law and the regulatory framework for the electricity industry; and
- other political or economic developments in or affecting Venezuela.

*In prior years, events in Venezuela produced significant social and political tensions, which could worsen and have a material adverse effect on Venezuela's economy as well as on our business.*

Between 2001 and 2004, Venezuela experienced intense political and social turmoil involving groups that opposed and those that supported the administration of President Chávez. Although the political scene remains divided, President Chávez won the December 2006 presidential elections with 63% of the popular vote and controls all of the seats in the Venezuelan National Assembly, as well as most state governments. Between December 2001 and February 2003, the opposition staged four nationwide work stoppages to protest against the Chávez administration, the last of which began on December 2, 2002 and ended on February 3, 2003. There can be no assurance that the significant domestic instability evident during 2002 through 2004 will not reemerge. Such instability could have a material adverse effect on Venezuela's economic growth, our business and results of operations, and as a result our ability to service our obligations under the Notes.

On January 31, 2007, the Venezuelan National Assembly passed an enabling law ("Enabling Law"), granting President Chávez the power to govern by decree with the force of law for 18 months on several areas. The Enabling Law specifically includes decree power of the President over the energy sector under the supervision of the Energy Ministry.

On August 15, 2007, President Chávez submitted to the Venezuelan National Assembly a proposal to amend certain provisions in a number of articles of the 1999 Venezuelan Constitution in accordance with procedures contained therein. In addition to the proposed amendments to the 1999 Venezuelan Constitution submitted by President Chávez, members of the Venezuelan National Assembly proposed additional changes, which proposals were approved by the Venezuelan National Assembly. On November 2, 2007, the National Electoral Council called for a constitutional referendum to decide on whether to approve or disapprove of the proposed amendments. The constitutional referendum to amend 69 articles of the 1999 Venezuelan Constitution was held on December 2, 2007. The referendum was narrowly defeated with 50.70% voting against the referendum.

On March 2, 2008, President Chávez announced a movement of troops towards Venezuela's border with Colombia and on March 3, 2008 announced the suspension of diplomatic relations with Colombia as a result of the incursion by the Colombian military into Ecuador and the killing by Colombian military forces of certain members of the *Fuerzas Armadas Revolucionarias de Colombia* - FARC, including one of its leaders. During 2007, Colombia was among Venezuela's largest trading partners. On March 7, 2008, the governments of Venezuela, Colombia and Ecuador announced a resolution of their political disputes and restitution of normal diplomatic and trade relations as part of a diplomatic mission led by the Organization of American States. Any similar or new political disputes between Venezuela and Colombia could have adverse consequences on the Venezuelan economy.

Venezuela's regional elections for mayors and governors of all cities and states are scheduled to take place on November 23, 2008. The results of Venezuela's regional elections may have an impact on Venezuela's future political agenda and result on the resurgence of Venezuela's internal political tensions.

There can be no assurance that the domestic political tensions that existed during the periods between 2001 to 2004 will not reemerge. Such tensions could have a material adverse effect on Venezuela's economic growth, or business and result of operations, and as a result on our ability to service our obligations under the Notes.

***As a regulated utility operating in Venezuela, our results in large part depend on the state of the Venezuelan economy; contraction of the Venezuelan economy could adversely affect our business, financial condition and results of operations.***

Demand for electricity in Venezuela and our results of operations and financial condition have been affected by the state of Venezuela's economy.

GDP:

- increased by 10.3% in 2005;
- increased by 10.3% in 2006; and
- increased by 11.4% in 2007.

Periods of economic contraction in the future may have material adverse effects on the Venezuelan electricity industry and electricity demand in Venezuela and, consequently, on our business, financial condition and results of operations. We cannot assure investors that economic conditions in Venezuela will improve or that future economic conditions will not have a negative impact on the demand for our services or our results of operations and financial condition.

***The Venezuelan economy is dependent on its oil industry; a reduction in oil revenues could adversely affect our business, financial condition and results of operations.***

The oil industry is central to and dominates the Venezuelan economy. From 2002 through 2006, petroleum products accounted for an average of approximately 84.1% of Venezuela's total exports. During the same period, petroleum revenues accounted for an average of approximately 49.0% of Venezuela's total central government revenues and the petroleum sector accounted for an average of approximately 16.7% of GDP. In 2007, petroleum activities accounted for approximately 12.2% of GDP, compared to approximately 13.8% in 2006.

Venezuela, a member of OPEC, is the world's ninth-largest oil producer and fifth-largest oil exporter. The structure of the Venezuelan fiscal system has been highly dependent on petroleum revenues. From 2004 through 2007, petroleum products accounted for an average of approximately 89.6% of Venezuela's total exports. During the same period, petroleum revenues accounted for an average of approximately 47.5% of Venezuela's total central government revenues and the petroleum sector accounted for an average of approximately 12.9% of GDP. The average petroleum export price for the Venezuelan basket in 2007 was U.S.\$65.2 per barrel, compared to U.S.\$56.4 per barrel for 2006. There can be no assurance that the Venezuelan government revenues from petroleum activities will not experience fluctuations as a result of changes in the international petroleum market. Any sustained decline in international petroleum prices could adversely affect the Venezuelan government's fiscal accounts and international reserves. Additionally, Venezuelan petroleum production capacity may decrease if the necessary capital expenditures are not allocated to this sector.

We cannot assure that there could not be any downturn in international oil prices, including the prices of petroleum products in the Venezuelan basket, or that a future decrease in production or production capacity may occur, and such situations may have a material adverse effect on the Venezuelan economy, which could affect our financial condition and results of operations and, ultimately our ability to repay the Notes.

***Inflation, along with governmental measures to combat inflation, have had significant negative effects on the Venezuelan economy and, as a result, on our operations.***

Venezuela has experienced relatively high levels of inflation during much of the past two decades, despite the presence of price controls on many core goods during certain periods. The general rate of inflation as measured by the consumer price index for the metropolitan area of Caracas, or CPI, was approximately 27.1% in 2003, 19.2% in 2004, 14.4% in 2005, 17.0% in 2006 and 22.5% in 2007. The general rate of inflation as measured by the wholesale price index was approximately 53.1% in 2003, 30.0% in 2004, 16.9% in 2005, 16.9% in 2006 and 20.1% in 2007. We cannot assure you that inflation will not continue at or increase from its current level. Future governmental actions, including actions to adjust the value of the Bolívar, may trigger increases in inflation.

Venezuela's electricity tariff regime takes into account semi-annual adjustments for changes in inflation and the U.S. dollar/bolívar exchange rate and provides for monthly adjustments to compensate for fluctuations in the price of fuel and electricity purchased. However, on various occasions in the past, the Venezuelan government has not permitted us to adjust our tariffs to reflect devaluation and inflation. The failure by the Venezuelan government in future periods to allow us to adjust our tariffs to offset the effects of devaluation, inflation, a reduction of current tariffs or our inability to fully recover in our tariffs such increased costs due to devaluation, inflation or increased fuel costs, could have a material adverse effect on our financial condition, results of operations, business prospects and, ultimately, our ability to repay the Notes. In addition, the tariff review and setting process in Venezuela is subject to political uncertainty, and no assurance can be given as to the outcome of the process or whether it will result in an acceptable rate of return for us. See "The Electricity Industry in Venezuela — Economic Remuneration of Electric Service Law."

***Currency devaluations may adversely affect our results of operations and financial condition.***

Our revenues are denominated in Bolívares Fuertes, while a large part of our capital expenditures and liabilities has been, and is expected to continue to be, denominated in U.S. dollars. Reductions in the value of the Bolívar Fuerte against the U.S. dollar and other foreign currencies have significantly affected our financial condition and results of operations in the past and may continue to do so in the future.

Over long periods devaluations of the bolívar generally have correlated with the rate of inflation in Venezuela and the amount of foreign reserves held by the BCV. However, over shorter periods Venezuelan government actions, such as the imposition of exchange controls and the setting of official foreign currency exchange rates in connection therewith, have resulted in lack of correlation between the rate of inflation in Venezuela and the exchange rate between the bolívar and the U.S. dollar.

In February 2003 the Venezuelan government imposed an exchange control regime that eliminated the floating exchange rate system and imposed controls on the convertibility of bolívares into U.S. dollars. For more information regarding the currency exchange regime in Venezuela, see "— Venezuela's exchange control regime

could have a material adverse effect on our results of operations, financial condition and, ultimately, our ability to repay the Notes."

Future devaluations of the Bolívar Fuerte may create inflationary pressures and have other adverse effects on Venezuela's economy, which could further adversely affect the demand for our services in Venezuela, our results of operations and, ultimately, our ability to satisfy our obligations in respect of the Notes. In addition, devaluations of the Bolívar Fuerte could adversely affect our financial position and, consequently, our ability to comply with financial covenants contained in certain of the agreements and other instruments of indebtedness to which we are a party. For more information regarding risks associated with these financial covenants, see "— our credit agreements and other instruments of indebtedness contain covenants, financial tests and cross default provisions which could result in the acceleration of our indebtedness."

We continually review opportunities to minimize our exposure to fluctuations in the value of the Bolívar Fuerte and foreign currencies. To that end, we have in the past entered in the past into hedging transactions designed to mitigate our risks associated with fluctuations in the values of the bolívar, U.S. dollar and Euro. We currently do not have any hedging transaction in place. Any hedging transactions we may enter into in the future could, however, have a negative effect on our financial position, results of operations and, ultimately, our ability to repay the Notes.

***Venezuela's exchange control regime could have a material adverse effect on our results of operations, financial condition and, ultimately, our ability to repay the Notes.***

On January 21, 2003, the Venezuelan government suspended the trading of foreign currencies in Venezuela. On February 5, 2003, the Venezuelan government and the BCV adopted a series of exchange agreements, decrees and regulations establishing a new exchange control regime. A newly created commission, referred to as the *Comisión de Administración de Divisas* ("CADIVI"), was created for the administration, control and establishment of the new exchange control regime. CADIVI is composed of five members who are appointed by the President of Venezuela.

The exchange control regime centralized the purchase and sale of foreign currencies in the BCV. The Finance Ministry, together with the BCV, is in charge of setting the exchange rate with respect to the U.S. dollar and other currencies. The Finance Ministry, together with the BCV, also has the authority to decide at any time to modify the existing exchange control regime or permit the bolívar to float freely. Effective January 1, 2008, the Finance Ministry and the BCV fixed the U.S. dollar exchange rate at Bs. F2.14 = U.S.\$1.00 for purchase operations and Bs. F2.15 = U.S.\$1.00 for sale operations. For more information regarding the effects of the devaluation of the bolívar on our consolidated financial statements, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview of Factors Impacting EDC's Business — Exchange Controls."

Under the current exchange control regime, entities that incur or maintain indebtedness denominated in foreign currencies and wish to obtain U.S. dollars from the BCV to pay principal, interest and other amounts in respect of such indebtedness must obtain an approval from, and have the indebtedness registered with, CADIVI. In addition to the foregoing approval, such entities must obtain from CADIVI a separate approval for the purchase from the BCV of foreign currency necessary to make payments under their registered indebtedness. These approvals may only be obtained at or around the time each payment becomes due under such indebtedness. Pursuant to the exchange control regulations, the granting by CADIVI of approval for the purchase or sale of foreign currency from the BCV is subject to availability of such foreign currency to the BCV at the time of such request, and any foreign currency obtained may only be utilized for the purposes previously approved by CADIVI. Delays in such approvals might prevent the relevant entities from being able to purchase foreign currency from the BCV in a timely manner in certain cases. Consequently, such relevant entities may be late in paying amounts in respect of certain of their foreign currency indebtedness on the applicable due dates.

No assurance can be given that CADIVI will issue such approvals with respect to amounts due under indebtedness denominated in foreign currencies or that such approvals will be obtained prior to the dates on which such amounts are due and payable.

We expect to obtain the U.S. dollars necessary for payment of principal and interests under the Notes through PDVSA, under the rights provided to PDVSA and its subsidiaries pursuant to either Exchange Agreement

N° 9 between the Venezuelan government and the BCV or Exchange Agreement N° 7 between the Venezuelan government and the BCV. Pursuant to article 2 of Exchange Agreement N° 9, PDVSA and its subsidiaries can hold as foreign currency funds abroad, which can currently reach up to U.S.\$2 billion, as approved by the Board of Directors of the BCV. Such funds can be managed without limitation by PDVSA and its subsidiaries, to meet the external component of their foreign currency obligations. Pursuant to article 2 of Exchange Agreement N° 7, all public sector entities owned by the Bolivarian Republic of Venezuela may request foreign currency from the BCV to comply with their foreign currency obligations.

As a result of the implementation of Decree N° 5,330, EDC temporarily will become a subsidiary of CEN, and all subsidiaries of CEN shall be merged into CEN on or before May 2, 2010, the date three years after issuance of Decree N° 5,330. Upon EDC becoming a subsidiary of CEN, and later being merged into CEN, the necessary foreign currency to comply with payment of interest, principal and other obligations under the Notes is expected to be obtained directly from the BCV pursuant to article 2 of Exchange Agreement No. 7.

Therefore, we are currently not required and do not expect CEN to be required to (i) register the issuance of the Notes or any other foreign denominated indebtedness with CADIVI, or (ii) obtain from CADIVI a separate approval for the purchase from the BCV of foreign currency necessary to make payments under the Notes and/or other indebtedness.

We cannot assure you, however, that we or the CEN will not be subject to CADIVI's prior registrations, approvals and/or any other similar exchange controls in the future.

***Severe weather conditions in Venezuela may adversely affect the Venezuelan economy and/or EDC's financial condition and results of operations.***

Periods of unfavorable hydrological conditions affect the availability of substitute electricity that may be purchased from EDELCA at reduced prices and, in some cases, may temporarily render the generation of electricity from hydroelectric sources unavailable. Beginning in the second half of 2001 through 2003, Venezuela experienced unfavorable hydrological conditions. As a result, the Venezuelan government announced that substitute electricity from hydroelectric sources would no longer be available to generation companies. An estimated two-thirds of total generation of electricity in Venezuela during 2003 was produced by hydroelectric plants. Because of Venezuela's dependence on hydroelectric electricity, Venezuela's economy and EDC's ability to meet demand would be adversely affected if hydroelectric energy could not be generated.

There can be no assurance that EDC's operations and revenues will not be similarly affected by severe weather conditions in the future.

**Risk Factors Relating to us**

***The body of law that governs Venezuela's electricity sector is being reformed and uncertainties exist as to its development.***

On December 31, 2001, the Venezuelan National Assembly enacted the Electric Service Law, which superseded and replaced a prior law-decree dated September 17, 1999. The Electric Service Law is the basis for the regulatory framework applicable to the electricity sector in Venezuela.

On May 2, 2007, President Chávez, based on a Law enacted by the Venezuelan National Assembly granting legislative powers to the executive branch, issued Decree N° 5,330, with the force of organic law, to reorganize the electricity sector. Decree N° 5,330 provides that it will prevail in case of any conflict with the provisions of the Electric Service Law. Decree N° 5,330 provides, among other things, for the redistribution of functions among the participants in the Venezuelan electricity sector and the creation of a state owned enterprise engaged in operating the electricity sector, including the generation, transmission, distribution and retail of electric power and energy. In addition, on October 8, 2007, the Energy Ministry issued Resolution N° 190 which, among other things, established the operating regions and allocated such regions to each of the participants in the Venezuelan electricity sector. We intend to operate and maintain electricity generation and distribution facilities in the States of Aragua, Miranda and Nueva Esparta, in accordance with Resolution N° 190.

The body of law that governs Venezuela's electricity sector is being reformed and uncertainties exist as to its development and its impact on our business, financial condition and results of operations. See "The Electricity Industry in Venezuela — Regulation and Regulatory Control" for a more complete discussion of the Electric Service Law and the reorganization of the Venezuelan electricity sector.

***The regulations that govern the calculation of tariffs for the electricity we sell in Venezuela have been reformed.***

On January 28, 1999, the responsible Ministries issued a joint resolution (the "1999 Joint Resolution"), providing for a tariff regime applicable for 1999 through 2002. The 1999 Joint Resolution superseded and replaced prior resolutions governing tariffs, with certain exceptions. The 1999 Resolution contemplated:

- annual tariff increases,
- semi-annual adjustments to reflect inflation and exchange rate fluctuations ("FAP Adjustments"), and
- monthly adjustments based on the price of combustible fuel used to generate electricity and purchased electricity ("CACE Adjustments").

On December 29, 2000, the responsible Ministries issued a new joint resolution (the "2000 Joint Resolution"), which called for adjustments of the basic tariffs applicable for 2001 and 2002 on the basis of revised macroeconomic assumptions. In April 2002, the responsible Ministries published a joint resolution which provided for new rates to be applied in the remaining months of 2002 (the "2002 Resolution"). The Energy Ministry has not established a new tariff regime for the period beginning January 1, 2003. Accordingly, electricity companies have continued to apply the provisions of the 2002 Resolution in determining tariffs applicable to their sales of electricity.

On February 6, 2003, Decree *N*° 2,304 was published in the Official Gazette *N*° 37,626. Pursuant to Decree *N*° 2,304, prices for basic necessity products were stabilized, including the supply of electricity. On May 5, 2003, in Official Gazette *N*° 37,628 a joint resolution of the Energy Ministry and the *Ministerio de la Producción y el Comercio* (the "MPC") was published under which an increase in tariffs as a result of FAP Adjustments was temporarily suspended. See "The Electricity Industry in Venezuela –Tariff Resolutions and Adjustments."

While we have been permitted to adjust the tariffs we charge to our customers for electricity services, these adjustments have not always been allowed or permitted in the amounts and on the schedule set forth in the tariff regime. For example, the implementation of residential tariff increases in the State of Vargas was postponed from March to September 2000 due to a natural disaster that occurred in the region in December 1999. By agreement between the Venezuelan government and the various electricity utilities in Venezuela, residential rates in that region were frozen in exchange for the right to purchase certain raw materials, such as fuel, from the government at reduced prices.

The joint resolution dated May 5, 2003 did not affect the tariff adjustments approved in January 2003 and expressly authorized the Energy Ministry to approve FAP Adjustments on a case-by-case basis. As a result, the Energy Ministry approved the application of FAP Adjustments to increase tariffs by 2.5% in September and October of 2003, which represented an 10.38% increase with respect to the tariff that was in effect for the first semester of 2003. EDC's total tariff increase was 39.06% for 2003. Additionally, on March 22, 2006, the Energy Ministry approved FAP Adjustments resulting in tariff increases of 6.48% for EDC and 3.23% for CALEY. The Energy Ministry has allowed CACE Adjustments in recognition of increased price of combustible fuel used to generate electricity and purchased electricity for periods when tariffs were not adjusted.

There can be no assurance that the determination of tariffs for future periods will result in higher tariffs for us. Although our tariffs are adjusted periodically, such adjustments may not coincide with changes in our costs, including changes due to inflation, currency devaluations and increasing the price of fuel resulting in higher operating costs and diminished profitability. For more information on tariffs, see "Business — Tariffs," "The Electric Industry in Venezuela — Economic Remuneration of Electric Service Law" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview of Factors Impacting EDC's Business — Regulatory Requirements Applicable to Electricity Utilities."

***We are subject to a series of requirements relating to the quality of the electric service we provide to our customers, which could result in increased operating costs.***

In November 2003, the Energy Ministry promulgated regulations governing retail activities of distribution companies and their contractual arrangements with customers, including meter reading, billing and customer service. Regulations were also promulgated governing certain technical aspects of the services provided by distribution companies, including acceptable levels of voltage signal and frequency and duration of interruptions, and imposing information reporting requirements.

These regulations contemplate the gradual implementation by distribution companies of the systems necessary for compliance with the prescribed quality standards and assume the application of appropriate tariff levels to cover the costs of implementing such systems. The service quality regulations seek to provide incentives for distribution companies that come into compliance with the prescribed standards, while permitting them to remain profitable.

The regulations also impose penalties which became applicable beginning on January 1, 2005. With respect to the technical requirements, the penalties that may be imposed range from 10 to 25 times the average tariff charged by the distribution company for the service that failed to meet such requirements. Penalties for failure to meet the requirements applicable to retail activities range from 5% to 50% of the average amount billed to customers with respect to whom such requirements were not met. Although the Energy Ministry has not imposed penalties on us as of the date of this Offering Circular based on these regulations there is no assurance that the Energy Ministry will not impose any such penalties in the future.

While we believe that the current level of electric service we provide to our customers complies with the quality standards currently imposed by the new regulations, we may be required to make additional capital expenditures in the future to continue to satisfy the new service quality standards that are expected to be implemented. For more information regarding our capital expenditures for our distribution activities, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Planned Capital Expenditures." However, no assurance can be given that additional quality standards or penalties, which could force us to incur additional capital expenditures or increased operating costs to achieve compliance, will not be imposed in the future. The imposition of additional quality standards or penalties may have an adverse effect on our financial condition and results of operations and, ultimately, our ability to repay the Notes.

***We are subject to numerous environmental and health regulations in the locations where we conduct operations, that may become more stringent and result in increased liabilities and increased capital expenditures.***

Our activities are subject to a wide variety of national and local laws, regulations, and permit requirements relating to the protection of human health and the environment. In addition, some of our activities are in areas under special protection regimes with very restricted land uses. If the legal and regulatory framework is revised to become more rigorous, we will likely be required to substantially increase the capital expenditures for compliance with our revised legal and regulatory framework to effectively undertake the necessary improvements to comply with the health, safety, and sustainable environmental practices in the future. Any such increased expenditure may have a material adverse effect on our results of operations and financial condition.

***The rate of Venezuelan withholding tax applicable to payments in respect of the Notes could be increased.***

Payments of interest on the Notes are subject to Venezuelan withholding tax as described in "Tax Considerations — Venezuelan Taxation." There can be no assurance that, as a consequence of a change in, or a change in the interpretation of, applicable law, the withholding tax rates currently applicable to our payment obligations in respect of interest on the Notes will not be substantially increased, in which event we would be obligated to pay to Venezuelan tax authorities accrued unpaid withholding tax calculated by reference to such higher rate of taxation. If such a change were to occur, there can be no assurance that we will have sufficient financial resources to meet all of our accrued and unpaid tax liabilities to the Venezuelan tax authorities and also meet our payment obligations in respect of the Notes.

We have requested the Venezuelan National Executive to make the regulatory adjustments necessary to exonerate payments of interest under the Notes and capital gains realized from the sale of the Notes from Venezuelan income tax. There can be no assurance that such tax exoneration will be granted. See "Tax Considerations—Venezuelan Taxation."

***We frequently experience delays in receiving payments from certain public sector customers, which may reduce the amount of our collections.***

We have historically experienced lengthy delays in collecting accounts receivable from certain customers in the public sector. These delays have been due in part to the fact that it is our practice not to terminate service to some public sector customers, such as hospitals and ministries, on account of non-payment because terminating service to these public entities could have a harmful effect on society.

In the past, we have agreed to accept payment of amounts owed to us by various ministries and instrumentalities of the Venezuelan government in the form of bolívar-denominated notes issued by the Venezuelan government. We have used such notes to pay accounts payable balances to PDVSA. For more information regarding such agreements and their effect on our accounts receivable, see "Business — Raw Materials and Spare Parts."

Although the average age of our accounts receivable from our public sector customers has improved in recent years, there can be no assurance that such improvement will continue or that difficulties in collecting accounts receivable will not have a material adverse effect on our financial position and results of operations and our ability to repay the Notes. For more information on our accounts receivable quality, see "Business — Distribution and Sales — Billing and Collection Procedures."

***We rely exclusively on subsidiaries of PDVSA to supply us with fuel required to generate electric power.***

Our ability to generate power depends on the availability of an adequate supply of natural gas and fuel oil. Although the Venezuelan government has opened access to the distribution sector of the petroleum industry, including natural gas, to the private sector, there is only one supplier of natural gas and one supplier of fuel oil in Venezuela, each a subsidiary of the state-owned oil company, and our parent company, PDVSA. Although we have not in the past experienced problems obtaining required fuel, there are no alternative sources of these fuels available in Venezuela. We have fuel oil reserves that would allow us to deal with any supply interruption for up to five days. Nevertheless, any sustained loss of supply could have a material adverse effect on our financial condition, results of operations and, ultimately, our ability to repay the Notes.

***Changes in commodity prices may increase our cost of producing electricity and decrease the amount received from selling electricity which could adversely affect our financial operations.***

Our electricity generation business is subject to changes in electricity prices and fuel costs which may impact our financial condition and results of operations by increasing the cost of producing electricity and decreasing the amount we receive from the sale of electricity. The prices for those commodities may fluctuate substantially over relatively short periods of time. In accordance with Article 20 of the 1999 Joint Resolution, tariffs are also subject to monthly adjustments to reflect fluctuations in the prices of purchased electricity and combustible fuel used by electric utility companies to generate electricity. For more information on Tariff adjustment, see "The Electricity Industry in Venezuela— Economic Remuneration of Electric Service Law — Tariff Resolutions and Adjustments." Among the factors that could influence such prices are:

- availability and prices for natural gas and fuel oil used in our generation of electricity,
- demand for electricity and the extent of additional supplies of electricity available, and
- changes in the regulatory framework for the wholesale electricity market.

In addition, because they have no competition in Venezuela, PDVSA and its subsidiaries have the ability to set fuel prices unilaterally. Although PDVSA and its subsidiaries historically have sold fuel to EDC at prices that are below those that would prevail in the international markets, there can be no assurance that this will continue to be the case in the future. Any future increase in the price of fuel we purchase to generate electricity will increase our

operating costs and may adversely affect our results of operations and financial condition and, ultimately, our ability to repay the Notes.

***There may be limitations under Venezuelan law on a creditor's right to attach our assets located in Venezuela.***

Under Venezuelan law, there exist certain procedural requirements and restrictions in order for a Venezuelan court to enforce a judgment on property located in Venezuela owned by us as public entity or our regulated subsidiaries if such property is deemed by the court to provide or be connected to essential public services. In practice, this may adversely affect the ability of a creditor to enforce a judgment against our assets and those of our regulated subsidiaries. According to the Venezuelan Attorney General Law (*Ley Orgánica de la Procuraduría General de la República*) and the Electric Service Law as amended by Decree N° 5,330, an attachment prior to judgment or in aid of execution on property located in Venezuela that is destined to the rendering of a public service is stayed for a period of 45 days after notice is given to the Attorney General. During such period, the Venezuelan government may take any action in order to avoid interruption of services, including the taking of possession of such assets if such attachment threatens the continuity, quality or security of such public service.

***Our credit agreements and other instruments of indebtedness, including the Indenture, contain covenants, financial tests and cross default provisions which could result in the acceleration of our indebtedness.***

Our existing (and any future) indebtedness related instruments contain (and may contain) a number of significant covenants. These covenants limit (and may limit) our ability to, among other things:

- borrow additional money,
- change our business,
- enter into certain transactions with our subsidiaries and other affiliates,
- merge, acquire or consolidate with other companies or dispose of our assets,
- pay dividends,
- make certain prepayments, and
- grant certain liens on our assets.

Our existing (and any future) credit agreements and other instruments of indebtedness also require (and may require) us to meet certain financial covenants, ratios and other tests. Failure by us to comply with these covenants, ratios and tests could result in defaults under those agreements or instruments. A default under any such agreement or instrument, if not waived, could result in the debt thereunder becoming immediately due and payable, and could trigger cross-default provisions contained in certain of our other credit agreements and instruments which would permit our creditors to accelerate the indebtedness evidenced thereby. If this occurs, we may not be able to pay our debt or borrow sufficient funds to refinance it. Even if new financing is available, it may not be on terms that are acceptable to us and could adversely affect our business, financial condition and results of operations and, ultimately, our ability to repay the Notes.

***Our financial statements are affected by inflation in Venezuela.***

The inflationary environment that has prevailed in the Venezuelan economy in recent years has distorted the financial statements of Venezuelan companies, including ours. In conformity with Venezuelan GAAP, we prepare our consolidated financial statements in accordance with a price level adjustment methodology that results in constant currency numbers that can be compared between periods. Accordingly, we monetarily adjust our financial statements using the CPI to minimize the impact of the distortions caused by inflation on such financial statements. However, this index is not necessarily consistent with the devaluation of the bolívar against other currencies. During periods when inflation is not consistent with the devaluation of the bolívar against other currencies, distortions may occur which make period-to-period comparison of financial statements difficult. For

additional information on the effect of inflation in Venezuela, see "Presentation of Certain Financial and Other Information."

***We are subject to corporate disclosure standards different from those applicable to U.S. companies.***

The securities laws of Venezuela which govern publicly traded companies such as us differ from those in the United States and various European countries in certain important respects. Publicly available information about Venezuelan companies such as us generally provides less detail and is less frequently updated than information that is regularly published by or about companies in countries with highly developed capital markets, such as the United States and certain European countries. In addition, the Venezuelan securities markets are not as highly regulated as the securities markets of the United States and certain European countries.

***We are controlled by PDVSA, which in turn is controlled by the Bolivarian Republic of Venezuela, whose interests may be different than ours.***

Our majority shareholder, PDVSA is controlled by the Bolivarian Republic of Venezuela, which is in charge of policies and regulations regarding our business. In circumstances involving a conflict of interest between Venezuela (controlling shareholder of PDVSA, our majority shareholder), and the holders of the Notes, Venezuela may exercise the rights arising from its ownership interest in a manner that would benefit Venezuela to the detriment of the holders of the Notes.

Venezuela in the future may pursue certain of its macroeconomic and social objectives through us. As a result, we may engage in activities that give preference to the objectives of the Venezuelan government rather than to our economic and business objectives. We may make investments, incur costs and engage in sales on terms that may have an adverse effect on our results of operations and financial condition. We cannot assure you that in the future, Venezuela (through PDVSA or CEN) will not require us to take actions which may have an adverse effect on our financial condition and results of operation.

***Changes in the Venezuelan government may result in changes in our senior management, which may have a material adverse effect on our results of operations and financial condition.***

As a result of indirect ownership control of EDC through PDVSA, the Venezuelan government is responsible for appointing a majority of the members of PDVSA's board of directors and executive officers and PDVSA's board of directors and executive officers are, in turn, responsible for appointing a majority of the members of our board of directors and executive officers. Changes in the Venezuelan government and the management of PDVSA could lead to changes in our senior management, which could have a material adverse effect on our ability to implement our current strategy and, consequently, may have a material adverse effect on our results of operations and financial condition.

***Venezuela (through PDVSA or CEN) may sell its controlling interest in EDC.***

Dividends and other distributions from EDC, indirectly represent an important source of revenues and cash flows for Venezuela. If EDC ceases to make dividends or other distributions to its shareholders or such dividends or other distributions decrease as a result of a deterioration in EDC's financial performance, Venezuela (through PDVSA or CEN) may sell all or a portion of its ownership interest in EDC or change its strategy with respect to EDC. The occurrence of any such event could have a material adverse effect on EDC's results of operations and financial condition and, as a result, on EDC's ability to make payments under the Notes.

***We have entered in the past and may enter in the future into transactions with the Bolivarian Republic of Venezuela, PDVSA and/or other related companies, which may result in conflicts of interest.***

We have entered in the past and may enter in the future into certain transactions with Venezuela, PDVSA and/or other related companies. Many of these transactions may not occur in the ordinary course of business. Such transactions may create potential conflicts of interest that could adversely affect us or your interests as our creditors. See "Business—Related Party Transactions." Furthermore, no assurance can be given that the transactions between us and our related parties have been or will be conducted on a basis as favorable to us as could be obtained by us from unrelated parties. While we believe such transactions have been and will be negotiated on an arm's length

basis, there can be no assurance that such transactions would not give rise to conflicts of interest that could adversely affect us or your interests as our creditors.

***We are required to merge into Corporación Eléctrica Nacional.***

On May 2, 2007, President Chávez issued Decree N° 5,330, with the force of organic law, to reorganize the electricity sector. Decree N° 5,330 provides for the establishment of the CEN, a state-owned *compañía anónima*, that will become the state owned enterprise engaged in operating the electric sector, including the generation, transmission, distribution and retail of electric power and energy. Pursuant to Decree N° 5,330, 75% of the shares of CEN will be owned by Venezuela, and 25% will be owned by PDVSA.

Pursuant to the Decree N° 5,330, PDVSA's shares in EDC are required to be transferred to CEN. As a result, EDC temporarily will become a subsidiary of CEN until it is merged into CEN, which shall occur on or before May 2, 2010, as provided by Decree N° 5,330. There can be no assurance that EDC's underlying business and operations will continue performing in the manner they have in the past once EDC is merged into CEN. In addition, once the merger is consummated investors in the Notes will be creditors of the newly created legal entity which will have different management, strategy and objectives as those EDC currently has. In addition, the financial condition, assets and liabilities of the CEN will substantially differ from those of EDC.

***Our controlling shareholder, PDVSA, is currently engaged in a material litigation that could affect EDC's assets.***

In February 2007, President Chávez issued a law-decree pursuant to which existing Orinoco Belt projects, namely Petrozuata, Sincor, Cerro Negro and Hamaca, were required to be converted into *Empresas Mixtas*, or "Mixed Companies", in which *Corporación Venezolana del Petróleo S.A.* ("CVP"), a wholly-owned subsidiary of PDVSA, or another PDVSA subsidiary, holds an equity interest of at least 60% in accordance with the Venezuelan Hydrocarbons Law. Pursuant to this law-decree, operators of the Orinoco Belt project became Mixed Companies, with PDVSA becoming the majority owner of the operations. The Energy Ministry is required to make a valuation of each new Mixed Company in order to determine the fair participation of the PDVSA subsidiary and to provide any economic or financial adjustment as necessary. The law-decree also provided that existing profit-sharing agreements for the exploration of the *Golfo de Paria Oeste*, *Golfo de Paria Este* and the blocks known as *La Ceiba*, as well as *Orifuels Sinovensa, S.A.*, must be converted into Mixed Companies. In May 2007, CVP completed the acquisition process with respect to the four Orinoco Belt strategic projects, *Petrozuata*, *Sincor*, *Cerro Negro* and *Hamaca*. In June 2007, Chevron Texaco, Statoil, Total, BP, Eni SpA (ENI), Petroleum & Chemical Corp (Sinopec), and Ineparia agreed to convert their participations in the four Orinoco Oil Belt projects into Mixed Companies controlled by PDVSA, increasing PDVSA's average participation in the projects to 78%.

As of September 2007, ExxonMobil and ConocoPhillips, the majority partners in the *Cerro Negro* and *Petrozuata* projects, respectively, had failed to reach a financial agreement with PDVSA regarding the required sale of their ownership interests. As a result, an ExxonMobil affiliate filed a request for arbitration with the International Centre for Settlement of Investment Disputes, as a result of it having been unable to successfully negotiate the terms of, or agree on the value of, the assets in the *Cerro Negro* project being transferred to PDVSA. Prior to the enactment of the law-decree, ExxonMobil had a 41.7% interest in the *Cerro Negro* project. On January 25, 2008 the ExxonMobil affiliate commenced an additional arbitration under the rules of the International Chamber of Commerce.

On December 27, 2007 and January 8, 2008 the ExxonMobil affiliate obtained from the U.S. District Court for the Southern District of New York an attachment order totaling U.S.\$315 million against accounts of a PDVSA affiliate and on January 25, 2008 the ExxonMobil affiliate obtained a freezing injunction from the High Court of Justice in London preventing the removal or non-ordinary course disposition of up to U.S.\$12 billion in assets of PDVSA and its affiliates in the United Kingdom and the non-ordinary course disposition of up to that amount of assets elsewhere in the world. On March 18, 2008 the High Court of Justice in London decided to lift the U.S.\$12 billion freeze order, which decision is subject to appeal by Exxon Mobil. There can be no assurance that Exxon Mobil will not appeal the London High Court of Justice's decision in order to reinstate such freeze order or that similar orders, attachments or injunctions will not be issued against PDVSA and/or any of its subsidiaries including EDC. Furthermore, there can be no assurance that such orders, attachment or injunctions will not restrain, enjoin, prevent, prohibit or make illegal the application of the proceeds of the issuance and sale of the Notes to complete the

Offer and Consent Solicitation, see "The Offering" and "Use of Proceeds" or that such orders, attachment or injunctions, if maintained, will not result in a material adverse effect on EDC's results of operations and financial condition and, as a result, on EDC's ability to make payments under the Notes."

***Our financial statements are prepared in accordance with Venezuelan GAAP, regulations and guidelines which may significantly differ from U.S. GAAP or other prevailing international accounting practices.***

We prepare our financial statements in accordance with Venezuelan GAAP. These accounting standards may significantly differ from U.S. GAAP or other prevailing international practices. The main differences between our accounting standards and U.S. GAAP are summarized in Annex A of this Offering Circular. We cannot assure you that the summary of significant differences included in Annex A is accurate or complete or that they are or will be the only differences.

### **Risks Relating to the Notes**

***The market value of the Notes may depend on economic conditions in Latin America over which we have no control.***

The market value of securities of Venezuelan companies, including EDC, is affected to varying degrees by economic and market conditions in other Latin American countries. Although economic conditions in such countries may differ significantly from economic conditions in Venezuela, investors' reactions to developments in any of these other countries may have an adverse effect on the market value of securities of Venezuelan issuers. International financial markets have recently experienced volatility due to a combination of international political and economic events. There can be no assurance that further deterioration of the Venezuelan economy or other events in Venezuela will not adversely affect the market value of the Notes.

***The transferability of the Notes may be limited by restrictions on transfer under applicable securities law.***

The Notes have not been registered under the U.S. Securities Act or the securities laws of any state or any other jurisdiction and, unless so registered, may not be offered or sold in the United States or for the account or benefit of a U.S. person, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and the applicable securities laws of any state or any other jurisdiction. See "Transfer Restrictions."

***The Notes will be our senior unsecured obligations.***

The Notes will be our senior unsecured obligations. The payment of principal and interest on the Notes will be effectively subordinated in right of payment to our secured unsubordinated indebtedness and to creditors given a statutory priority under applicable law. If we become insolvent or are liquidated or subject to insolvency proceedings, or if payment in respect of our secured unsubordinated indebtedness is accelerated, our secured unsubordinated lenders will be entitled to exercise the remedies available to a secured lender under applicable law, in addition to any remedies that may be available under our secured unsubordinated financing arrangements, and we cannot assure you that there will be sufficient assets to pay amounts due on the Notes. As a result, you may receive less, ratably, than the lenders of our secured unsubordinated indebtedness.

***The Notes are a new issue of securities for which there is currently no public market and you may be unable to sell your Notes if a trading market for the Notes does not develop.***

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trade them on the Euro MTF Market of such exchange.

There is currently no market for the Notes. Although we have been advised by the Dealer Manager that it currently intends to make a market in the Notes following completion of this offering, the Dealer Manager is not obligated to do so, and any such market-making activities may be discontinued at any time without notice. We cannot assure you that any active trading market will develop for the Notes, nor can we assure you regarding the liquidity of any such market, your ability to sell the Notes or the prices at which the Notes could be sold. If a market for the Notes develops, the Notes could trade at prices that may be higher or lower than their initial offering prices

depending on many factors, including prevailing interest rates, our results of operations, the markets for similar securities, and other factors beyond our control, including general economic and market conditions.

***Investment in emerging markets poses a greater degree of risk.***

Investing in emerging-market securities generally pose a greater degree of risk than investing in securities from more mature market economies as emerging market economies are more volatile to the effects of international terrorist attacks.

The terrorist attacks in the United States on September 11, 2001 and the war in Iraq, which were accompanied by a significant slowdown in the growth of the U.S. economy, as well as in the general world economy, have contributed to increased cautiousness with respect to investment in developing countries, as well as to a significant decline in the secondary-market values of the debt and equity securities of emerging-market issuers.

There can be no assurance that a continuation or acceleration of these crises or similar events will not negatively affect investor confidence in emerging markets or the economies of the principal countries in Latin America, including Venezuela. In addition, there can be no assurance that these events will not adversely affect Venezuela's economy and our ability to raise capital in the external debt markets in the future.

***If subjected to Venezuelan bankruptcy or insolvency law, the ability of the noteholders to recover their investment in the Notes will be substantially impaired and will be subordinated to several classes of creditors such as secured creditors, our employees and the Venezuelan treasury, among other.***

Pursuant to Venezuelan law, we are subject to bankruptcy and insolvency laws in Venezuela. There exists legal doctrine in Venezuela, however, supporting the view that we and our affiliates are not subject to Venezuelan bankruptcy or insolvency law on the grounds that we and our affiliates are government-owned companies. However, there are no precedents.

If we were to be held subject to Venezuelan bankruptcy or insolvency law by a Venezuelan court, your ability to recover your investment in the Notes will be impaired and will be subordinated to several creditors such as the bankruptcy trustee, secured creditors, if any, our employees for any unpaid wages and labor benefits set forth in applicable collective bargaining agreements and Venezuelan labor law (including profit-sharing payments, accrued but unpaid vacation and severance) and the Venezuelan treasury for unpaid taxes, among others.

***The ratings of the Notes may be downgraded depending on various factors, including the rating agency's assessments of our financial condition.***

At least two independent credit rating agencies are expected to assign international foreign currency global credit ratings to the Notes no later than 45 days after the closing date of this offering. See "Description of the Notes—Ratings." The ratings of the Notes are not a recommendation to purchase, hold or sell the Notes and may be changed, suspended or withdrawn by the rating agency at any time and the ratings do not comment on market price or suitability of the Notes as an investment for a particular investor. Our current ratings and the rating outlooks currently assigned to us are, and any ratings attributed to the Notes will be, dependent upon economic conditions and other factors affecting credit risk that are outside our control. Each rating should be evaluated independently of the others. You may obtain detailed explanations of the ratings from the rating agencies.

***The closing of the offering is conditioned upon the satisfaction or waiver of the closing conditions of the Offer and Consent Solicitation.***

The closing of the offering is conditioned upon the satisfaction or waiver by EDC Finance of the closing conditions of the Offer and Consent Solicitation, circumstances that you cannot control.

Subject to Rule 14e-1(c) under the U.S. Securities Exchange Act of 1934 and notwithstanding any other provision of the Offer and Consent Solicitation and in addition to (and not in limitation of) EDC Finance's rights to terminate, extend and/or amend the Offer and Consent Solicitation in its reasonable discretion, EDC Finance shall not be required to accept for purchase, or to pay for, any tendered EDC Finance Notes if: (1) on or prior to the consent date, EDC Finance has not received the requisite consents, or EDC Finance and the relevant parties shall not

have executed amendments to the indenture governing the EDC Finance Notes and each of the other related transaction documents implementing the proposed amendments to such indenture; (2) the Financing Condition has not been satisfied; (3) any of the following has occurred on or prior to the settlement date: (a) there shall have been instituted, threatened, or be pending any action or proceeding before or by any court, governmental, regulatory or administrative agency or instrumentality, or by any other person, in connection with the Offer or Consent Solicitation, that in the sole judgment of EDC Finance, either (i) is, or is reasonably likely to be, materially adverse to the business, operations, properties, condition (financial or otherwise), assets, liabilities or prospects of EDC Finance, EDC or its subsidiaries or affiliates or (ii) would or might prohibit, prevent, restrict or delay consummation of the tender offer; (b) an order, statute, rule, regulation, executive order, stay, decree, judgment or injunction shall have been proposed, threatened, enacted, entered, issued, promulgated, enforced or deemed applicable by any court or governmental, regulatory or administration agency or instrumentality that, in the sole judgment of EDC Finance, would or might prohibit, prevent, restrict or delay consummation of the tender offer or that is, or is reasonably likely to be, materially adverse to the business, operations, properties, condition (financial or otherwise), assets, liabilities or prospects of EDC Finance or EDC or its subsidiaries or affiliates; (c) any objection by the trustee under the indenture governing the EDC Finance Notes in any respect to, or any action that could, in the sole judgment of EDC Finance, adversely affect the consummation of, the Offer or the Consent Solicitation or any action by the trustee under the indenture governing the EDC Finance Notes that challenges the validity or effectiveness of the procedures used by EDC Finance in the making of the Offer or the Consent Solicitation or the acceptance of, or payment for, the EDC Finance Notes or consents; or (d) there shall have occurred (i) any general suspension of, or limitation on prices for, trading in securities in the United States, Venezuelan or Luxembourg securities or financial markets, (ii) any significant change in the price of the EDC Finance Notes in the United States, Venezuelan, Luxembourg or other major securities or financial markets, (iii) a material impairment in the trading market for debt securities, (iv) a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States, Venezuela or other major financial markets (whether or not mandatory), (v) any limitation (whether or not mandatory) by any government or governmental, administrative or regulatory authority or agency, domestic or foreign, or other event that, in the sole judgment of EDC Finance, might affect the extension of credit by banks or other lending institutions or the ability of EDC Finance to place debt securities, (vi) a commencement of a war or armed hostilities or other national or international calamity directly or indirectly involving the United States or Venezuela, or (vii) in the case of any of the foregoing existing on the date hereof, a material acceleration or worsening thereof; (4) there shall be any injunction, seizure, freeze order, judgment, ruling, order or decree from any governmental authority outside Venezuela that purports to restrain, enjoin, prevent, prohibit or make illegal the application of the proceeds of the issuance and sale of the Notes or other financing to pay for the early consent payment, the tender offer consideration or the total consideration (each as defined in the and Consent Solicitation), as applicable.

EDC Finance may waive any of the conditions of the Offer and Consent Solicitation, in whole or in part, at any time and from time to time on or prior to the settlement date of the Offer and Consent Solicitation. However, there is no assurance that the closing conditions to the Offer and Consent Solicitation will be satisfied or waived by EDC Finance and thus, that the consummation of the offering of the Notes will occur.

As of March 28, 2008, EDC Finance had received valid irrevocable tenders and consents from approximately 94% in aggregate principal amount of the outstanding EDC Finance Notes pursuant to the Offer and Consent Solicitation.

## **USE OF PROCEEDS**

The net proceeds of the sale of the Notes will be approximately U.S.\$680,000,000, after deduction of fees and expenses payable by the Issuer.

We intend to use the proceeds from this offering (i) to fund the repurchase by EDC Finance of the EDC Finance Notes validly tendered and not withdrawn pursuant to the Offer and Consent Solicitation, and (ii) the remaining balance for general corporate purposes. As of March 28, 2008, (a) U.S.\$260 million in principal amount of the EDC Finance Notes were outstanding, and (b) EDC Finance had received valid irrevocable tenders and consents from approximately 94% in aggregate principal amount of the outstanding EDC Finance Notes pursuant to the Offer and Consent Solicitation.

The closing of the Offer and Consent Solicitation is conditioned, among others, to the Financing Condition and the Majority Tender Condition. The closing of this offering is conditioned upon the satisfaction of the closing conditions of the Offer and Consent Solicitation. See "Risk Factors — The closing of this offering is conditioned upon the satisfaction or waiver of the closing conditions of the Offer and Consent Solicitation."

## CAPITALIZATION

The following table sets forth EDC's consolidated cash and cash equivalents, short-term debt, long-term debt, shareholder's equity and capitalization as of December 31, 2007 (1) on an actual basis and (2) as adjusted to give effect to the Offer and Consent Solicitation and the proceeds from this offering assuming they had been completed on such date and assuming that all outstanding EDC Finance Notes are validly tendered on or prior to the early consent date (as defined in the Offer and Consent Solicitation) and are accepted for payment in the EDC Finance tender offer and that the proceeds from this offering are used to pay the aggregate consideration in the EDC Finance tender offer.

No effect is given to the expenses to be incurred by EDC in connection with the EDC Finance tender offer and this offering.

On the early consent date (as defined in the Offer and Consent Solicitation) EDC Finance had received valid irrevocable tenders and consents from approximately 94% in aggregate principal amount of the EDC Finance Notes pursuant to the Offer and Consent Solicitation. There is no assurance that all outstanding EDC Finance Notes validly tendered on or prior to the early consent date (as defined in the Offer and Consent Solicitation) will be accepted for payment in the EDC Finance tender offer or that this offering will be consummated. Consequently, the data adjusted to reflect the results of the EDC Finance tender offer and this offering set forth below should be regarded as hypothetical. EDC's consolidated financial position after any consummation of the EDC Finance tender offer and the consummation of this offering may differ materially from the information reflected below.

The financial information set forth below has been prepared in accordance with Venezuelan GAAP, which differ in certain significant respects from U.S. GAAP. The information set forth below should be read in conjunction with the Audited Financial Statements and the notes thereto included elsewhere in this Offering Circular.

	<b>As of December 31, 2007</b>	<b>As adjusted for the EDC Finance tender offer and this offering</b>	
	<i>(millions of constant bolívares)</i>	<i>(millions of U.S.\$)<sup>(1)(2)</sup></i>	<i>(millions of constant bolívares)</i>
Cash and cash equivalents .....	Bs. 304,288	U.S.\$ 501.23	Bs. 1,077.64
<b>Short-term debt</b>			
Bank loans and overdrafts.....	4,492	2.09	4,492
Current portion of long-term debt <sup>(2)</sup> .....	5,088	2.36	5,088
Total short-term debt <sup>(1)</sup> .....	<u>9,580</u>	<u>4.46</u>	<u>9,580</u>
Long-term debt .....			
Bank financing.....	11,536	5.37	11,536
Notes offered hereby.....	0	650.00	1,397.50
Other bonds and obligations .....	542,963	0	0
Total long-term debt <sup>(1)</sup> .....	<u>554,499</u>	<u>655.37</u>	<u>1,409.04</u>
Total debt <sup>(1)</sup> .....	<u>564,079</u>	<u>659.83</u>	<u>1,418.62</u>
<b>Shareholders' equity</b>			
Minority interest .....	4,839	2.25	4.84
Total shareholders' equity .....	<u>4,633,397</u>	<u>2,155.07</u>	<u>4,633.40</u>
Total capitalization .....	<u>Bs. 5,202,315</u>	<u>U.S.\$ 2,817.15</u>	<u>Bs. 6,056.86</u>

(1) These translations should not be construed as representations that the bolívar amounts actually represent such U.S. dollar amounts or could have been or could be converted into U.S. dollars at the rates indicated.

(2) The exchange rate used to convert bolívares amounts into U.S. dollars is Bs. 2,150.00=U.S.\$1.00, the official U.S. dollar selling rate established by the BCV at the close of business on December, 31, 2007.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following consolidated balance sheet data as of December 31, 2007, 2006 and 2005, and the consolidated income statement data for each of the three years ended December 31, 2007, 2006 and 2005 are derived from EDC's Audited Financial Statements included in this Offering Circular. Except as otherwise indicated, all of the figures presented below have been expressed in constant bolívares as of December 31, 2007 to reflect the purchasing power of the bolívar as of that date. The figures presented in U.S. dollars below have been translated for the convenience of the reader at the bolívar/U.S. dollar exchange rate in effect as of December 31, 2007 of Bs. 2,150 = U.S.\$1.00. EDC's Audited Financial Statements are prepared in accordance with Venezuelan GAAP, which differs in certain respects from U.S. GAAP. For information concerning the differences between U.S. GAAP and Venezuelan GAAP, see "Annex A — Principal Differences Between U.S. GAAP and Venezuelan GAAP." For information as to the manner in which financial information is presented in this Offering Circular, see "Presentation of Certain Financial and Other Information."

	<b>At or for the Year Ended December 31,</b>			
	<b>2007</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>(in millions of U.S.\$, except for share amounts and ratios)</i>		<i>(in millions of constant bolívares, except for share amounts and ratios)</i>	
<b>Consolidated Balance Sheet Data</b>				
Cash and cash equivalents .....	141.5	304,288	502,154	439,404
Restricted cash.....	-	-	-	124,368
Current assets.....	317.1	681,705	981,035	984,369
Property, plant & equipment.....	2,323.6	4,995,751	5,164,094	5,454,829
Total assets .....	2,819.2	6,061,373	6,431,625	6,765,059
Current liabilities .....	204.7	440,119	651,686	716,034
Short-term debt.....	4.5	9,580	110,023	243,323
Long-term debt .....	257.9	554,499	686,501	961,924
<b>Total debt</b>	<b>262.4</b>	<b>564,079</b>	<b>796,524</b>	<b>1,205,247</b>
Total liabilities.....	661.9	1,423,137	1,586,399	1,968,668
Total stockholders' equity .....	2,155.1	4,633,397	4,841,601	4,793,434
Total liabilities and stockholders' equity .....	2,819.2	6,061,373	6,431,625	6,765,059
<b>Consolidated Income Statement Data</b>				
Operating revenues .....	777.8	1,672,244	1,912,808	1,949,522
Operating expenses <sup>(1)</sup> .....	753.3	1,619,649	1,538,571	1,543,317
Operating income .....	24.5	52,595	374,237	406,205
Depreciation and amortization.....	230.8	496,254	529,020	556,414
Comprehensive financing income (cost), net.	27.8	59,766	28,432	(139,726)
Interest expense, net .....	39.0	83,798	90,173	168,183
Net income (loss).....	46.5	99,884	310,342	244,217
EBITDA <sup>(2)</sup> .....	255.3	548,849	903,257	962,619
Earnings per share .....	0.01	30.34	96.84	77.41
Capital stock inflation adjusted .....	1,635.0	3,515,249	3,515,249	3,495,877
Weighted average number of common shares outstanding.....	3,292,214,078	3,292,214,078	3,204,529,573	3,154,837,711
<b>Ratios and Other Data:</b>				
CAPEX .....	160.4	344,793	242,570	189,939
EBITDA / Interest expense, net.....	6.6	6.6	10.0	5.7
Debt / EBITDA.....	1.0	1.0	0.9	1.3
(EBITDA-CAPEX) / Interest expense, net....	2.4	2.4	7.3	4.6

(1) Includes general and administrative expenses.

(2) EDC presents EBITDA (earnings before interest, taxes, depreciation and amortization) as a supplemental measure of performance because it believes that EBITDA provides a more thorough understanding of EDC's operating performance before the impact of investing and financing transactions. EBITDA is among the more significant factors in management's evaluation of company-wide performance. EBITDA can be computed by adding depreciation and amortization (included in

operating expenses) to operating income (loss). EBITDA should not be considered as an alternative to any measure of operating results as promulgated under Venezuelan GAAP or U.S. GAAP such as operating income or net income, nor should it be considered as an indicator of EDC's overall financial performance. EBITDA does not fully consider the impact of investing or financing transactions as it specifically excludes depreciation and interest charges, which should also be considered in the overall evaluation of results. Moreover, EDC's method for calculating EBITDA may differ from the method utilized by other companies and therefore comparability may be limited.

## Selected Operating Statistics

### *EDC's regulated electricity business*

	<b>At or for the Year Ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
Installed capacity (MW).....	2,316	2,316	2,316
Aggregate period gross production (GWh) <sup>(1)</sup> .....	11,407	10,405	10,160
Aggregate period net production (GWh) <sup>(2)</sup> .....	11,039	10,079	9,846
Aggregate electricity purchased (GWh).....	2,214	3,476	3,086
Aggregate electricity sold (GWh).....	11,749	11,392	10,526
Average price (per KWh in Bs) <sup>(3)</sup> .....	108.5	110.1	106.2
Technical losses (%) <sup>(4)</sup> .....	7.21%	7.06%	7.41%
Non-technical losses (%) <sup>(4)</sup> .....	5.53%	7.83%	10.30%
Number of customers.....	1,153,833	1,103,149	1,029,805
GWh per employee <sup>(5)</sup> .....	4.11	4.04	4.06
Customers per employee.....	405	393	371
Employees.....	2,854	2,807	2,783

(1) Gross production is EDC's regulated electricity business's gross production, including electricity used in EDC's plants and its own operations (and not available for sale) and technical and non-technical losses.

(2) Net production is EDC's regulated electricity business's gross production, less electricity used in EDC's plants and operations (and not available for sale) and technical and non-technical losses.

(3) Including prices for CALEY.

(4) Figures for technical and non-technical losses represent a 12-month average of EDC's regulated electricity business's transmission and distribution losses and theft and fraud losses, and are computed as a percentage of total electricity generated and purchased.

(5) Aggregate electricity sold (GWh) divided by the number of employees.

### *GENEVAPCA*

	<b>At or for the Year Ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
Generating units – electricity (turbines).....	3	3	3
Generating units – steam (boilers).....	4	4	4
Installed capacity (MW).....	300	300	300
Installed capacity (in metric tons).....	240	240	240
Aggregate steam sold (in metric tons).....	1,091,003	987,094	897,091
Aggregate electricity sold (GWh).....	1,698,797	1,530,122	1,456,481
Employees.....	43	38	40

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion should be read in conjunction with EDC's financial statements and notes thereto included elsewhere in this Offering Circular. EDC prepares its financial statements in bolívares in accordance with Venezuelan GAAP, which differ from U.S. GAAP in some respects. See "Annex A — Principal Differences between U.S. GAAP and Venezuelan GAAP."*

*This section is intended to assist in the understanding and assessment of the trends and significant changes in EDC's results of operations and financial condition. EDC's historical results may not be indicative of its future performance. The forward-looking statements contained in this section are subject to a variety of factors that could cause actual results to differ materially from those contemplated by these statements.*

### **Overview of Factors Impacting EDC's Business**

EDC's principal business is the generation, transmission and distribution of electricity in Venezuela and its results of operations and financial condition are affected by a number of factors, the most important of which include:

- political developments, which affect the Venezuelan economy as well as EDC's business and results of operations and its ability to obtain financing from external sources;
- regulatory requirements applicable to electricity utilities in Venezuela affecting the tariffs EDC is permitted to charge its customers and impose standards on EDC's operations that affect EDC's operating costs;
- fluctuations in exchange rates and inflation rates, which affect EDC's results of operations and the value of its assets and liabilities as recorded in its financial statements;
- the new regulatory framework applicable to EDC, as a government owned entity and subsidiary of PDVSA, which allows EDC to gain access to (i) foreign currency through the exchange rate agreements between the Venezuelan government and the BCV, (ii) funds allocated by the Venezuelan government under certain trade agreements with other nations, and (iii) PDVSA's investor base pool, which EDC believes positively affects its ability to obtain financing from external and internal investors; and
- the capital expenditures plans outlined by EDC's controlling shareholder, the Venezuela government.

### ***Venezuelan Political Environment.***

During the last several years, Venezuela has undergone political instability as the political and social turmoil between groups that support the Chávez administration and those that oppose it has intensified. Political instability in Venezuela has had serious adverse effects on the Venezuelan economy. During 2006 and 2007, the Venezuelan economy expanded by 10.35% and 8.4%, respectively. In addition, during 2006 and 2007 the Venezuelan government maintained the fixed rate between the bolívar and the U.S. dollar, notwithstanding inflation during 2006 and 2007 of 13.6% and 22.5%, respectively. During periods of economic contraction in Venezuela, EDC has often experienced decreases in its revenues and increases in its non-technical losses, requiring increases in its allowances for doubtful accounts. After the Venezuelan government, through PDVSA, acquired EDC on May 14, 2007, EDC has invested financial and technical resources to reduce its non-technical losses achieving an important decrease in EDC's total losses. EDC remains committed to render high quality services to its customers.

For more information regarding the political situation in Venezuela and its effect on EDC's business, see "Risk Factors — Risk Factors Relating to Venezuela."

### ***Regulatory Requirements Applicable to Electricity Utilities***

EDC's results of operations are affected by the regulatory regime applicable to the electricity business in Venezuela. Most significantly, EDC's results of operations are affected by its ability to adjust its tariffs to reflect changes in the devaluation of the bolívar and inflation.

The current regulations establish tariffs for each electric utility in Venezuela using a cost-plus return on investment methodology, based on information regarding each company's assets, cost structure and other related information.

The tariff regime contemplates:

- annual tariff increases,
- semi-annual adjustments to reflect exchange rate fluctuations and inflation, and
- monthly adjustments based on the price of fuel used to generate electricity and the price of purchased electricity.

EDC has generally been permitted to adjust the tariffs charged to its customers for electricity services. Nevertheless, these adjustments have not always been made in the amounts and on the schedule set forth in the tariff regime applicable to EDC. From time to time, the Venezuelan government has suspended tariff increases, primarily with respect to residential customers, for social or political reasons. During such periods, the Venezuelan government has reduced the price that EDC pays for fuel used to generate electricity and therefore, EDC has agreed not to seek adjustments of its tariffs.

For instance, on April 3, 2002, the Energy Ministry and the *Ministerio del Poder Popular para las Industrias Ligeras y Comercio* ("MILCO") issued a joint resolution that modified the existing tariff regime and established new tariffs to be applied during the remainder of 2002.

On February 6, 2003, the Venezuelan government issued a decree pursuant to which the prices of essential goods and services, including electricity services, were frozen indefinitely. Subsequently, on May 5, 2003, the Energy Ministry and MILCO issued a joint resolution that temporarily suspended the application of FAP Adjustments to tariffs charged by electricity utilities. However, the joint resolution dated May 5, 2003 did not affect the tariff adjustments approved in January 2003, and expressly authorized the Energy Ministry to approve FAP Adjustments on a case-by-case basis. As a result, the Energy Ministry approved the application of FAP Adjustments to increase tariffs by 2.5% in September and October of 2003, which represented an 10.38% increase with respect to the tariff that was in effect for the first semester of 2003. EDC's total tariff increase was 39.06% for 2003. Additionally, on March 22, 2006, the Energy Ministry approved FAP Adjustments resulting in tariff increases of 6.48% for EDC and 3.23% for CALEY. The Energy Ministry has allowed CACE Adjustments in recognition of increased price of combustible fuel used to generate electricity and purchased electricity for periods when tariffs were not adjusted.

EDC's tariffs have not been adjusted nor modified by the Energy Ministry since March 2006. During 2006, the Energy Ministry reduced the cost of methane gas by 18%, which in turn contributed to EDC's margin increase in that year; however, as of January 1, 2007, the Energy Ministry increased the methane gas tariff by 14.62%.

For more information regarding the new service quality standards and capital expenditures EDC expects to incur in connection with its distribution activities, see "— Liquidity and Capital Resources — Planned Capital Expenditures" and "Risk Factors — Risks Relating to us — We are subject to a series of new requirements relating to the quality of the electric service we provide to our customers which could result in increased operating costs."

For more information regarding the regulatory regime applicable to EDC's electricity business in Venezuela, see "The Electricity Industry in Venezuela."

### *Effects of Currency Devaluation and Inflation on EDC's Financial Statements*

EDC's operations are significantly affected by currency devaluation because tariff regulations are based substantially on the price of fuel used by EDC to generate electricity. Inflation also affects revenues, because a majority of EDC's billing and collections are denominated in bolívares, and adjusted semi-annually by the FAP Adjustment. EDC's operating expenses are also affected by devaluation because the price of fuel that EDC uses to generate electricity is denominated in U.S. dollars (although payable in bolívares) and EDC imports a certain portion of the goods that it purchases for use in its business. Labor and other costs are mostly incurred in bolívares. Most of EDC's capital expenditures and a significant part of its financing expenses are incurred in currencies other than bolívares, such as U.S. dollars.

The inflationary environment that has prevailed in the Venezuelan economy in recent years produces distortions in the financial statements of Venezuelan companies, including those of EDC. In conformity with Venezuelan GAAP, EDC prepares its consolidated financial statements in accordance with a price level adjustment methodology that results in constant currency numbers that can be compared between periods. Accordingly, EDC monetarily adjusts its financial statements using the CPI to minimize the impact of the distortions caused by inflation on its financial statements. However, during periods when inflation is not consistent with the devaluation of the bolívar against other currencies, distortions may occur which make period-to-period comparison of financial statements difficult. See "Presentation of Certain Financial and Other Information."

### *Exchange Controls*

On January 21, 2003, the Finance Ministry and the BCV suspended the trading of foreign currencies in Venezuela. On February 5, 2003, the Venezuelan government and the BCV adopted an exchange control regime. Since that time a series of exchange agreements, decrees and regulations have been established to set the final framework of the abovementioned regime. Effective January 1, 2008, the currency of Venezuela has been converted to the Bolívar Fuerte, which represents one thousand bolívares. Accordingly, from that date the U.S. dollar exchange rate has been set at Bs. F 2.14=U.S.\$1.00 for purchase operations and Bs. F 2.15=U.S.\$1.00 for sale operations.

Under the exchange control regime, entities that maintain or incur indebtedness denominated in foreign currencies and wish to obtain U.S. dollars from the BCV to pay principal, interest and other amounts in respect of such indebtedness must obtain an approval from, and have the indebtedness registered with, CADIVI. In addition to the foregoing approval, Venezuelan entities must also obtain from CADIVI separate approvals for the purchase of foreign currency from the BCV necessary from time to time to make payments under their registered indebtedness. For more information, see "Risk Factors — Risk Factors Relating to Venezuela."

After PDVSA acquired us on May 14, 2007, we became a Venezuelan government owned entity, gaining access to foreign currency through the exchange rate agreements between the Venezuelan government and the BCV. Such access to foreign currency is in part regulated through Exchange Agreement N° 9, which regulates PDVSA's foreign currency access and, in turn, allows us, as PDVSA's subsidiary, to incur additional indebtedness if such indebtedness is approved by the President of Venezuela. As a result, our indebtedness is consolidated with the Venezuelan government's external indebtedness accounts.

As a result of the implementation of Decree N° 5,330, EDC temporarily will become a subsidiary of CEN, and all subsidiaries of CEN shall be merged into CEN on or before May 2, 2010, the date three years after issuance of Decree N° 5,330. Upon EDC becoming a subsidiary of CEN, and later being merged into CEN, the necessary foreign currency to comply with payment of interest, principal and other obligations under the Notes is expected to be obtained directly from the BCV pursuant to article 2 of Exchange Agreement No. 7.

The imposition of exchange controls in Venezuela has, along with the political environment referred to above under "— Venezuelan Political Environment," adversely affected EDC's ability to obtain financing from foreign sources, which have affected in the past and may affect in the future EDC's ability to undertake important projects and refinance its existing indebtedness.

## **Critical Accounting Policies and Estimates**

In preparing EDC's financial statements, EDC is required to make estimates and judgments that affect the amounts of its assets, liabilities, revenues and expenses. EDC continually evaluates these estimates, including those related to allowances for doubtful accounts, inventories, useful lives of property, plant and equipment, contingent liabilities, pension plans and the fair value of financial instruments. EDC bases its estimates on historical information and assumptions that it believes to be reasonable under existing circumstances. These estimates form the basis for judgments concerning the carrying value of EDC's assets and liabilities. Actual results may differ from these estimates. The most significant accounting policies followed by EDC and its subsidiaries in the preparation of their consolidated financial statements are set forth below.

### ***Allowance for Doubtful Accounts***

EDC maintains an allowance for doubtful accounts at levels that it considers adequate to cover potentially uncollectable accounts. EDC estimates a percentage of its monthly billings as doubtful accounts. Management evaluates the levels of the allowance based on factors that may affect the collectability of billed amounts. The age of uncollected balances receivable and the customers' financial well-being are monitored to ensure that an adequate allowance is made in EDC's consolidated financial statements. As of December 31, 2007 and 2006, EDC recorded an allowance for doubtful accounts of Bs. 9.22 billion and Bs. 13.55 billion, respectively, on gross trade accounts receivable of Bs. 344.21 billion and Bs. 425.33 billion, respectively.

EDC does not record any provision for receivables from governmental entities, which comprise 25% and 33% of gross trade accounts receivable, as of December 31 2007 and 2006, respectively. EDC does not charge interest on uncollected accounts receivable from governmental entities.

### ***Property, Plant and Equipment, net***

Property, plant and equipment is recorded at cost and depreciated over its estimated useful life. EDC may be required to decrease the estimated useful life of its property, plant and equipment under certain circumstances, such as if EDC experiences a significant excess of capacity over demand or a sustained, significant decline in prices at which it sells electricity. EDC may also decrease the estimated useful life of its property, plant and equipment if they sustain significant physical damage or mechanical failure. To date, EDC has not had to revise any of its estimates of the useful lives of its property, plant and equipment. The estimated average remaining useful life of EDC's property, plant and equipment is 10 years.

### ***Long-lived Assets***

EDC assesses long-lived assets other than property, plant and equipment for impairment when indicators of impairment exist. EDC uses estimates of undiscounted cash flow based on expected cash flow from the use and eventual disposition of the assets to test the recoverability of specific long-lived assets. For asset groups that meet the criteria under "International Financial Reporting Standards" ("IFRS") 5 as held-for-sale, EDC evaluates the asset groups for impairment based on the expected net sales proceeds that it expects to realize. During the years ended December 31, 2007, 2006, and 2005, no impairments were recorded for long-lived assets to be held and used. If EDC's estimate of net sales proceeds is incorrect, the recorded impairment charge would be increased or reduced by the same amount.

### ***Labor Liabilities***

EDC's employees participate in unfunded benefit pension plans. EDC's pension and post-retirement benefit costs are developed from actuarial valuations using the methodology required by the International Accounting Standard N° 19 (IAS 19), "Employee Benefits." Inherent in these valuations are key assumptions made by EDC's management, such as the discount rate and salary increase rate. Material changes in EDC's pension and post-retirement benefit costs may occur in the future due to changes in these assumptions, changes in the number of plan participants and changes in the level of benefits provided. On July 1, 2007, our management decided to adjust the pension payments to retirees provided for in the new union labor contract, to the national urban minimum wage (*salario mínimo urbano nacional*), affecting our results for the year ended December 31, 2007, in an amount of Bs. 121.04 billion (approximately U.S.\$56.30 million).

### ***Income Taxes***

Income tax for any period consists of current income tax and deferred income tax. Current income tax is calculated and paid from the taxable income for such period at the rate applicable as of the date of the consolidated balance sheet. Deferred income tax is determined using the balance method pursuant to the provisions of the *Declaracion de Principios de Contabilidad N° 3 (DPC-3) "Contabilizacion del Impuesto sobre la Renta,"* which provides that the assets and liabilities are recognized as a result of future tax consequences attributable to differences between the amount of assets and liabilities included in the financial statements and its corresponding tax basis, as well as for operating losses and tax credits that are deferrable to future periods.

The value of the deferred assets and liabilities is determined pursuant to the tax rates that are expected to be applicable to the taxable income for the period in which the temporary differences will be recovered or cancelled. The effect of changes in the tax rates over the deferred assets and liabilities is recorded and recognized in the results of operations of the period in which they entered into effect.

In the determination of the reasonableness of the active deferred income tax that is recognized, EDC's managers consider the probability, beyond any reasonable doubt, that any part of the active deferred tax is not realizable. The final realization of an active deferred income tax depends on the existence of taxable income during the periods in which the temporary differences are deductible. As of December 31, 2007, EDC has an active deferred income tax of Bs. 124.04 million and during the fiscal year ended December 31, 2007, EDC recognized a deferred income tax gain of Bs. 34.85 million. See Note 3(r) and Note 19 to the Audited Financial Statements for the year ended December 31, 2007, included in this Offering Circular.

### ***Transition to International Financial Reporting Standards***

Currently, Venezuela's accounting requirements for listed companies are based on approved principles published by the Venezuelan Federation of Public Accountants and the CNV. International Accounting Standards ("IAS") are considered to be an integral part of Venezuelan GAAP when Venezuelan GAAP does not include a standard that covers a specific situation. If an issue is not covered by Venezuelan GAAP or IAS, Mexican GAAP must be applied. In the absence of authoritative literature under Mexican GAAP, U.S. GAAP is followed.

According to the Venezuelan Federation of Public Accountants, all listed companies in Venezuela are obligated to adopt IAS and IFRS in their financial statements for periods beginning after January 1, 2008. EDC is currently transitioning its accounting policies to comply with these standards.

### ***Off-Balance Sheet Transactions***

In the ordinary course of business, EDC has entered into certain financial transactions that are not reflected in the balance sheet, such as commitments to grant loans and commitments under letters of credit. Such transactions are recorded in the financial statements when a disbursement thereunder occurs. The agreements governing these types of transactions sometimes are terminated without any disbursements being made thereunder.

## **Results of Operations for the Years Ended December 31, 2007, 2006 and 2005**

### ***Operating Revenue***

Operating revenue comprises sales of electricity, principally by EDC's regulated electricity business and GENEVAPCA, and other sales of services rendered by non-electricity related subsidiaries of EDC. Sales of electricity, which include sales of self-generated electricity as well as sales of substitute and contract electricity (purchased principally from EDELCA), are affected by volume and price (which is dependent on tariffs). EDC has maintained the same tariff level since September 2003. Other sales principally include revenues from bill collection services provided on behalf of third parties by *Administradora Serdeco, C.A.* ("SERDECO") and telecommunications services provided by *Comunicaciones Móviles EDC, C.A.* ("COMMOVIL") and EDC Network Communications S.C.S. ("EDC Network").

The following table shows information regarding EDC's operating revenues from electricity sales and other sales for the years ended December 31, 2007, 2006 and 2005.

	For the Year Ended December 31,					
	2007	2007		2006		2005
	(in millions of U.S.\$)	(in millions of constant Bolivares and as a percentage change from the prior year)				
Sales of electricity .....	738.31	1,587,369	(13.97)%	1,845,173	(1.35)%	1,870,419
Other sales .....	39.48	84,875	25.49%	67,635	(14.50)%	79,103
Total.....	<u>777.79</u>	<u>1,672,244</u>	<u>(12.58)%</u>	<u>1,912,808</u>	<u>(1.88)%</u>	<u>1,949,522</u>

The following table shows the volume of electricity sold by EDC for the years ended December 31, 2007, 2006 and 2005.

	For the Year Ended December 31,				
	2007	2007		2006	
	(in GWh and as percentage change from the prior year)				
Sales of electricity .....	13,490	4.05%	12,965	7.87%	12,018

The following table shows information regarding EDC's operating revenues by customer type for the years ended December 31, 2007, 2006 and 2005.

	For the Year Ended December 31,			
	2007	2007	2006	2005
	(in millions of U.S.\$)	(in millions of constant bolivares)		
Commercial .....	263.36	566,224	654,043	250,695
Residential .....	248.25	533,743	622,528	626,130
Industrial.....	90.61	194,803	235,483	695,137
Government .....	136.09	292,599	333,119	298,457
Total.....	<u>738.31</u>	<u>1,587,369</u>	<u>1,845,173</u>	<u>1,870,419</u>

#### 2007 Compared to 2006

EDC's operating revenues for the year ended December 31, 2007 totaled Bs. 1,672.24 billion, a decrease of Bs. 240.56 billion, or 12.58%, from operating revenues of Bs. 1,912.81 billion for the year ended December 31, 2006. The decrease in revenues is attributable mainly to a decrease in real tariffs resulting from the average tariff charged to customers remaining unchanged for the year ended December 31, 2007 while accumulated inflation in Venezuela reached 22.5% for the same period.

#### 2006 Compared to 2005

EDC's operating revenues for the year ended December 31, 2006 totaled Bs. 1,912.81 billion, a decrease of Bs. 36.71 billion, or 1.88%, from operating revenues of Bs. 1,949.52 billion for the year ended December 31, 2005. EDC's operating revenues declined mainly because of a decrease in real tariffs resulting from the average tariff charged to customers remaining unchanged in 2006 while Venezuela recorded accumulated inflation of 16.9% in 2006.

#### ***Operating Expenses***

Operating expenses consist of expenses relating to costs of generation and purchase of power, transmission and distribution activities and depreciation and amortization.

Expenses relating to electricity generation are affected by per unit production cost (which is dependent on the efficiency of EDC's electricity generation units, the volume of electricity generated, the price of fuel used to generate electricity and labor costs associated with generation activities). Expenses relating to the purchase of substitute power are affected by the price of fuel. Expenses relating to transmission and distribution include labor costs relating to transmission and distribution activities, costs of services provided by third parties and costs of materials and spare parts. Depreciation and amortization expenses consist of expenses relating to the use of property, plant and equipment based on each item's useful life.

The following table provides operating expense information for the years ended December 31, 2007, 2006 and 2005:

	<b>For the Year Ended December 31,</b>					
	<b>2007</b>	<b>2007</b>		<b>2006</b>		<b>2005</b>
	<i>(in millions of U.S.\$)</i>	<i>(in millions of constant Bolívares and as a percentage change from the prior year)</i>				
Generation and purchase of power .....	221.91	477,107	25.05%	381,530	(13.91)%	443,161
Transmission and distribution.....	151.18	325,027	23.13%	263,961	26.21%	209,141
Depreciation and amortization.....	230.82	496,254	(6.19)%	529,020	(4.92)%	556,414
Total Operating Expenses .....	<u>603.91</u>	<u>1,298,388</u>	10.55%	<u>1,174,511</u>	(2.83)%	<u>1,208,716</u>

#### 2007 Compared to 2006

EDC's operating expenses for the year ended December 31, 2007 totaled Bs. 1,298.39 billion, an increase of Bs. 123.88 billion, or 10.55%, from operating expenses of Bs. 1,174.51 billion for the same period in 2006. Operating expenses increased in 2007 mainly as a result of a new union labor contract and the increase in pension payments to retirees.

#### 2006 Compared to 2005

EDC's operating expenses for the year ended December 31, 2006 totaled Bs. 1,174.51 billion, a decrease of Bs. 34.20 billion, or 2.83%, from EDC's operating expenses of Bs. 1,208.71 billion for the year ended December 31, 2005. Operating expenses decreased mainly as a result of a decrease in the costs for purchase of energy and fuel.

#### ***General and Administrative Expenses***

General and administrative expenses include bad debt allowances, labor costs relating to management, including bonuses and other profit-sharing contributions based on net income, costs of services provided by third parties and other general and administrative expenses.

#### 2007 Compared to 2006

EDC's general and administrative expenses for the year ended December 31, 2007 totaled Bs. 321.26 billion, a decrease of Bs. 42.8 billion, or 11.76%, from EDC's general and administrative expenses of Bs. 364.06 billion for the year ended December 31, 2006. Operating expenses decreased mainly as a result of EDC's decision in 2006 to (i) record a provision to cover an increase in EDC's employees' and retirees' compensation, and (ii) invest in information technology and other related expenses to update its internal software.

#### 2006 Compared to 2005

EDC's general and administrative expenses for the year ended December 31, 2006 totaled Bs. 364.06 billion, an increase of Bs. 29.46 billion, or 8.80%, from EDC's operating expenses of Bs. 334.60 billion for the year ended December 31, 2005. Operating expenses increased mainly as a result of EDC's decision in 2006 to (i) record a provision to cover an increase in EDC's employees' and retirees' compensation, and (ii) invest in information technology and other related expenses to update its internal software.

#### ***Other Income (Expense), Net***

#### 2007 Compared to 2006

EDC recorded other income, net of Bs. 10.19 billion for the year ended December 31, 2006, compared to other income, net of Bs. 78.77 billion for the year ended December 31, 2007. This variation was due primarily to the divestiture of assets in an amount of Bs. 9,037 million and the analysis and implementation of certain accounts in connection with the adoption of IFRS.

#### 2006 Compared to 2005

EDC recorded other income, net of Bs. 10.19 billion for the year ended December 31, 2006, compared to other income, net of Bs. 66.28 billion for the year ended December 31, 2005. This decrease of Bs. 56.09 billion in other income, net during 2006 was mainly due to a decrease in transactions with securities and the sale of certain assets such as EDC's helicopter and the *Torre Sur* building.

#### ***Comprehensive Financing Income (Cost), Net***

Comprehensive financing income (cost), net, represents the difference between interest income and interest expense, gains and losses due to exchange rate fluctuations and inflationary gains and losses from EDC's monetary position. EDC invests its available cash in securities, time deposits, commercial paper, corporate bonds, asset-backed securities, etc. Generally, gains from exchange rate fluctuations are a result of maintaining more assets denominated in foreign currencies than liabilities. Inflationary losses generally result from maintaining a net monetary asset position in bolívares, while inflationary gains generally result from maintaining a net monetary liability position in bolívares.

#### 2007 Compared to 2006

During the year ended December 31, 2007, the integral benefit of financing was Bs. 59.77 billion, an increase of 110.21% compared to Bs. 28.43 billion for the year ended December 31, 2006. This increase was the result of (a) a lower level of debt stemming from the prepayment and repayment of loans from foreign and local sources; and (b) the application of a lower average interest rate on EDC's bolívar-denominated debt, as compared to 2006, which led to a 22.05% decrease in interest and financial expenses. Another favorable factor was the stability of the official Bolívar/US Dollar exchange rate, which was not adjusted by the Venezuelan government. The Bs. 24.52 billion interest earned during the year ended December 31, 2007 represented a decrease of 49.75% as compared to Bs. 48.78 billion interest earned during the year ended December 31, 2006, due mainly to a decrease in short-term temporary investments during the year ended December 31, 2007.

#### 2006 Compared to 2005

During the year ended December 31, 2006, EDC obtained an integral benefit of financing of Bs. 28.43 billion compared to an integral cost of financing of Bs. 139.73 billion recorded for 2005. This was the result of: (1) a lower level of debt stemming from the prepayment and repayment of loans from foreign and local sources, (2) lower local interest rates applied to bolívar-denominated debt, which resulted in a 38.80% decline in interest and financial expenses, and (3) the stability of the official exchange rate.

#### ***Income Tax Provision***

Income tax is calculated based upon taxable income expressed in historical bolívares, plus a tax inflation adjustment over non-monetary assets net of stockholders' equity. Investment tax credits for property, plant and equipment reduce the income tax during the year in which such assets are placed in service. Such credits may be carried forward for up to three subsequent periods beginning in the year in which they are generated. Likewise, Venezuelan tax regulations also allow fiscal losses, except for those resulting from the tax inflation adjustment, to be carried forward for three years. Tax credits for fiscal losses arising from the tax inflation adjustment are permitted to be carried forward one year.

#### 2007 Compared to 2006

EDC's income tax decreased 11.66% to Bs. 89.97 billion for the year ended December 31, 2007 from Bs. 101.85 billion for the year ended December 31, 2006, due mainly to an absence of any extraordinary events as opposed to those occurred during the year ended December 31, 2006, such as Bs. 65.82 billion from the funding of certain pension trust, the cancellation of the pensions fund and Bs. 16.71 billion in losses resulting from non-recoverable account receivables.

### 2006 Compared to 2005

EDC's income tax increased 16.46% to Bs. 101.85 billion for the year ended December 31, 2006 from Bs. 87.46 billion for the year ended December 31, 2005, due mainly to EDC's business reorganization during 2005, which allowed us to carry forward Bs. 21.69 billion resulting from tax losses and tax credits from prior years accrued by our former subsidiaries CALEV and ELEGUA.

### ***Net Income***

### 2007 Compared to 2006

EDC recorded net income for the year ended December 31, 2007 of Bs. 99.88 billion, a decrease of Bs. 210.46 billion, or 67.81%, from net income of Bs. 310.34 billion for the same period in 2006. Net income decreased mainly as a result of the decrease in operating revenues, the increase in pension payments to retirees and the effect of inflation and lack of tariff adjustments.

### 2006 Compared to 2005

EDC's net income for the year ended December 31, 2006 totaled Bs. 310.34 billion, an increase of Bs. 66.12 billion, or 27.08%, from EDC's net income of Bs. 244.22 billion for the year ended December 31, 2005. For the year ended December 31, 2006, net income increased primarily as a result of lower net financing costs.

## **Liquidity and Capital Resources**

### ***Overview of Cash Flow***

EDC's primary sources of cash are revenues from its sales of electricity in Venezuela and short and long-term borrowings in U.S. dollars and bolívares.

EDC's principal uses of cash have been:

- operating expenses, such as maintenance, salaries, purchases of raw materials and taxes;
- capital expenditures;
- debt service;and
- dividends.

EDC believes that cash flow generated from its operations, cash balances and borrowings will be sufficient to meet its working capital, debt service, acquisition and capital expenditure requirements through the next 12 months.

### 2007 Compared to 2006

EDC's net cash flow provided by operating activities decreased 39.40% to Bs. 304.29 billion for the year ended December 31, 2007 from Bs. 502.15 billion for the year ended December 31, 2006. This decrease was due mainly to the adjustment of the pension payments to retirees provided for in the new union labor contract, to the national urban minimum wage (*salario mínimo urbano nacional*).

EDC's financing activities used Bs. 435.60 billion for the year ended December 31, 2007, a decrease of 31.46% from Bs. 635.55 billion used for the year ended December 31, 2006. This decrease in cash flow used in financing activities was due principally to a reduction of Bs. 232.45 billion in debt repayments and monetary adjustments. EDC did not incur any funded indebtedness in 2007.

### Capital Expenditures

The following table sets out EDC's capital expenditures for the years ended December 31, 2007, 2006 and 2005.

	For the Year Ended December 31,			
	2007	2007	2006	2005
	(in millions of U.S.\$)	(in millions of constant bolívares)		
Generation .....	21.94	Bs. 47,165	Bs. 51,254	Bs. 71,687
Transmission.....	15.15	32,562	31,176	30,396
Distribution.....	108.94	234,217	99,189	53,127
Other Properties.....	14.35	30,849	60,951	34,729
Total.....	160.38	Bs. 344,793	Bs. 242,570	Bs. 189,939

### Planned Capital Expenditures

Our capital expenditure policy seeks to maintain our existing asset base while maximizing the value of the overall business. This policy emphasizes investments required for maintenance while keeping acceptable safety levels. We expect to receive in future periods direct and indirect resources from the Venezuelan government to expand our network and infrastructure, which we believe will significantly increase our generation capacity during the following years. Since PDVSA's acquisition of a majority interest in EDC, we have undertaken important projects for the expansion of our generation capacity, including the construction of (i) a combined-cycle generation facility of 500 MW to supply the north-central region with electricity and; (ii) a simple-cycle generation facility of 180 MW in *Isla de Margarita*, which projects are being financed through an allocation to EDC by the Venezuelan government of approximately U.S.\$310 million under a joint Venezuela-China agreement. See "—Venezuela-China Agreement."

We plan to make capital expenditures in the areas of transmission and distribution in order to meet demand growth projections, maintain minimum service quality standards and improve safety levels. We also plan to make capital expenditures within the next five years to update and maintain our transmission and distribution network and associated systems, principally by replacing older equipment with advanced technical equipment. In particular, we expect to undertake the following capital expenditure projects in the areas of transmission and distribution:

- expenditures to improve the capacity of certain transmission lines to transmit energy output from the Tacoa plant and the Oscar Augusto Machado ("OAM") facility, which improvements are expected to enhance the efficiency of those generation plants;
- investments to expand our system through the creation of new substations, as well as re-conditioning of pre-existing substations to increase their capacity;
- expenditures to eliminate bottle-necks and build network expansions for future developments; and
- investments for an approximate amount of U.S.\$140.3 million to re-condition our current electricity infrastructure so that we can expand our service areas to new urban developments and incorporate new users to our network in remote areas (such as *Ciudad Camino de los Indios*), all in support of the Venezuelan government's plans for the electricity sector.

In the area of generation, we intend to make significant investments to maintain and overhaul our generation plants and equipment.

### Venezuela-China Agreement

According to the Offering Memorandum of the Bolivarian Republic of Venezuela, in November 2007, the *Banco de Desarrollo Económico y Social de Venezuela* entered into a credit facility with China Development Bank in the aggregate amount of U.S.\$4 billion in connection with the creation of a Sino-Venezuelan Joint Fund between the Governments of China and Venezuela to finance development and infrastructure projects in Venezuela. The credit facility has a term of three years renewable for a term of 15 years. Pursuant to this agreement, on November

23, 2007, the Venezuelan government authorized and budgeted to EDC (a) an amount equal to U.S.\$310 million for 2008 for EDC's construction of (i) a combined-cycle generation facility of 500 MW to supply the north-central region with electricity, and (ii) a simple-cycle generation facility of 180 MW in *Isla de Margarita*; and (b) an amount equal to U.S.\$390 million for the period from 2009 to 2015 for the development of electricity generation projects. EDC does not have any obligation to repay any of the funds allocated to it by the Venezuelan government for the construction of such electricity generating facilities.

### ***Investments, Cash and Cash Equivalents***

EDC maintains a portfolio of cash and cash equivalents and investments in Bolívar Fuerte and U.S. dollars. EDC typically invests in highly liquid, low-risk investments, primarily certificates of deposit, with original maturities of three months or less. As of December 31, 2007, EDC maintained a portfolio of cash, cash equivalents and short-term investments of U.S.\$141.53 million, of which 58% was denominated in off-shore deposits in U.S. dollars and the remainder in bolívares.

### ***Indebtedness***

EDC enters into short-and long-term borrowings in bolívares and U.S. dollars as needed. EDC is currently controlled by the Bolivarian Republic of Venezuela through PDVSA and, therefore, expects to carry the same rating as the Bolivarian Republic of Venezuela and PDVSA. EDC has generally been able to obtain short-and long-term credits to meet its financing needs from a variety of sources, including commercial banks, bilateral and multilateral institutions and institutional investors. As of December 31, 2007, EDC's total short-and long-term debt (including deferred amortizations) was Bs. 564.1 billion, with short-term debt (including the current portion of its long-term debt) totaling Bs.9.6 billion and long-term debt (excluding the current portion) totaling Bs.554.5 billion.

### **EDC Finance Notes**

On October 28, 2004, our wholly owned subsidiary, EDC Finance, issued U.S.\$260 million of its 10-year maturity 10.25% notes, which were placed in the international capital markets. The EDC Finance Notes are unconditionally and irrevocably guaranteed by us. EDC Finance used the proceeds from the issuance of the EDC Finance Notes to purchase a 100% participation in the U.S.\$260 million loan (the "EDC Loan Agreement") made to us by Hollandsche Bank-Unie N.V., a wholly owned subsidiary of ABN AMRO Bank N.V., for a principal amount of U.S.\$260 million, with a 10-year maturity date which accrued a 10.30% interest to be paid semi-annually. As part of such transaction we paid in full our then outstanding debt with ABN AMRO Bank N.V for an original principal amount of U.S.\$50.00 million, which had an original 3-year maturity date and accrued interest at an annual rate of LIBOR plus 7.00%.

The indenture governing the EDC Finance Notes and the EDC Loan Agreement currently contain (i) covenants limiting the ability of EDC to incur additional indebtedness, grant liens, sell assets, make restricted payments (including dividend payments), make certain investments, enter into agreements with related parties and sale and lease back transactions and make material changes in the nature of its business, (ii) customary events of default, which include cross-payment default and acceleration provisions and the failure by EDC to maintain an interest coverage ratio of no less than 2.4 to 1.0 and a total debt to EBITDA ratio no greater than 3.75 to 1.0.

On March 7, 2008, EDC Finance commenced an offer to purchase for cash any and all of the EDC Finance Notes. The closing of the offer to purchase the EDC Finance Notes is conditioned, among others, to the consummation of this offering (the "Financing Condition") and the receipt by EDC Finance of validly tendered EDC Finance Notes and valid consents of holders of a majority of the aggregate principal amount of the EDC Finance Notes pursuant to the Offer and Consent Solicitation (the "Majority Tender Condition"). Concurrently with the offer to purchase the EDC Finance Notes, EDC Finance is soliciting consents to certain proposed amendments to the indenture governing the EDC Finance Notes that would eliminate substantially all the restrictive covenants contained therein, the EDC Finance Notes and, as a result of such amendments, thereby eliminate certain events of default and would modify other related provisions of the indenture governing the EDC Finance Notes. Adoption of the proposed amendments to the indenture governing the EDC Finance Notes requires the satisfaction of the Majority Tender Condition pursuant to the Offer and Consent Solicitation. The closing of this offering is conditioned upon the satisfaction or waiver by EDC Finance of the closing conditions of the Offer and Consent Solicitation. See "Risk Factors — The closing of this offering is conditioned upon the satisfaction or waiver of the

closing conditions of the Offer and Consent Solicitation," "Use of Proceeds" and "Business — EDC Finance Offer to Purchase and Consent Solicitation."

Concurrently with the Offer and Consent Solicitation, we intend to enter into an amendment to the EDC Loan Agreement that would eliminate substantially all the restrictive covenants and certain events of default and would modify other related provisions contained therein, mirroring the proposed amendments to the indenture governing the EDC Finance Notes.

#### U.S. Eximbank-Guaranteed Loans

On September 10, 1999, EDC entered into a credit agreement with The Chase Manhattan Bank (now J.P. Morgan Chase Bank), as lender, and the Export-Import Bank of the United States ("Eximbank"), as guarantor, for a credit in the amount of U.S.\$21.6 million. The principal of this loan is payable in semi-annual installments over a period of 10 years. Interest is payable semi-annually at a rate equal to six-month LIBOR plus a margin of 0.2%. The proceeds of the loan were used to finance the U.S. portion of a 90 MW turbine installed at the OAM facility. As of December 31, 2007, approximately U.S.\$7.5 million was outstanding under this credit agreement.

Also, on September 10, 1999, EDC entered into a facility agreement with The Chase Manhattan Bank, as lender, and Eximbank, as guarantor, for a line of credit in the amount of U.S.\$35.9 million. Each disbursement under the loan is payable in semi-annual installments over a period of five years, which may be extended to seven years. Interest is paid semi-annually at a rate equal to six-month LIBOR plus a margin of 0.2%. The proceeds of this loan were used for the financing of purchases of equipment and services originating from the United States. As of December 31, 2007 approximately U.S.\$0.2 million was outstanding under this facility. On January 7, 2008, the outstanding balance was paid in full.

The U.S.\$21.6 million credit agreement includes covenants, including restrictions on EDC to merge or consolidate with any other entity; dissolve or terminate its legal existence, sell, lease transfer or otherwise dispose of any substantial part of its properties or any of its properties essential to the conduct of its business or operations, as now or hereafter conducted; or enter into any agreement to do any of the foregoing, except that EDC may perform such mergers, consolidations, dissolutions, sales, leases or similar transactions if (i) required by law, (ii) EDC makes a request for and receives prior written approval from Eximbank to take any such action, which approval shall not be unreasonably withheld, and (iii) EDC promptly informs the lender in writing that it has submitted such a request for approval from Eximbank to take such action. See "Risk Factors — Risks related to us — We are required to merge into Corporación Eléctrica Nacional."

#### *Commercial Paper and Other Short-Term Domestic Issues*

In 2006, we issued commercial paper payable in bolívares in the amount of Bs. 142.20 billion with a weighted average rate of 6.37%. In 2007, we issued commercial paper in the amount of Bs. 90.00 billion with a weighted average rate of 6.29%. As of December 31, 2007, we had no debt outstanding in commercial paper. Further, during 2007, we incurred short term debt in an amount of Bs. 10.00 billion with commercial banks. All of our short term debt was cancelled during the third quarter of 2007.

#### *Interest Rate Risk*

The following table presents whether the interest component is fixed or variable and the amount and timing of cash flows required to service such debt. All U.S. dollar denominated liabilities and notional amounts set forth below have been converted into bolívares based on the official exchange rates in effect as of December 31, 2007, which was U.S.\$ 1.00 = Bs. 2,150.

As of December 31, 2007	2008	2009	2010	2011	Other	Total
<b>Long-term debt obligations:</b>						
Fixed rate long-term borrowings .....	-	-	-	-	559,000	559,000
Fixed interest rate .....	10.30%	10.30%	10.30%	10.30%	10.30%	10.30%
Variable rate long-term borrowings.....	5,088	4,614	4,614	2,308	-	16,624

## BUSINESS

### Overview

EDC, a *compañía anónima* under the laws of Venezuela, was incorporated on November 29, 1895. EDC is domiciled in Venezuela and has its registered and executive offices at Avenida Vollmer, San Bernardino, Caracas, Venezuela. EDC is one of the oldest electricity utilities in Latin America and one of the largest electricity utilities in Venezuela based on its Installed Capacity and number of customers. The principal business of EDC is that of a vertically integrated electric utility company which generates, transmits and distributes electricity in Venezuela, primarily in the metropolitan area of Caracas and its surrounding areas.

From the year 2000 until May 2007, EDC was a majority owned subsidiary of The AES Corporation. In January 2007, Venezuelan President Hugo Chávez announced a plan to nationalize various areas of the economy including the electricity sector. In February 2007, PDVSA, an entity wholly-owned by the Bolivarian Republic of Venezuela, agreed to purchase The AES Corporation's 82% interest in EDC pursuant to a tender offer open to all holders of EDC's common stock, and in May 2007 The AES Corporation tendered its 82% interest in EDC to PDVSA. As of December 31, 2007, the Bolivarian Republic of Venezuela, through PDVSA, controlled an approximately 93.62% interest in EDC. See "—EDC's Controlling Shareholder" and "—Ownership and Corporate Structure."

EDC is a vertically integrated company that directly owns and operates generation, transmission and distribution assets for its regulated electricity business in Venezuela. EDC also indirectly owns regulated electricity businesses, as well as an independent power plant, telecommunications businesses and certain ancillary businesses. See "—Ownership and Corporate Structure."

The following table sets forth certain operating data relating to EDC's regulated electricity business in Venezuela at or for the years ended December 31, 2007, 2006 and 2005.

	<b>At or for the Year Ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
Aggregate installed capacity ( <i>MW</i> ).....	2,316	2,316	2,316
Generating units.....	17	17	17
Gross electricity production ( <i>GWh</i> ) <sup>(1)</sup> .....	11,407	10,404	10,160
Electricity sales ( <i>GWh</i> ) <sup>(2)</sup> .....	11,749	11,392	10,526
Service area ( <i>km</i> <sup>2</sup> ).....	5,176	5,176	5,176
Employees <sup>(3)</sup> .....	2,854	2,807	2,783
Customers.....	1,153,833	1,103,149	1,029,805

(1) Figures calculated before netting electricity used for internal consumption and technical and non-technical losses.

(2) Includes electricity for generation and purchases of electricity for resale, primarily from EDELCA.

(3) The total number of employees of the companies not considered part of EDC's regulated electricity business was 43 for 2007, 38 for 2006 and 40 for 2005.

### ***EDC's Regulated Electricity Business***

EDC serves its regulated electricity business directly as an operating company and indirectly through its subsidiary CALEY. At December 31, 2007, EDC's regulated electricity business had an Installed Capacity of 2,316 MW, comprising 17 generating units. EDC's regulated electricity business' aggregate generating capacity represented approximately 9.57% of the total Installed Capacity of the Venezuelan electricity system at December 31, 2007. At December 31, 2007, EDC estimates that it provided electricity services to approximately 20.00% of Venezuela's total population and 23.70% of Venezuela's total customers through the public electricity distribution system.

Gross electricity generation from units owned by EDC (net of electricity used for its own operations but before technical and non-technical losses), for the years ended December 31, 2007, 2006, and 2005 was 11,407

GWh, 10,404 GWh, and 10,160 GWh, respectively. As of December 31, 2007, EDC's regulated electricity business had 29 substations and 2,353 km of installed high voltage transmission lines, consisting of 388 km of 230 kV lines, 1,464 km of 69 kV lines and 501 km of 30 kV lines, as well as 117 substations and 6,675 km of installed low voltage transmission lines, consisting of 5,053 km of 12.47 kV lines, 224 km of 8.3 kV lines and 1,367 km of 4.8 kV lines.

EDC's regulated electricity business distributed electricity over an aggregate area of 5,176 square kilometers to a total of 1,153,833 customers at December 31, 2007. Its total sales of electricity (from its own generation plus purchases from other state-owned companies, primarily EDELCA), for the years ended December 31, 2007, 2006 and 2005 were 11,749 GWh, 11,392 GWh and 10,525 GWh, respectively.

On December 31, 2001, the Venezuelan National Assembly enacted the Electric Service Law, which, as amended, forms the basis for the regulatory framework applicable to the electricity sector in Venezuela.

In 2004 EDC's former subsidiaries CALEV and ELEGUA were merged into EDC to comply with the then applicable requirements of the Electric Service Law. As a result of the merger, EDC assumed all assets and liabilities of CALEV and ELEGUA, which assets and liabilities are part of EDC's regulated electricity business. See "—EDC 2004 Corporate Reorganization."

On May 2, 2007, President Chávez, based on a Law enacted by the Venezuelan National Assembly granting legislative powers to the Executive branch, issued Decree N° 5,330, with force of organic law, to reorganize the electricity sector. Decree N° 5,330 provides for the establishment of the CEN, a state-owned *compañía anónima*, that will become the state owned enterprise engaged in operating the electric sector, including the generation, transmission, distribution and retail of electric power and energy. Pursuant to Decree N° 5,330, 75% of the shares of CEN will be owned by the Bolivarian Republic of Venezuela, and 25% will be owned by PDVSA. Under Decree N° 5,330, PDVSA's shares in EDC are required to be transferred to CEN. As a result, EDC temporarily will become a subsidiary of CEN because pursuant to Decree N° 5,330, all subsidiaries of CEN shall be merged into CEN on or before May 2, 2010, the date three years after issuance of Decree N° 5,330. Until EDC is merged into CEN, EDC expects to continue performing its current electricity services. In addition, EDC intends to operate and maintain electric generation and distribution facilities in the States of Aragua, Miranda and Nueva Esparta, in accordance with Resolution N° 190 of October 8, 2007, issued by the Energy Ministry.

See "The Electricity Industry in Venezuela — Regulation and Regulatory Control."

### **EDC's Controlling Shareholder**

As of December 31, 2007, the Bolivarian Republic of Venezuela, through PDVSA, controlled an approximately 93.62% interest in EDC. See "Principal Shareholders."

#### ***The Bolivarian Republic of Venezuela.***

Venezuela is situated on the northern coast of South America. It has a coastline of approximately 2,813 kilometers on the Caribbean Sea and the Atlantic Ocean. Venezuela had an estimated population of approximately 27.0 million as of year-end 2006, where approximately 64.0% of all Venezuelans were between the ages of 15 and 64 in 2006.

Venezuela has been a major petroleum exporter since the early twentieth century. According to the BP Statistical Review of World Energy 2007, Venezuela is the ninth-largest oil producer in the world. From 2002 through 2006, petroleum products accounted for an average of approximately 84.1% of Venezuela's total exports. During the same period, petroleum revenues accounted for an average of approximately 49.0% of Venezuela's total Central Government revenues and the petroleum sector accounted for an average of approximately 16.7% of GDP. In 2006, petroleum activities accounted for approximately 14.4% of GDP. The Venezuelan government anticipates that petroleum will continue to be the main source of export earnings and fiscal revenues for the foreseeable future.

Through PDVSA and CVG, the Venezuelan government controls significant proportions of GDP in the petroleum, electricity, telecommunications, mining and basic industries sectors of the economy. The Venezuelan

government, through PDVSA, accounts for the bulk of Venezuela's total exports. The Venezuelan government also supplies the majority of basic public services, such as water, electricity, health and education.

**PDVSA**

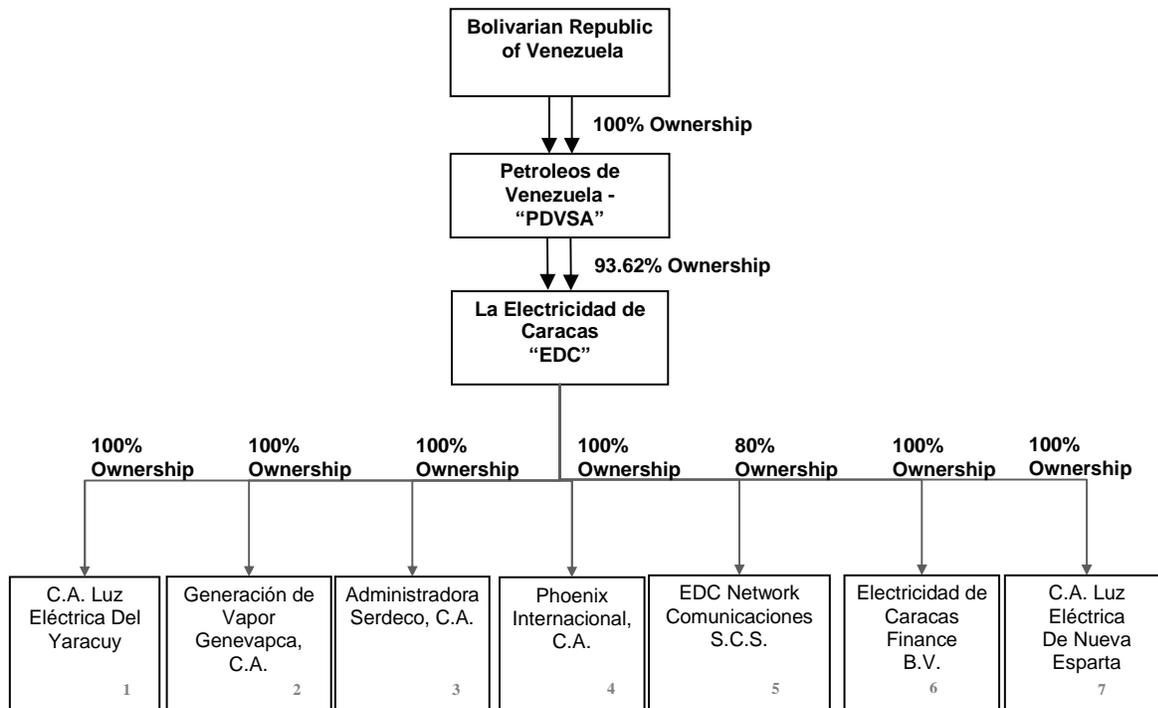
PDVSA is a corporation (*sociedad anónima*) organized under the laws of Venezuela, formed in 1975 by the Venezuelan government to coordinate, monitor and control all operations relating to hydrocarbons. PDVSA is wholly owned by Venezuela and is the holding company of a group of oil and gas companies. PDVSA is the largest vertically integrated oil company in Latin America with daily crude oil production of 2,906 mmbpd and the fourth largest vertically integrated oil company in the world as measured by total assets at year-end 2005, based on information published by Petroleum Intelligence Weekly, a trade publication. PDVSA carries out its exploration, development and production ("upstream") operations in Venezuela and its sales, marketing, refining, transportation, infrastructure, storage and shipping ("downstream") operations in Venezuela, the Caribbean, North America, South America and Europe. PDVSA indirectly owns 100% of CITGO, a refiner and marketer of transportation fuels, petrochemicals and other industrial oil-based products in the United States.

For more information on the Bolivarian Republic of Venezuela and its indirect ownership interest in EDC through PDVSA, see "Principal Shareholders."

Neither the Bolivarian Republic of Venezuela nor PDVSA has any obligation under the Notes, or is providing any guaranty relating to our obligations under the Notes.

**Ownership and Corporate Structure**

EDC is an operating company and also conducts some of its business through subsidiaries. As of December 31, 2007, EDC's regulated electricity business and GENEVAPCA generated approximately 94.9% of EDC's revenues. The following diagram sets forth the ownership and corporate structure of EDC and its subsidiaries as of December 31, 2007.



1. C.A. Luz Eléctrica del Yaracuy: vertically integrated company that transmits, distributes and commercializes electricity to the Municipalities of the State of Yaracuy. As of December 31 2007, C.A. Luz Eléctrica del Yaracuy's total issued capital was Bs. 7.92 billion. All of the issued capital was fully paid. For the year ended December 31, 2007, EDC received Bs. 17.76 billion in dividends from C.A. Luz Eléctrica del Yaracuy.
2. Generación de Vapor GENEVAPCA, C.A.: independent power producer formed to design, construct, operate, sell, lease, maintain and administrate energy generating facilities within Venezuela. As of December 31 2007, GENEVAPCA's total issued capital was Bs. 415.65 billion. All of the issued capital was fully paid. For the year ended December 31, 2007, EDC received Bs. 44.45 billion in dividends from GENEVAPCA.
3. Administradora Serdeco, C.A.: entity formed to provide billing services and perform any actions related to, incidental to or in connection with such billing services.
4. Phoenix Internacional, C.A.: entity formed to provide marketing services and to sell and supply unfinished products to the oil industry and the operations systems of water treatment plants, filtration and injection of water and other liquids, generation and injection of steam for the secondary or tertiary recovery of hydrocarbons.
5. EDC Network Comunicaciones, S.C.S.: entity formed to establish and exploit telecommunication networks as permitted by applicable law; including as a carrier between points of presence of telecommunications operators located in Venezuela.
6. Electricidad de Caracas Finance B.V.: entity formed in connection with the issuance of the EDC Finance Notes.
7. C.A. Luz Eléctrica de Nueva Esparta: entity formed to generate, transport, distribute and sell electricity.

## **Social Development**

The Venezuelan National Constitution and the Electric Service Law mandate us to contribute manpower and financial resources to social programs developed and administered by the Venezuelan government. These social programs, such as "*Mesas Eléctricas*" and "*Misión Revolución Energética*," are intended to educate our customers on the importance of an efficient use of electricity and to enhance their quality of life. We intend to make valuable contributions to these social programs, promoting and participating in the Venezuelan social and economic development.

## **EDC 2004 Corporate Reorganization**

On June 30, 2004, the extraordinary shareholders' meeting of each of our former subsidiaries CALEV and ELEGGUA (99.96% and 99.91% formerly owned by EDC, respectively), and the extraordinary shareholders' meeting of EDC, approved the merger of CALEV and ELEGGUA into EDC to comply with the then applicable requirements of the Electric Service Law which provided that all assets committed to the distribution of electricity had to be directly owned by one single entity. The merger was effective as of December 30, 2004, three months after the filing and publication of the relevant merger agreements. As a result of the merger, EDC assumed all assets and liabilities of CALEV and ELEGGUA. The equity participation of minority shareholders in CALEV and ELEGGUA was cancelled during the first quarter of 2005 by means of a stock exchange for EDC's shares with an equivalent value to the net book value of such shareholders' participation in the merged corporations. The stock exchange took place in accordance with the terms and conditions set forth in the corresponding merger agreements as approved by the relevant shareholders' meetings of each of CALEV, ELEGGUA and EDC.

## **EDC Finance Offer to Purchase and Consent Solicitation**

On March 7, 2008, EDC Finance commenced the Offer and Consent Solicitation. The closing of the Offer and Consent Solicitation is conditioned, among others, to the Financing Condition and the Majority Tender Condition. The closing of this offering, in turn, is conditioned upon the satisfaction or waiver of the closing conditions of the Offer and Consent Solicitation, including the Financing Condition and the Majority Tender Condition. As of March 28, 2008, EDC Finance had received valid irrevocable tenders and consents from approximately 94% in aggregate principal amount of the outstanding EDC Finance Notes pursuant to the Offer and Consent Solicitation. See "Risk Factors — The closing of this offering is conditioned upon the satisfaction or waiver of the closing conditions of the Offer and Consent Solicitation" and "Use of Proceeds."

## **Strategy**

EDC's strategy is to continue to be a strategic investment of the Bolivarian Republic of Venezuela by consolidating its position as a key participant in the electricity sector in Venezuela, focusing on achieving operational, financial and strategic excellence, and providing safe and reliable electricity services to meet the electricity needs of the Venezuelan population. EDC's strategy is part of Venezuela's national economic and social development plan for the period from 2007 to 2013.

EDC expects to implement its strategy by keeping a strong operational and financial performance in its service areas, reinforcing a culture of efficiency and human and social commitment aimed at providing safe and reliable electricity services and ensuring a successful integration process toward the creation of the CEN.

EDC's key strategic milestones for the coming years include:

- maintaining and enhancing its position as an efficient cash generator in order to undertake any necessary investments to achieve operational excellence and allow low-income communities to have access to electricity at affordable prices;
- increasing the capacity and efficiency of its generating activities;
- leveraging on bilateral trade agreements between the Bolivarian Republic of Venezuela and other nations to finance EDC's capital expenditures, including a joint Venezuela-China agreement;
- promoting the use of alternative energy sources;
- reducing electricity losses; and
- introducing new and important behavioral changes in EDC's personnel to establish a culture of efficiency and human and social commitment towards fulfillment of the company's strategic objectives.

## **Competitive Strengths**

EDC believes that the following competitive strengths will enable it to continue to operate efficiently and provide it with the platform from which to achieve its strategic objectives:

- strategic public utility for the success of Venezuela's national economic and social development plan;
- proven track record of operational efficiency in generation, transmission, distribution and retail of electricity;
- experienced management and high degree of commitment from its employees;
- access to a diverse universe of domestic and international lenders and investors;
- up-to-date infrastructure, technology and system platforms; and
- low level of electricity losses.

## **Generating Plants**

Through its regulated electricity business EDC owns and operates four generating plants with a total of 17 generating units, including steam and combustion units, with an aggregate installed generating capacity of 2,316 MW as of December 31, 2007. EDC's regulated electricity business owns all of its plants and the related generating units, as well as the sites on which the plants are located.

The following is a description of EDC's regulated electricity business' significant generating plants.

***Josefa Joaquina Sanchez Bastidas Complex***

The Josefa Joaquina Sanchez Bastidas complex ("CGJJSB") consists of three separate generating plants: the Tacoa plant, the Tacoa plant expansion and the Arrecifes plant. The complex is located on the central north coast of Venezuela, approximately 50 kilometers from Caracas, and has a total of 12 thermal generating units with a total Installed Capacity of 1,866 MW. CGJJSB represented 80.5% of the EDC's regulated electricity business's total Installed Capacity as of December 31, 2003. All the units in the CGJJSB complex are steam turbines. The Tacoa and Arrecifes plants operate with methane gas and the Tacoa plant expansion operates with methane gas and fuel oil N° 6.

**Tacoa Plant**

The Tacoa plant has a total Installed Capacity of 336 MW. The plant has four ABB generators, of which two were installed in 1956 and 1957 and have a rated capacity of 40 MW each and two were installed in 1961 and have a rated capacity of 60 MW each. It also has two Westinghouse generators, each with a rated capacity of 60 MW, one installed in 1962 and the other in 1966. These generators were repowered in 1991, which increased the Installed Capacity of the units from 60 MW to 68 MW. Units N° 1 and N° 2 (40 MW each one) are unavailable. EDC is evaluating the feasibility of repairing or retiring those units .

**Tacoa Plant Expansion**

The Tacoa plant expansion has a total Installed Capacity of 1,410 MW. EDC increased the capacity in 1978 and 1979 by installing two Toshiba generators, each with an Installed Capacity of 400 MW. In addition, EDC installed a third Toshiba unit in 1981 with an Installed Capacity of 400 MW. From 1991 to 1993, EDC revamped the Tacoa plant expansion's turbines and generators and in 1996 installed new systems, which increased the power output of each unit from 400 MW to 470 MW.

**Arrecifes Plant**

The Arrecifes plant has a total Installed Capacity of 120 MW. The plant has three General Electric generators with a rated capacity of 40 MW each, installed in 1953, 1955 and 1959, respectively. Two of these three generators currently are unavailable. EDC is evaluating the feasibility of repairing or retire those units .

***Oscar Augusto Machado Facility***

The Oscar Augusto Mahado Facility ("OAM") includes five gas-powered combustion turbine generating units. Four of these units have a rated capacity of 90 MW (109 MW according to ISO Standards) each and were installed in 1994 and 1995. The fifth unit has a rated capacity of 90 MW (109 MW according to ISO Standards) and was installed in 2001. The aggregate Installed Capacity for the facility is 450 MW. All of the units are turbogenerators produced by Siemens-Westinghouse, model W501D5. Four of the generating units are designed to operate with methane gas or fuel oil N° 2. The fifth generating unit is designed to operate only with methane gas. This generating unit employs a dry low NO<sub>x</sub> system designed to comply with World Bank NO<sub>x</sub> emission standards.

The OAM facility is located in the state of Miranda, approximately 8 kilometers to the southwest of Caracas. At December 31, 2007, the Installed Capacity of the OAM facility accounted for 19.2% of the total Installed Capacity of the Regulated Group.

**Generation**

The following table sets out for the years ended December 31, 2007, 2006 and 2005 the Installed Capacity of the EDC's regulated electricity business' generating plants, the gross electricity generated from each plant and the percentage that each plant represents of the EDC's regulated electricity business's total actual generation in the relevant period.

At or for the Year Ended December 31, 2007			At or for the Year Ended December 31, 2006			At or for the Year Ended December 31, 2005		
Installed rated capacity	Gross electricity generated <sup>(1)</sup>	Percentage of electricity	Installed rated capacity	Gross electricity generated <sup>(1)</sup>	Percentage of electricity	Installed rated capacity	Gross electricity generated <sup>(1)</sup>	Percentage of electricity

	(MW)	(MWh)	<u>generated</u> (%)	(MW)	(MWh)	<u>generated</u> (%)	(MW)	(MWh)	<u>generated</u> (%)
<b>Thermal generating plants</b>									
<b>CGJJSB</b>									
Tacoa plant.....	336	882,505	7.2	336	887,530	8.5	336	973,667	9.6
Tacoa plant expansion.....	1,410	7,389,635	64.8	1,410	7,234,970	69.5	1,410	6,800,740	66.9
Arrecifes plant.....	120	121,797	1.1	120	164,208	1.6	120	219,478	2.2
Oscar Augusto Machado Facility.....	450	3,073,461	26.9	450	2,117,967	20.4	450	2,166,558	21.3
Total.....	2,316	11,407,395	100.0	2,316	10,404,674	100.0	2,316	10,160,453	100.0

- (1) Gross electricity generated means total electricity generated before netting of electricity consumed internally by EDC's regulated electricity business' plant and operations and, therefore, not available for sale and before technical and non-technical losses. Electricity consumed internally for EDC's regulated electricity business' plant and operations and technical and non-technical losses (except for CALEY's losses), amounted to 368,746 MWh and 141,571 MWh, respectively, for the year ended December 31, 2007, to 325,531 MWh and 109,763 MWh, respectively, for the year ended December 31, 2006, and 314,502 MWh and 75,894 MWh, respectively, for the year ended December 31, 2005.
- (2) Gross electricity generated by EDC's regulated electricity business' units for the years ended December 31, 2007, 2006 and 2005 was 11,407 GWh, 10,405 GWh and 10,160 GWh respectively. Net electricity generated by EDC's regulated electricity business' units for the years ended December 31, 2007, 2006, 2005 was 11,039 GWh, 10,079 GWh, and 9,846 GWh, respectively.

A major component of EDC's business strategy involves increasing the capacity and efficiency of its generation activities. The principal goals of this strategy are to provide reliable electric service to EDC's customers, ensure its ability to successfully compete in the Venezuelan electricity market under the Electric Service Law and comply with applicable environmental standards.

### Planned Expansion of Generating Capacity

As part of its strategy to increase the capacity and efficiency of its generating activities, EDC plans to invest in thermal generation projects.

Currently, EDC is planning to build (i) a combined-cycle generation facility of 500 MW to supply the north-central region with electricity and; (ii) a simple-cycle generation facility of 180 MW in *Isla de Margarita*, which projects are being financed through an allocation to EDC by the Venezuelan government of approximately U.S.\$310 million under a joint Venezuela-China agreement. See "Management's Discussion and Analysis of Financial Condition and Results of Operation — Liquidity and Capital Resources — Planned Capital Expenditures."

### Average Availability Factor

The average availability factor of a generating unit is the percentage of hours such unit is available for generation in the relevant year, whether or not the unit is actually used for generating power. The actual availability will be affected by maintenance schedules and scheduled outages.

The average availability factor of EDC's regulated electricity business' generating units for the years ended December 31, 2007, 2006 and 2005 was 82.6%, 85.7% and 83.5%, respectively. The average availability factor is affected by:

- the ability of management to predict outages and perform repairs before a failure occurs,
- the performance and efficiency of maintenance procedures,
- the ability to replace broken machinery parts, and
- the qualifications of personnel who operate, repair and maintain the generating units.

## **Load Dispatch**

There is currently no competitive dispatch system in operation in Venezuela. EDC's regulated electricity business is therefore able to determine the units of power it dispatches and the amount of power it purchases to service its load demands. The principal factors taken into account in establishing the order of dispatch are:

- the level of demand of customers;
- the operating characteristics of the generating units;
- the efficiency of the generating units;
- the availability of generating capacity;
- the ability to purchase electricity at reduced prices;
- the reliability of the service to be provided; and
- the ability to deal with unexpected interruptions in power supply.

The electricity load that EDC's regulated electricity business must supply during a typical business day ranges from approximately 1,100 MW during non-peak hours to approximately 2,100 MW during peak hours. Steam turbines take longer to start up than combustion turbines and are, therefore, less flexible in delivering power on short notice. The larger units are more efficient at higher levels of output on a sustained basis. EDC's regulated electricity business' gross peak load for 2007, which occurred during the fourth quarter, was approximately 2,103 MW.

## **Maintenance**

EDC's maintenance program provides for planned outages of each of EDC's regulated electricity business' generating units, including inspection of critical parts, every 12 to 18 months. Steam turbine outages last approximately 8 to 12 weeks. In addition, major components, such as turbines and boilers, undergo a complete overhaul every five years. Routine maintenance of other components is carried out by a maintenance force assigned to each plant. Major outages and overhauls are carried out by EDC's centralized maintenance organization which is also responsible for managing the personnel of the original equipment manufacturers and the contractors used in non-critical areas.

## **Raw Materials and Spare Parts**

The principal raw materials used by EDC's regulated electricity business for electricity production are methane gas, fuel oils *N*° 2 and *N*° 6, carbonic gas, water, electricity and various oils, lubricants, greases and chemicals.

EDC's regulated electricity business uses an average of 2,821 million m<sup>3</sup> of methane gas per annum for its generating units. For its regulated electricity business EDC purchases methane gas from a subsidiary of PDVSA pursuant to an annual supply contract under which prices are denominated in U.S. dollars but are payable in bolívares and are fixed by the Venezuelan government. The average price per m<sup>3</sup> paid by EDC's regulated electricity business for methane gas was Bs. 55.4 (U.S.\$0.026), Bs. 51.5 (U.S.\$0.025) and Bs. 58.8 (U.S.\$0.029), respectively, for the years ended December 31, 2007, 2006 and 2005. The methane gas is piped to EDC's regulated electricity business' facilities by PDVSA Gas, S.A. through a dedicated pipeline.

Fuel oils *N*° 2 and *N*° 6 are supplied by a subsidiary of PDVSA under open purchase orders. EDC uses for its regulated electricity business an average of 386 tons of fuel oil *N*° 2 and 530,624 tons of fuel oil *N*° 6 per annum. The average price per ton paid by EDC for fuel oil *N*° 2 was Bs. 75,067.74 (U.S.\$34.91), Bs. 75,057.74 (U.S.\$34.91) and Bs. 75,057.74 (U.S.\$35.58) for the years ended December 31, 2007, 2006 and 2005, respectively. The average price per ton of fuel oil *N*° 6 was Bs. 79,240.05 (U.S.\$36.86), Bs. 78,525.33 (U.S.\$37.52) and Bs. 78,887.67 (U.S.\$37.59) for the years ended December 31, 2007, 2006 and 2005, respectively.

Under the Electric Service Law and the regulations promulgated thereunder, the tariffs of EDC regulated electricity business are subject to monthly adjustments to reflect fluctuations in the price of fuel it uses to generate electricity. For more information on tariffs, see "— Tariffs — Current Tariff Regime" and "The Electricity Industry in Venezuela — Economic Remuneration of Electric Service — Tariff Resolutions and Adjustments."

As a result of the general strike that occurred in Venezuela beginning in December 2002, PDVSA was unable to deliver timely invoices to EDC for its fuel sales. It is EDC's policy to pay for goods and services it purchases against presentation of invoices evidencing such purchases. Consequently, EDC began to accumulate an accounts payable balance reflecting amounts owed to PDVSA for fuel that EDC purchased, but for which invoices were not presented by PDVSA.

EDC entered into an agreement with the Finance Ministry and PDVSA in July 2003 pursuant to which EDC agreed to accept payment of amounts owed to it by various ministries and instrumentalities of the Venezuelan government in the form of bolívar-denominated notes issued by the Venezuelan government. As of June 30, 2004, EDC had received a total of Bs. 18.1 billion in government-issued notes. As of September 1, 2004, EDC received an additional Bs. 25.6 billion in government-issued notes under the agreement. As part of the agreement, EDC has used such notes to pay down accounts payable balances it had accumulated in favor of PDVSA in the amount of Bs. 39.6 billion. Although the agreement has expired by its terms, EDC, PDVSA and the Finance Ministry continue to enter into transactions consistent with the agreement on a case-by-case basis. As a result of these transactions, EDC has paid an additional Bs. 4.1 billion of accumulated accounts payable to PDVSA.

Water for use in the steam turbines comes from the sea and from the public water supply network. The water is treated to remove salt and impurities. There are no restrictions on the supply of water to the EDC's plants.

The electricity used in EDC's plants normally comes directly from its own generation. The oils, lubricants, greases and chemicals used in the boiler operations and for water treatment are readily available from a number of Venezuelan suppliers.

Toshiba, Mitsubishi and Siemens-Westinghouse are EDC's regulated electricity business' principal suppliers of spare parts for turbines, generators and boilers. Other goods and materials are purchased from a variety of Venezuelan and international vendors. Historically, EDC's regulated electricity business has had no difficulty in obtaining its supplies when needed. In the past, EDC has had delays in making payments to international suppliers during periods in which the Venezuelan government has imposed exchange controls due to the difficulty in obtaining U.S. dollars and other foreign currencies from the BCV. Nevertheless, all of EDC's outstanding supplier accounts payable were ultimately paid after mechanisms were put in place by the Venezuelan government which allowed sufficient U.S. dollars to be available. Venezuelan suppliers typically account for approximately 86.3% of EDC's regulated electricity business' purchase orders other than in respect of generators, turbines and boilers, with the balance being purchased outside Venezuela.

### Purchases of Electricity

EDC's regulated electricity business purchases power to supplement its own electricity generation. EDC typically purchases electricity to supplement its own generation when a Tocoa Plant Expansion unit is shut down for maintenance purposes or, during favorable hydrological conditions, when electricity can be purchased from EDELCA at prices that are equal to, or less than the cost of thermally generated electricity using its own methane-burning generating units.

The following tables sets out electricity purchases by the EDC's regulated electricity business in GWh (except where otherwise indicated) for the years ended December 31, 2007, 2006 and 2005.

	<b>For the Year Ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
Contract electricity purchases at reduced prices.....	290	2,638	2,742
Contract electricity purchases.....	1,924	459	3
Purchases of power by CALEY from CADAFE.....	420	374	342
Total purchases.....	2,634	3,471	3,087
Total purchases ( <i>in millions of current bolívares as of December 31,</i>	Bs. 55,385	Bs. 57,804	Bs. 49,456

2007).....

Substitute electricity is electricity which the signatories to the 1988 interconnection contract (EDC, CADAFE, ENELVEN and EDELCA) (the "Interconnection Agreement") are allowed to purchase from EDELCA. The price for substitute electricity is set by reference to gas prices, not the marginal cost or deemed cost of water of the hydroelectricity generation as is the case in certain countries where the majority of the electricity generation is hydroelectric. Thus, in the case of EDC's regulated electricity business, the price for substitute electricity is driven by the price of natural gas. The price does not include depreciation or other investment costs.

It has been the Venezuelan government's policy to promote conservation of liquid fuel for export by offering electric utility companies the ability to purchase less expensive hydroelectric-generated power for each MW of thermal power that is available but not actually used for generating. Thus, in order to purchase substitute electricity, a company must demonstrate that it has sufficient excess Installed Capacity available in its system.

The availability of substitute electricity depends in large part on the hydrological conditions existing in Venezuela and the load balance at any given moment. During favorable hydrological conditions, substitute electricity is generally available, often at reduced prices. During unfavorable hydrological conditions, the Venezuelan government reserves the right to discontinue sales of substitute electricity.

Contract electricity is electricity which only those signatories to the Interconnection Agreement are allowed to purchase from EDELCA at a price which is based on EDELCA's operating and maintenance costs and the full cost of depreciation of its facilities. The average contract electricity price during 2007 was approximately Bs. 21.05 per kWh.

Beginning in the second half of 2001 through 2003, Venezuela experienced unfavorable hydrological conditions which resulted in the unavailability of substitute electricity from EDELCA. During this period, only contract electricity was available to the signatories of the Interconnection Agreement.

During the second half of the year 2004 until February 2007 EDELCA offered to contract electricity at reduced prices due to favorable hydrological conditions existing in Venezuela. The average contract electricity at reduced prices during 2006 was approximately Bs. 13.75 per kWh.

CALEY purchases electricity from CADAFE. CALEY is not connected to EDC's regulated electricity business' electricity generating sources.

**Power Transmission**

*National Interconnected System*

Electricity in Venezuela is transmitted at varying levels of high voltage (765kV, 400kV, 230kV, 115kV, 69kV and 30kV). EDC's regulated electricity business' transmission network is connected to the *Sistema de Interconectado Nacional* ("NIS") through two substations, one at the OAM facility and the other at *Santa Teresa*, both in the central coastal area in Northern Venezuela close to Caracas. The OAM facility has two autotransformers of 1,000 MVA each of which reduces the voltage to 230kV. *Santa Teresa* has two lines, *Convento* and *Papelón*, with a transmission capacity of 440 MVA and 492 MVA, respectively. Electricity is also transmitted for distribution at different levels of low voltage (12.47kV, 8.3kV and 4.8kV).

*EDC Transmission and Distribution Network*

EDC's regulated electricity business transmits electricity it generates or purchases through its own electricity transmission system. The following table sets out the equipment, by transmission voltage, comprising EDC's regulated electricity business' transmission network at December 31, 2007.

	At December 31, 2007				
	230kV	69kV	30kV	Total	%
Lines installed (km)					
Aerial .....	364	900	167	1,431	60.8
Underground .....	24	564	334	922	39.2

Total lines installed.....	388	1,464	501	2,353	100
Substations ( <i>number</i> ).....	7	14	8	29	100
Installed capacity (MVA).....	3,340	4,563	982	8,884	-

The following table sets out the equipment, by transmission voltage, comprising EDC's regulated electricity business' distribution network, including that of CALEY, at December 31, 2007.

	At December 31, 2007				
	12.47kV	8.3kV	4.8kV	Total	%
Lines installed ( <i>km</i> )					
Aerial.....	3,605.90	163.05	334.36	4,103.32	61.5
Underground.....	1,477.66	60.76	1,033.14	2,571.55	38.5
Total lines installed.....	5,083.56	223.81	1,367.50	6,674.87	100
Substations ( <i>number</i> ).....	49	11	57	117	100
Feeders ( <i>number</i> ).....	517	30	459	1006	100
Installed capacity (MVA).....	4,531.36	110.46	1,305.66	5,947.48	-

At December 31, 2007, EDC's regulated electricity business had a total of 9,028 kilometers of lines installed, an Installed Capacity of 8,884 MVA on 230 kV, 69 kV and 30 kV and 5,948 MVA on 12.47 kV, 8.3 kV and 4.8 kV. At December 31, 2007, its transmission system had a nominal Installed Capacity of 5,369 MVA and a Forced Oil Installed Capacity of 8,884 MVA. The major items of equipment in the system include:

- 512 high voltage transformers,
- 601 high voltage breakers,
- 1,521 mid voltage breakers,
- 12,976 protection relays,
- 159 shunt capacitors,
- 5 SF6 substations, and
- 129 remote terminal units.

#### ***Operation and Maintenance***

EDC's regulated electricity business incurs operating and maintenance costs for its transmission network. EDC's regulated electricity business is not charged for transmission services. EDC's transmission, operating and maintenance costs for its regulated electricity business have increased by an aggregate of 161% from December 31, 2005 to December 31, 2007.

A predictive maintenance program and a preventive maintenance program are in place to sustain the transmission network. Predictive maintenance measures include:

- the infrared scanning of transmission lines and substations to identify "hot points" (points of potential failure);
- the use of gas chromatography to analyze the quality of oil in the transformers;
- insulation fluids tests; and

- periodic electrical tests.

Preventive maintenance measures include:

- regularly calibrating, inspecting and maintaining transformers;
- inspecting and maintaining switches, bus bars and other substation equipment; and
- inspecting power lines.

EDC uses an SAP-designed maintenance module and the SCADA system to manage its transmission network and to access digital maps which locate malfunctions that take place in the network.

## Distribution and Sales

### *Service Area and Total Number of Customers*

EDC's regulated electricity business's service area covered 5,176 square kilometers and included 1,153,833 customers at December 31, 2007. The following table sets out certain information with respect to the service areas covered by members of EDC's regulated electricity business at December 31, 2007.

	At December 31, 2007	
	(Square km <sup>2</sup> )	(Number of customers)
EDC .....	4,176	1,089,240
CALEY .....	1,000	64,593
Total.....	<u>5,176</u>	<u>1,153,833</u>

### *Customers*

Unless otherwise indicated, use of the term "customers" throughout this Offering Circular refers to contracts for electric service, rather than individuals or entities. Accordingly, a single individual or entity may have more than one contract for electric service with EDC's regulated electricity business, each of which constitutes a separate "customer" for the purposes of this Offering Circular.

EDC's regulated electricity business's customers are classified into four principal categories: residential, commercial, industrial and government. See "— Tariffs" for a description of EDC's regulated electricity business's customer categories.

The following table sets out the total number of customers by category at December 31, 2007, 2006, 2005 and 2004.

	At December 31,			
	2007	2006	2005	2004
	<i>(number of customers)</i>			
Residential .....	1,015,953	968,517	899,648	870,299
Commercial .....	121,723	119,422	115,985	94,840
Industrial .....	7,024	6,707	6,394	5,334
Government <sup>(1)</sup> .....	9,133	8,503	7,778	7,145
Total.....	<u>1,153,833</u>	<u>1,103,149</u>	<u>1,029,805</u>	<u>977,618</u>

(1) Includes sales to the NIS.

At December 31, 2007, EDC's regulated electricity business had 1,153,833 total customers. EDC's regulated electricity business' total number of customers increased 18.02% during the period from December 31, 2004 to December 31, 2007.

Residential customers comprise EDC's regulated electricity business's largest customer group in terms of total number of customers, accounting for 88% of its customers at December 31, 2007. During the December 31,

2004 to December 31, 2007 period, the total number of residential customers increased 16.74%. This increase was due principally to the natural increase in this segment of 7% and our plan to incorporate informal customers.

EDC's regulated electricity business' commercial customers, which comprise the next largest customer group in terms of total number of customers, accounted for 10.55% of EDC's regulated electricity business's total customers at December 31, 2007. During the December 31, 2004 to December 31, 2007 period, EDC's regulated electricity business's total number of commercial customers increased 28.34%. This increase was due principally to our plan to reduce the non technical losses in this sector.

Although industrial customers account for the majority of EDC's regulated electricity business's electricity sales, industrial customers comprised only 0.8% of its total number of customers at December 31, 2007. EDC's regulated electricity business's total number of industrial customers increased 31.68% during the December 31, 2004 to December 31, 2007 period. This increase was due principally to the economic growth experienced in Venezuela during this period.

EDC's regulated electricity business' government customers increased 27.78% during the period from December 31, 2004 to December 31, 2007.

### Large Customers

EDC's regulated electricity business sells electricity to a number of large clients at rates which are lower than the standard rate for industrial and commercial customers because of (i) the volume sold or (ii) their capacity to receive electricity at higher voltages. Because these customers have the capacity to receive electricity at higher voltages (12.47 kVA or more) or in larger volumes than the average customer, the cost associated with distributing electricity to these clients is reduced, allowing EDC's regulated electricity business to charge them lower rates.

Under the Electric Service Law, "large consumers," defined as customers that have a capacity to receive more than 5 MW, may buy electricity directly from any generation company. As a result, the Electric Service Law could lead to a decrease in EDC's regulated electricity business's client base, particularly in its generation and retail activities, if some of its existing large clients begin to purchase electricity directly from other generation companies. EDC believes that the potential impact of this provision of the Electric Service Law on EDC's regulated electricity business's operations is mitigated by:

- the increases in efficiency that are expected to be gained from investments in EDC's regulated electricity business's generating capacity, and
- the quality and reliability of the electric service EDC's regulated electricity business provides to its customers, which will allow it to compete successfully for large consumers in areas it does not currently serve.

At December 31, 2007, 0.8% of EDC's clients qualified as "large consumers" under the Electric Service Law. These large customers represented approximately 16% of EDC's regulated electricity business's billings for the year ended December 31, 2007.

### **Sales**

The following table provides details of EDC's electricity sales in GWh and in millions of bolívares for the years ended December 31, 2007, 2006 and 2005.

	<b>For the Year Ended December 31,</b>					
	<b>2007</b>		<b>2006</b>		<b>2005</b>	
	<i>(Bs. )</i>	<i>(GWh)</i>	<i>(Bs. )</i>	<i>(GWh)</i>	<i>(Bs. )</i>	<i>(GWh)</i>
Residential .....	533,743	4,151	622,528	4,068	626,130	3,654
Commercial .....	566,224	3,345	654,043	4,179	695,137	3,891
Industrial .....	194,803	2,325	235,483	2,012	250,695	1,994
Government <sup>(1)</sup> .....	292,599	3,669	333,119	2,706	298,457	2,479
Total.....	1,587,369	13,490	1,845,173	12,965	1,870,419	12,018

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(1) Includes sales to the NIS and sales by GENEVAPCA.

For the year ended December 31, 2007, sales to residential, commercial, industrial and government customers comprised 31%, 25%, 17% and 27%, respectively, of EDC's total electricity sales as measured by GWh and 34%, 36%, 12% and 18%, respectively, of electricity sales as measured in bolívares.

EDC's total electricity sold by volume increased 12.25% for the year ended December 31, 2007 compared to the year ended December 31, 2005. This increase was due principally to the economic growth experienced in Venezuela during this period.

### ***Billing and Collection Procedures***

Each customer of EDC's regulated electricity business is billed on a monthly basis within one day after meters have been read or an estimate of consumption has been determined. Bills are generated and sent to EDC's regulated electricity business' customers by specialized companies supervised by SERDECO. Payments are due within 17 days after bills are printed for delivery to customers.

Once the amounts to be invoiced have been calculated, EDC prints the bills and notices of collection which are then sent to customers who can pay at major banks or at any of EDC's commercial offices, points of payment, authorized agents and contact center. As a result of the modernization of its customer source network, EDC has reduced its collection costs and has been able to offer more and better payment alternatives to its customers than had been the case in the past.

To secure payments from its private sector customers, EDC requires them to deposit in advance an amount which approximates the amount that such customers would pay for the supply of electricity during one month, thereby reducing the risk of non-payment by these customers.

EDC's levels of provisions for bad debts is determined on a company-by-company basis and considers only private sector customers. The provision for bad debts is computed every month and is maintained at 100% of the unpaid accounts which have been due for more than 12 months in the case of Residential and Commercial Customers and 100% of the unpaid accounts which have been due for more than 6 months in the case of Low Income Customers. Large Customers and government are calculated based on individual risk analyses. For more information regarding EDC's allowance for doubtful accounts, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates — Allowance for Doubtful Accounts."

EDC has historically experienced lengthy delays in collecting accounts receivable from customers in the public sector. These delays have been due in part to the fact that it is EDC's practice not to terminate service to some public sector customers, such as hospitals and ministries, on account of non-payment because terminating service to these public entities could have a harmful effect on society. Eventually EDC receives payment once the public sector customer has included the amounts owed in its budget. The average age of EDC's accounts receivable has improved in recent years from an average of over one year to an average of approximately seven months.

As discussed above under "— Raw Materials and Spare Parts," in the past, EDC has agreed to accept payment of amounts owed to it by various ministries and instrumentalities of the government in the form of bolívar-denominated notes issued by the government. EDC has used such notes to pay down accounts payable balances that it had accumulated in favor of PDVSA.

### ***Electricity Losses***

Electricity losses is a general term applied to describe the electricity that is lost during the operation of an electrical transmission and distribution system. These losses are divided into technical losses and non-technical losses. Technical losses occur in the ordinary course of transmission and distribution of electricity. Non-technical losses are losses resulting from faulty meters, theft and fraud.

EDC's regulated electricity business' total electricity losses are calculated as a percentage of total net electricity available from its system. EDC's regulated electricity business' total electricity losses (including those of

CALEY, which is not connected to the EDC's regulated electricity business' electricity generating sources) as a percentage of total net electricity available for the years ended December 31, 2004, 2005, 2006 and 2007 were 17.93%, 17.72%, 14.89% and 12.74%, respectively.

EDC's regulated electricity business' technical losses (including those of CALEY) as a percentage of total net electricity available for the years ended December 31, 2004, 2005, 2006 and 2007 were 7.42%, 7.41%, 7.06% and 7.21%, respectively.

EDC's regulated electricity business' non-technical losses (including those of CALEY) as a percentage of total net electricity available for the years ended December 31, 2004, 2005, 2006 and 2007 were 10.51%, 10.30%, 7.83% and 5.53%, respectively. Non-technical losses (including those of CALEY) decreased 28.86% during the year ended December 31, 2007, compared to the prior year, resulting mainly from the incorporation of customers in previously unserved areas, reductions in the number of illegal connections to the EDC's regulated electricity business' distribution system and improvements in the EDC's regulated electricity business' internal meter-reading and billing processes.

## Supply

The electricity sold by EDC through its regulated electricity business comes from three sources:

- its own generation;
- power purchases from EDELCA; and
- for CALEY, power purchases from CADAFE.

The following table sets out the sources of power for EDC's regulated electricity business for the years ended December 31, 2007, 2006 and 2005.

	<b>For the Year Ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
		<i>(GWh)</i>	
EDC net generation .....	11,039	10,079	9,846
EDC purchases from EDELCA .....	2,214	3,095	2,745
CALEY purchases from CADAFE.....	420	374	342

## Tariffs

Each customer of EDC's regulated electricity business is classified as falling within one of the four principal categories with different tariffs applying to each category. The principal tariff categories are: residential, commercial, industrial and government.

### *Residential Tariff*

Residential customers include individual houses and individual apartments. Residential rates include a fixed charge (in Bs. ) and a variable charge for electricity consumed (in Bs. /kWh). Historically, tariffs applicable to residential customers have been cross-subsidized by industrial and commercial customers and up to 1995 were based on the minimum urban wage which is established by the Venezuelan government. Since the promulgation of the 1999 Joint Resolution, this cross-subsidy has gradually been phased out. A resolution adopted on April 3, 2002, established three tariff categories for the residential sector: (i) Tariff 01 residential service for users with single-phase measurement device and monthly consumption lower than 200 kWh; (ii) Tariff 02 residential service for users with monthly consumption lower or equal to 500kWh, and (iii) Tariff 03 high consumption residential service for users with monthly consumption greater than 500kWh.

### *Commercial and Industrial Tariffs*

Commercial customers include businesses, small, medium and large commercial enterprises, apartment buildings and other non-residential customers. Commercial tariffs include charges for electric capacity (in Bs. /kVA)

and charges for electricity consumed (in Bs. /kWh). Industrial customers include large, medium and small manufacturing operations. Industrial rates include charges for electric capacity (in Bs. /kVA) and electricity consumed (in Bs. /kWh).

The gradual elimination of the cross-subsidy in favor of residential users of electricity was evidenced from 1999 to 2002 by greater annual increases in basic tariffs applicable to residential customers compared to general and industrial customers.

### ***Government Tariffs***

Government customers encompass the public sector, including government buildings and public lighting. Government tariffs include charges for electric capacity (in Bs. /kVA) and charges for electricity consumed (in Bs. /kWh), except in public lighting where only electricity consumed (in Bs. /kWh) is charged.

The following table sets out the average tariff applicable to each category of customer for the years 2007, 2006 and 2005.

	<b>For the Year Ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
		<i>(Bs. per kWh)<sup>(1)</sup></i>	
Residential .....	114.2	115.0	113.3
Commercial (General services) .....	114.9	117.6	113.1
Industrial .....	85.3	87.8	83.1
Government <sup>(2)</sup> .....	98.2	97.6	97.3
Lighting .....	135.0	141.0	105.0
Average.....	108.5	110.1	106.2

(1) Figures are expressed in current bolívares.

(2) Not including sales to the NIS.

### ***Current Tariff Regime***

On January 28, 1999, the Energy Ministry and MILCO issued a joint resolution, the 1999 Joint Resolution, providing for a tariff regime applicable from 1999 through 2002. The 1999 Resolution sets forth the basic rates applicable at the beginning of each year and contemplates semi-annual adjustments to reflect exchange rate fluctuations and inflation and monthly adjustments based on the price of combustible fuel used to generate electricity and purchased electricity. On December 29, 2000, the Energy Ministry and MILCO issued the 2000 Joint Resolution, which called for adjustments of the basic tariffs applicable for 2001 and 2002 on the basis of revised macroeconomic assumptions.

On April 3, 2002, the Energy Ministry and MILCO issued a joint resolution that modified the existing tariff regime and established new tariffs to be applied during the remainder of 2002. On February 6, 2003, the Venezuelan government issued a decree pursuant to which the prices of essential goods and services, including electricity services, were frozen indefinitely. Subsequently, on May 5, 2003, the Energy Ministry and MILCO issued a joint resolution that temporarily suspended the application of FAP Adjustments to tariffs charged by electricity utilities.

However, the joint resolution dated May 5, 2003 did not affect the tariff adjustments approved in January 2003 and expressly authorized the Energy Ministry to approve FAP Adjustments on a case-by-case basis. As a result thereof, the Energy Ministry approved the application of FAP Adjustments to increase tariffs by 2.5% in September and October of 2003, which represented an 10.38% increase with respect to the tariff that was in effect for the first semester of 2003. EDC's total tariff increase was 39.06% for 2003. Additionally, on March 22, 2006, the Energy Ministry approved FAP Adjustments resulting in tariff increases of 6.48% for EDC and 3.23% for CALEY. The Energy Ministry has allowed CACE Adjustments in recognition of increased price of combustible fuel used to generate electricity and purchased electricity for periods when tariffs were not adjusted.

For more information regarding tariffs applicable to EDC's sales of electricity, see "The Electricity Industry in Venezuela — Economic Remuneration of the Electric Service Law."

## GENEVAPCA

GENEVAPCA was established by EDC in 1992 in connection with EDC's bid to design, build and operate the first independent power plant in Venezuela.

In December 1993, Maraven, S.A., then a subsidiary of PDVSA ("Maraven"), awarded GENEVAPCA a contract to design, build and operate a thermal generating plant to supply steam and electricity to Maraven's refinery at Cardón and electricity to a refinery at Amuay owned by Lagoven S.A., also a subsidiary of PDVSA at that time ("Lagoven"). The design, build and operation agreement between GENEVAPCA and Maraven (now PDVSA Petróleo) has a term of 20 years as of 1995, the date in which the plant began operations, and may be extended by written agreement of the parties within the last three years of the agreement. Maraven and Lagoven have been succeeded by PDVSA Petróleo in connection with the reorganization of the petroleum industry in Venezuela during 1997.

The plant, which began operations in September 1995, is located next to the PDVSA Petróleo refinery at Cardón in the Paraguaná peninsula in the State of Falcón. Three single combustion turbines, each with an Installed Capacity of approximately 100 MW (and associated generators) are installed at the plant. Pursuant to the take-or-pay contract with PDVSA Petróleo described below, two of these turbines are in continuous operation producing approximately 800 GWh of power per year.

The plant's operations are governed by a take-or-pay contract with PDVSA Petróleo (the "Take or Pay Contract"). The Take or Pay Contract provides that PDVSA Petróleo must purchase a specified minimum amount of power and steam per annum. The price is specified in U.S. dollars and is payable in bolívares. The prices are established annually based on a specified contract price adjusted by the U.S. Gross Domestic Product — Implicit Price Deflator but not for inflation. Gas, fuel and water are supplied by PDVSA Petróleo in sufficient quantities to run two turbines and three boilers at full capacity throughout the year. GENEVAPCA suffers penalties under the Take or Pay Contract if it falls below certain operating criteria. GENEVAPCA has averaged less than three penalties per year from 2004 through 2007, amounting to approximately 0.3% of the total amount invoiced to PDVSA Petróleo per year.

Excess power can be produced and delivered by GENEVAPCA to third parties under circumstances provided in the Take or Pay Contract. The plant is connected to one other small purchaser in the Cardón area to which power and steam are delivered. The plant is also connected to CADAFE's transmission lines for the supply of power from GENEVAPCA to CADAFE in cases of emergency, such as when CADAFE suffers power outages. Beginning in 2000, GENEVAPCA has been supplying power to CADAFE. The amount of electricity supplied by GENEVAPCA to CADAFE has been increasing each year due principally to increasing load demand in the Paraguaná peninsula, operational problems experienced at CADAFE's local generating plant and constraints on CADAFE's ability to transmit electricity to the area from sources outside of the area.

The sales of electricity from GENEVAPCA to CADAFE are governed by an agreement entered into among GENEVAPCA, CADAFE, PDVSA Petróleo and the government of the State of Falcón. The price of this electricity is established in U.S. dollars but is payable in bolívares within Venezuela. PDVSA Petróleo, for the account of CADAFE, supplies to GENEVAPCA the fuel required to generate electricity supplied to CADAFE under this agreement. The volume of electricity supplied by GENEVAPCA to CADAFE for the years ended December 31, 2007, 2006 and 2005 was 842.74 GWh, 721.24 GWh and 639.67 GWh, respectively.

The following table sets forth the total volume of electricity and steam sold by GENEVAPCA for the years ended December 31, 2007, 2006 and 2005.

	For the Years Ended December 31,		
	2007	2006	2005
Volume of Electricity ( <i>in GWh</i> ) .....	1,741	1,573	1,493
Volume of Steam ( <i>in metric tons</i> ) .....	1,149,238	1,050,355	960,851

### ***Other Businesses***

EDC's other businesses include companies involved in providing telecommunications services and payment collection services on behalf of third parties, such as waste management companies and municipal tax authorities.

### **Competition**

Venezuela's electric power industry is comprised by public utilities, including EDC. The other four state-owned companies generated approximately 86% of the total electricity used in Venezuela in the year ended December 31, 2007.

### **Litigation**

EDC is engaged in a number of lawsuits arising out of the normal course of its operations.

#### ***Labor Proceedings***

EDC is currently involved in litigation initiated by certain of their employees relating to contributions (the "Savings Contributions") to the *Fondo de Ahorros* ("Savings Fund") that EDC established for the benefit of its employees. The Savings Fund was created as part of the collective bargaining agreement entered into in 1996 among EDC, CALEV, ELEGGUA and their respective employees. The plaintiffs in this litigation are seeking a judgment from the court declaring that these Savings Contributions be included in the definition of "salary" for the calculation of certain employee benefits requiring EDC to calculate and pay the difference between the benefits actually received by such employees since November 1993 (or the date on which the employee began employment at EDC, if later than November 1993) and the recalculated amount.

The group of plaintiffs consisted of approximately 870 employees of EDC. The trial court initially granted EDC a favorable decision. The plaintiffs appealed that decision to an intermediate appellate court. The intermediate appellate court reversed the trial court's decision and held in favor of the plaintiffs. EDC appealed to Venezuela's highest court.

Notwithstanding, during 2007, EDC complied with the court's decision and contributed the disputed amounts for all current employees (including the current employees that were not plaintiffs in the litigation), once it recalculated the benefits considered as part of the definition of "salary."

With respect to the former employees that claimed to adhere themselves to the recalculation of such benefits, EDC is currently challenging such claim and EDC believes that the possibilities of success of such claim by the former employees is not high, as proper employment termination documentation was executed with each of the former employees.

In addition, EDC is involved in 48 labor proceedings associated to claims initiated by certain EDC's retirees who solicited the homologation of pension payments at the national urban minimum wage (*salario mínimo urbano nacional*) and retroactive payment for such homologated pension payments since 1999 plus accrued interest. In July 2007, EDC decided to recognize the national urban minimum wage (*salario mínimo urbano nacional*) to all EDC's retirees. However, EDC continues to dispute the claims for retroactive payments and accrued interest.

#### ***Tax Proceedings***

In March 1996, EDC initiated litigation seeking the nullification of a resolution issued by the *Ministerio del Ambiente y los Recursos Naturales* ("MARN") requiring electricity utilities to contribute 1% of their gross collections for the maintenance of Venezuela's river basins. The litigation was initiated before the *Juzgado Superior Primero de lo Contencioso — Tributario* (the "Superior Tax Court"). During the proceedings, the Attorney General representing the government requested the judge to consult with the Supreme Court to determine whether the Superior Tax Court was competent to hear the case. The Supreme Court decided on October 7, 1999 that the Superior Tax Court was competent to hear the case, confirming that the litigation was essentially a tax issue. In addition, CALEV and ELEGGUA, as well as other utility companies in Venezuela, have joined the proceedings seeking to nullify the resolution issued by MARN.

Whatever the outcome of the current proceedings before the Superior Tax Court may be, the decisions of the Superior Tax Court can be appealed to the Supreme Court. Consequently, a final resolution of this matter may take several years. However, if the Supreme Court issues a final decision ratifying the resolution issued by MARN, EDC believes that from the time of the final decisions the 1% contribution may be passed through to its customers. It is not clear whether the Supreme Court may apply the 1% retroactively to the date of the resolution.

On April 14, 2004, The *Alcaldía del Municipio Vargas* assessed a penalty against EDC in connection with a claim for unpaid municipal gross sale taxes. The amount of the claim is approximately Bs. 92.2 billion. The *Alcaldía del Municipio Vargas* alleges that EDC is required to pay municipal gross sale taxes with respect to its total billings because of the fact that the CGJJSB facility, which generates more than 70% of EDC's total energy generation volume, is located within the municipality's limits.

EDC objected to the tax assessment on the basis that municipal gross sales taxes, which are paid based on billings to customers, in accordance with Venezuelan law, are paid by EDC to the municipalities where EDC renders and bills its services. Therefore, EDC believes that it has no obligation to pay municipal gross sales taxes in jurisdictions where it conducts generation activities.

EDC initiated proceedings in the matter, which included a petition for injunctive relief against the *Alcaldía del Municipio Vargas*, before the *Tribunal Tercero de los Contencioso Tributario del Área Metropolitana de Caracas*. The tribunal granted the injunctive relief requested by EDC until a judgment on the merits of the claim is handed down. Accordingly, the *Alcaldía del Municipio Vargas* may not enforce its tax claim against EDC until a judgment on the merits of the claim is rendered. The parties are awaiting a judgment from the tribunal addressing the merits of the tax claim.

## **Insurance**

EDC currently maintains a number of insurance policies, covering various types of risk associated with its business.

EDC believes that it maintains adequate insurance coverage for the industry in which it is engaged. Although the timing of payments in respect of claims under its insurance policies may vary depending on the nature of the loss and the risk covered by the policy, historically EDC has received payments on its claims in accordance with the terms of its insurance policies.

### ***Property***

EDC maintains an insurance policy covering direct physical loss or damage to its properties located in Venezuela, accounts, receivables and real property (except electrical transmission and distribution lines situated more than 1,000 meters from the generating plant to which they are connected). The current term of EDC's property insurance policy is 14 months from April 1, 2007. EDC expects to renew its property insurance upon its expiration. The limit of liability under the policy is U.S.\$450 million for any single occurrence. This insurance policy also covers certain losses sustained as a result of the destruction or damage to EDC's property, including losses from the interruption of business caused such damage and expenses to repair the damaged property.

### ***Liability***

EDC's liability policy insures against claims made by third parties for injuries or damage to property or human injury. The limit of liability under this policy is U.S.\$30 million and the current term is 12 months from April 20, 2007.

## **Environmental Matters**

EDC's safety, health and environmental policy is aligned with the concept of sustainable development, which maintains that the aspects of economic growth, social progress, accident prevention and environmental conservation are all linked.

EDC's environmental management activities are based on the following seven key factors:

- relations with the community,
- studies of regulations,
- statistics,
- permits,
- waste management and final disposal,
- environmental impact analysis and risk assessment, and
- environmental audits.

Based on the above factors, beginning in 1992 EDC implemented a plan for the handling, transporting, temporary storage and final disposal of Polychlorinated Biphenyls ("PCBs"), a chemical compound that had been used in the production of electricity that is thought to be toxic to humans, plants and animals.

In 2007, EDC carried out a total of four environmental audits and disposed of 86,200 thousand liters of used dielectric oil. These activities were performed in accordance with applicable Venezuelan environmental law and regulations.

### **Related Party Transactions**

EDC engages in transactions in the ordinary course of business with its subsidiaries and affiliate companies. Such transactions mainly involve:

- sales of electricity,
- services rendered by and for EDC,
- long- and short-term intercompany loans, and
- guarantees of loans and notes by and on behalf of EDC's affiliates and subsidiaries.

Although EDC generally conducts material transactions with its subsidiaries and affiliates on an arm's length basis on terms which could be obtained in the market from unrelated third parties, from time to time EDC enters into transactions with its subsidiaries and affiliates that might not be available from unrelated third parties.

At December 31, 2007, EDC had accounts receivable from and accounts payable to its affiliates of Bs. 16,945 million and Bs. 3,677 million, respectively.

### **Interconnection Agreement among CADAPE, EDELCA, EDC and ENELVEN**

On December 1, 1988, CADAPE, EDELCA, EDC and ENELVEN entered into an interconnection agreement pursuant to which, among others, each of them agreed to commit firm generating capacities of electricity in order for the NIS to comply with the Integral Expansion Plan of the NIS. The performance of the parties' obligations under the agreement is overseen by the *Oficina de Planificación del Sistema Interconectado* ("OPSIS") and each party is entitled to receive payments pursuant to its invoiced capacity for each month as reviewed and approved by OPSIS. The term of the agreement is undetermined and any of the parties thereto may terminate the agreement with respect to each of them, provided that the agreement would remain in full force and effect with respect to all other parties thereto.

### **Design, Build and Operate Agreement between GENEVAPCA and PDVSA Petróleo S.A.**

On December 21, 1993, Maraven, then a subsidiary of PDVSA, awarded GENEVAPCA a contract to design, build and operate a thermal generating plant to supply steam and electricity to Maraven's refinery at Cardón and electricity to a refinery at Amuay owned by Lagoven, also a subsidiary of PDVSA at that time. Maraven and

Lagoven have been succeeded by PDVSA Petróleo in connection with the reorganization of the petroleum industry in Venezuela during 1997. The plant, which began operations in September 1995, is located next to the PDVSA Petróleo refinery at Cardón in the Paraguaná peninsula in the State of Falcón. Three single combustion turbines, each with an Installed Capacity of 109 MW (and associated generators) are installed at the plant. Pursuant to the take-or-pay contract with PDVSA Petróleo described below, two of these turbines are in continuous operation producing approximately 800 GWh of power per year.

The term of the agreement is 20 years as of the date in which the facility began operations. Pursuant to the agreement, the parties may agree to renew the agreement at least three years prior to the expiration of its term. In the event the parties do not agree to renew the agreement within the final two years thereof, PDVSA has the right to present an offer to purchase the plant. If no agreement is reached in such regard, the agreement shall be terminated on the expiration date and GENEVEPCA will be obligated to deliver the plant free and clear of all buildings, constructions no later than six (6) months after such expiration date.

#### **Take or Pay Contract between GENEVAPCA and PDVSA Petróleo S.A.**

The Cardón plant's operations are governed by the Take or Pay Contract. The Take or Pay Contract provides that PDVSA Petróleo must purchase a specified minimum amount of power and steam per annum. The price is specified in U.S. dollars and is payable in bolívares. The prices are established annually based on a specified contract price adjusted by the U.S. Gross Domestic Product — Implicit Price Deflator but not for inflation. Gas, fuel and water are supplied by PDVSA Petróleo in sufficient quantities to run two turbines and three boilers at full capacity throughout the year. GENEVAPCA suffers penalties under the Take or Pay Contract if it falls below certain operating criteria. GENEVAPCA has averaged less than three penalties per year from 2004 through 2007, amounting to approximately 0.3% of the total amount invoiced to PDVSA Petróleo per year.

Excess power can be produced and delivered by GENEVAPCA to third parties under circumstances provided in the Take or Pay Contract.

#### **CADAFE Agreement**

The Cardón plant is also connected to CADAFE's transmission lines for the supply of power from GENEVAPCA to CADAFE in cases of emergency, such as when CADAFE suffers power outages. Beginning in 2000, GENEVAPCA has been supplying power to CADAFE. The amount of electricity supplied by GENEVAPCA to CADAFE has been increasing each year due principally to increasing load demand in the Paraguaná peninsula, operational problems experienced at CADAFE's local generating plant and constraints on CADAFE's ability to transmit electricity to the area from sources outside of the area.

The sales of electricity from GENEVAPCA to CADAFE are governed by an agreement entered into among GENEVAPCA, CADAFE, PDVSA Petróleo and the government of the State of Falcón in May 2006. The price of this electricity is established in U.S. dollars but is payable in bolívares within Venezuela. PDVSA Petróleo, for the account of CADAFE, supplies to GENEVAPCA the fuel required to generate electricity supplied to CADAFE under this agreement. As of the date of this Offering Circular, the consideration is set at U.S.\$14.00 per MWh of consumption and a minimum purchase of 55 GWh. The term of the agreement is 18 months renewable by the parties for six additional months.

The volume of electricity supplied by GENEVAPCA to CADAFE for the years ended December 31, 2007, 2006 and 2005 was 842.74 GWh, 721.24 GWh and 639.67 GWh, respectively.

#### **Services Agreement between Phoenix and PDVSA**

In 1999, Phoenix Internacional entered into an agreement with PDVSA to design, construct, operate and maintain a water treatment and injection plant for a period of 10 years which will expire on October 9, 2010. The agreement is renewable upon written agreement of the parties. The amount of the total consideration payable by PDVSA to Phoenix under the agreement over its 10-year term is Bs.15.93 billion.

## MANAGEMENT AND EMPLOYEES

### Management

EDC's board of directors is comprised of five principal directors and four alternate directors. Directors are elected by a majority of the shareholders present at a general or extraordinary shareholders' meeting for renewable two-year terms. The last election of directors took place at the extraordinary shareholders' meeting held on June 14, 2007. The directors' terms, the manner in which they are elected and other related issues are established in EDC's bylaws.

The current members of EDC's board of directors are set forth below. The mailing address for notices to, and all other written communication with, members of EDC's board of directors is c/o C.A. La Electricidad de Caracas, Avenida Vollmer, Edificio La Electricidad de Caracas Torre Central, Piso 17, Urb. San Bernardino, Caracas, Venezuela.

<b><u>Name</u></b>	<b><u>Position, Qualifications and Other Appointments</u></b>
<b>Javier Alvarado (Chairman)</b>	Mr. Alvarado is currently the Marketing Director of Corporación Eléctrica Nacional S.A. and Chairman of C.A. La Electricidad de Caracas, Sistema Eléctrico del Estado Nueva Esparta C.A. (SENECA) and Region 4 Aragua-Miranda of CADAPE. He has also held positions as General Manager of PDVSA Occidente (2004), General Submanager of PDVSA Occidente (2003), Manager-Director in charge of Bitúmenes del Orinco (Bitor), Corporate Planning Manager of Bitor, Planning and Process Manager of E. and P. Caracas (1998), Automatization Manager of Production of Lagoven (1994), Head of Electric Engineering of Caracas (1991) and Head of the group of Design Engineering and Project Inspection in Maracaibo (1986). He started in the oil industry in 1979 as a General Engineering Manager of Lagoven. He obtained his bachelor's degree in Electric Engineering by the Universidad Simón Bolívar with a specialization in Power Systems course led by General Electric in New York, U.S.A.
<b>Alejandro Borjas (principal)</b>	Mr. Borjas has held the position of Administrative Sub-manager of the <i>Costa Afuera</i> Division since 2007. On 2006, he held the position of Western Social Development Manager. In 2005, he was appointed as the Manager of the Department of Maracaibo. In 2004, he was head of the reorganization of the central work units. From 1998 until the oil stoppage, he occupied the position of superintendent of programming of all mayor and minor works at the Maracaibo Department. From 2003, he held the position of Manager of the Lagomar Unit. He obtained his Bachelor's degree from the University of Zulia in 1980 and a Masters in production on 1995 from the same University.
<b>Alberto Joanes Urdaneta (principal)</b>	Mr. Urdaneta is the Department chief of conversion and transport of energy. He is the Dean of professional studies and coordinator of Engineering of the National University Council. He is a course professor at the Simón Bolívar University. He has participated in more than 70 professional high management courses. He has published articles in national and international congresses. In January 2000, he received the "Third Millennium Medal" for outstanding contributions in the area by the Institute of electrical and electronic Engineers. He obtained his Bachelor's degree from the Simón Bolívar University in 1979 ( <i>summa cum laude</i> ) in Electric Engineering and Applied Physics. He also has a Ph. D. in systems engineering from Case Western University, Cleveland, U.S.A. which he obtained in 1983 and 1986, respectively.
<b>Antonio Simancas (principal)</b>	Mr. Simancas was chief financial officer of PDVSA from 2005 to 2007; he also was international financial advisor for PDVSA from 2002 to 2003. He also was Superintendent of Banking and Other Financial Institutions. He has been a course professor in the University of Venezuela. He obtained his Bachelor's degree from the Universidad Central de Venezuela in 1973. He has a Master in Science and Economy and Business from Oklahoma State University, U.S.A. He has a Graduate degree in

administrative law from the Universidad de Santa María and a higher management course from the University of Tennessee, U.S.A.

**Jesús Rangel  
(principal)**

Mr. Rangel was the chairman of C.A. Energía Eléctrica de Venezuela until 2002. He also was executive director of C.A. ENELVEN Distribuidora until 2002. From November 2001 to February 3, 2002, he was Executive Vicepresident of transmission and generation of CADAPE. He also was Department Manager for various departments such as the Department of Distribution, the Department of Planning, Network Development and Energy Supply. He obtained his Bachelor's degree in electric engineering from the Universidad de los Andes on 1967. He is member of the Venezuelan Engineering Collegiate.

**Nicolás E. Veracierta  
(alternate)**

Mr. Veracierta held the position of chief financial officer of PDVSA during 2007. During the years 2003-2006, he held the position of Manager in the Corporate Contracting Administration of PDVSA. He also participated in the management of several financial contingency processes in the year 2003. He started his professional career in Lagoveb S.A., occupying the position of Finance Supervisor Oriente/Contracting, as well as Manager of Finance and Budget and Management Control. He holds an Economics Degree from the Universidad de los Andes.

**Darío Ernesto  
Merchán Mújica  
(alternate)**

Mr. Merchan was director of Human Resources of PDVSA in the years 2006-2007 and also was Corporate Health Manager in the years 2005-2007. He was appointed as Vice Minister of Health in 2004. Mr Merchan was a member of the presidential commission “*Misión Barrio Adentro*” (Mission Inner City) in the Ministry of Health and Social Development in the years 2004 and 2005. He has also held the position of Resident doctor of post graduate in the San Cristobal Central Hospital and Regional Coordinator of oncology in the regional directorship of Health in the State of Miranda. He obtained his title of surgeon doctor in the Universidad de los Andes. Afterwards, he graduated as a specialist doctor in internal medicine in the same University. During the years 1993 and 1996, he obtained his degree as specialist doctor in medical oncology and in the years 1997 and 1998, he obtained the degree of Doctor in Public Health In the Branch of Sanitary Management.

**Carlos E. Luengo H.  
(alternate)**

Mr. Luengo has been Vice-president of Legal Affairs in the C.A Energia Electrica de Venezuela (ENELVEN) and C.A Energia Electrica de la Costa Oriental (Enelco), since the year 2005. He was a Manager of regulatory, tax and municipal affairs during the years 2004 and 2005 and Legal Consultant in charge for the year 2002 in both companies. He also occupied positions in the Venezuelan provisions Fund, in the Ministry of Energy and Oil and also in CADAPE as Executive Director of the Ministry. He has participated as a substitute member in the Board of Directors of SENECA, CADAPE and in the Chamber of Electrical Industry (CAVEINEL). He obtained his degree in Law in 1991 from the University of Zulia. He performed his post graduate studies in tax management in the Rafael Urdaneta University.

**Genel Enrique  
Severeyn Córdova  
(alternate)**

Mr. Severyn has actively participated in the start up of the Oil Industry in PDVSA Occidente. He was assigned to the management of major projects in the “*El Palito*” Refinery in June 2007. He was a manager of the “*Occidente*” project, related to nitrogen injection, in the years 2005-2007. He was also a leader of optimization and production of special production projects in the year 2002. He worked as a production engineer for infrastructure in the years 1998-2000 as well. He obtained a specialization in Gas Engineering in 1993.

EDC's executive officers are as follows:

<u>Name</u>	<u>Position</u>
<b>Genel Severyn</b>	General Manager ( <i>Gerente General</i> )
<b>Inés Morales</b>	Generation Operating Manager ( <i>Gerente Operativo de Generación</i> )
<b>Víctor Mendible</b>	Transmission Operating Manager ( <i>Gerente Operativo de Transmisión</i> )
<b>Jesus Olivares</b>	Distribution Manager ( <i>Gerente Operativo de Distribución</i> )
<b>Luis Villasmil</b>	Retail Operating Manager ( <i>Gerente Operativo de Comercialización</i> )
<b>Vicente Díaz</b>	Administration and Services Manager ( <i>Gerente de Administración y Servicio</i> )
<b>Luis Carlos De León</b>	General Counsel ( <i>Gerente Funcional de Asuntos Legales</i> )
<b>Alexis Sierralta</b>	Social District Manager ( <i>Gerente Funcional del Distrito Social</i> )
<b>Armando Astudillo</b>	Financial Manager ( <i>Gerente Financiero</i> )
<b>José Romero</b>	Project Engineering Manager ( <i>Gerente Funcional de Ingeniería y Proyectos</i> )
<b>Luis Sardi</b>	Planning Manager ( <i>Gerente Funcional de Planificación</i> )
<b>Fernando Puerta</b>	Prevention, Control and Losses Manager ( <i>Gerente Funcional de Prevención, Control y Pérdidas</i> )
<b>Rhina Díaz</b>	Human Resources Manager ( <i>Gerente Funcional de Recursos Humanos</i> )
<b>Jorge Da Silva</b>	Safety, Hygiene and Environment Manager ( <i>Gerente Funcional de Seguridad, Higiene y Ambiente</i> )
<b>Carolina Blanco</b>	Information Technology and Telecommunications Manager ( <i>Gerente Funcional de Telecomunicaciones e Informática</i> )
<b>Rafael Gómez</b>	Public Affairs Manager ( <i>Gerente Funcional de Asuntos Públicos</i> )

### **Employees**

At December 31, 2007 EDC had 2,854 total employees. During 2007 the employee turnover rate was 5.25%, with an average length of service per employee of 10 years.

At December 31, 2007, approximately 59.5% of EDC's employees were members of the Electric Labor Union (*Sindicato de Trabajadores Electricistas, Similares y Conexos del D.F. y del Estado de Miranda*) (the "STE").

### ***Labor Union***

The most recent collective bargaining agreement between EDC and the STE was signed on January 1, 2007 and will expire on December 31, 2008. The STE must submit a proposal for the negotiation of a new collective bargaining agreement. Once such proposal is submitted, EDC and the STE will commence negotiations of a new collective bargaining agreement. The current collective bargaining agreement will continue to apply until the new collective bargaining agreement is entered into. The agreement operates for the benefit of 2,854 employees of EDC, CALEY and GENEVAPCA.

The collective bargaining agreement established a salary increase of 31%, to be applied in three installments. The first increase of 21% became effective on February 15, 2007 for the amount of Bs. 350,000, the second part became effective on July 1, 2007 for the amount of Bs. 150,000 and the last part of the agreement became effective on December 1, 2007 for the amount of Bs. 100,000.

The previous collective bargaining agreement between EDC and the STE was signed on November 1, 2004 and expired on December 31, 2006. The salary increase was applied in two installments. The first increase in the amount of Bs. 300,000 became effective in November 2005, and the second increase in the amount of Bs. 150,000 became effective in November 2006. In addition to the 2006 salary increase, EDC approved a one-time bonus in the amount of Bs. 6,000,000 for the year ended December 31, 2006.

There have been no strikes or work stoppages at any of EDC's regulated electricity business's plants or facilities, and management believes that relations with its employees and the STE are good.

### ***Compensation and Benefits***

On February 17, 2007, EDC approved a general salary increase in the amount of Bs. 600,000 per month per employee. The general salary increase was applied in three installments. The first increase in the amount of Bs. 350,000 became effective in February 15, 2007, the second increase in the amount of Bs. 150,000 became effective in July 1, 2007 and the third increase in the amount of Bs. 100,000 became effective in December 1, 2007. In addition to the general salary increase, EDC approved a one-time bonus in the amount of Bs. 600,000.

All of EDC's employees are given the opportunity to join the *Asociación Civil Fondo Previsión Social de Trabajadores de la Electricidad de Caracas y sus Empresas Filiales* ("Fondo de Previsión"). Employees can make contributions to the Fondo de Previsión and EDC matches 100% of these contributions (up to 10% of the employee's salary). Under the Fondo de Previsión, EDC extends personal emergency loans and housing loans to its management employees and provides financing for the acquisition of shares of EDC stock to its management employees. At December 31, 2007, EDC had outstanding aggregate loans to employees (including those granted to its current management employees) totaling Bs. 18.5 billion (approximately U.S.\$8.50 million).

In addition, during 2007 the retirement pension of 93% of EDC's retired personnel was adjusted in accordance with the effective national urban minimum wage ("*salario mínimo urbano nacional*").

## PRINCIPAL SHAREHOLDERS

The issued and outstanding share capital of EDC as of December 31, 2007, consisted of 3,292,214,078 ordinary registered shares of common stock, Bs. 100.00 par value, one vote per share. EDC has only one class of shares, all of which have the same rights. EDC does not have any class of outstanding shares other than the shares of common stock.

In 1997, EDC spun off the shares of Corporación EDC, C.A. ("CEDC"), a subsidiary organized to hold EDC's unregulated and non-Venezuelan business, to its shareholders through the issuance of "stapled shares," which were shares representing ownership interests in two separate companies, EDC and CEDC, but which were only capable of being traded as a single unit. Accordingly, a shareholder of EDC and CEDC owned two shares, one representing an interest in EDC and the other an interest in CEDC. The "stapled shares" were linked as to transfer, marketability and price.

In April 2000, AES, a publicly owned Delaware corporation, initiated a tender offer to acquire 51% of the outstanding "stapled" shares and ADRs of EDC and CEDC, which was subsequently amended to include all of the outstanding "stapled" shares and ADRs. AES acquired 35,484,372 ADRs on June 7, 2000 and 1,134,130,337 "stapled" shares of EDC and CEDC on June 21, 2000, giving it control of 80.2% of the outstanding capital stock of EDC and CEDC. AES paid U.S.\$0.57 per "stapled" share and U.S.\$28.50 per ADR under the tender offer for a total purchase price of U.S.\$1.5 billion. As a result of these transactions, AES was able to appoint all the members of the Board of Directors of EDC and to control the management of EDC.

In May 2000, in response to the AES tender offer, EDC announced the Repurchase Program. As a result of the Repurchase Program, EDC and CEDC repurchased a total of 286,239,750 "stapled" shares and 239,755,625 ADRs for approximately U.S.\$300 million. Under the terms of the Repurchase Program, AES was permitted to participate in the Repurchase Program, increasing its ownership interest in EDC and CEDC to 87.2% and receiving U.S.\$139.3 million in cash. In December 2000, EDC issued 22,000,000 shares of its capital stock in connection with an employee benefits program. As a result of this capital increase, AES's ownership of EDC was reduced slightly to 86.6%.

In accordance with requirements necessary to obtain regulatory approval for the acquisition, AES agreed to repurchase shares owned by retirees, employees and members of their direct families for the same consideration as if they had participated in the tender offer. Due to negative economic conditions, AES was unable to repurchase such shares during the years following the acquisition. As a result, in November 2003, EDC offered its active and retired employees and members of their immediate families who did not participate in the Repurchase Program an opportunity to voluntarily exchange their shares of EDC common stock for either (i) 2.5 new shares of EDC common stock for each share of EDC common stock submitted for exchange or (ii) a 3-year note in the principal amount of Bs. 1,265.0 per share of EDC common stock submitted for exchange. As a result of the program, EDC issued a total of 51,889,766 new shares of its common stock, issued notes in a principal amount of Bs. 1.4 billion and acquired a total of 22,041,968 shares of its common stock.

At EDC's annual shareholders meeting held on February 27, 2004, EDC's shareholders approved a resolution granting the board of directors broad authority to implement an employee share repurchase program. Pursuant to such authorization, in March 2004 EDC's board of directors established, as a continuation of the November 2003 repurchase program, an employee share repurchase program called "*Ven y Participa*." Under the terms of the program, EDC offered to repurchase shares of its common stock held by active and retired employees and members of their immediate families for U.S.\$0.57 per share, payable in bolívares at the then prevailing bolívar/U.S. dollar exchange rate. The program closed on March 31, 2004, and as of that date EDC had acquired a total of 10,594,150 shares of its common stock at a total cost of Bs. 11.6 billion. The repurchased shares have been retained by EDC as treasury shares.

On June 30, 2006, the EDC's ordinary shareholders meeting authorized the board of directors to implement certain share subscription programs. On May 17, 2006, the board of directors approved (i) a "public offering of shares" known as "Pass the Good Energy" ("*Pasa la Buena Energía*") and open to the general public, initiated in July and August of 2006 (prior approval by the CNV), through which a total of 143,636,637 shares were subscribed; and (ii) an "employee share program," offered to all employees of EDC, through which they could acquire up to 2,500 shares at a price of Bs. 503.43 per share, with an initial payment of 20% and the remaining 80% financed by

EDC for a term of five (5) years and with a quarterly interest rate equivalent to the weighted average rate of certain EDC's commercial papers. The shares are deposited in a trust whose beneficiaries are each individual employee and all cash dividends generated by the shares are applied to the service of the debt. The employees may release the shares from the trust upon payment of the full purchase price. At the completion of the program on August 4, 2006, 2,340 employees (87%) had participated in the program and 5,844,700 new shares were issued and registered in the National Securities Registry.

In January 2007, President Chávez announced a plan to nationalize various areas of the economy including the electricity sector. In February 2007, PDVSA, an entity wholly-owned by the Bolivarian Republic of Venezuela, agreed to purchase The AES Corporation's 82% interest in EDC pursuant to a tender offer open to all holders of EDC's common stock. On April 10, 2007, PDVSA launched the tender offer for the purchase of control shares of EDC. The tender offer, a dual jurisdiction offer carried out in the Caracas Stock Exchange in Venezuela and the OTC market in New York in the United States of America, closed on May 8, 2007. The tender purchase price in Venezuela was the Bs. equivalent of U.S.\$0.2734 per share at an exchange rate of Bs. 2,150.00=\$1.00 Dollar, or Bs. 587.81 per share. The tender purchase price in the concurrent tender offer in the U.S. was U.S.\$13.6675 per ADS. The AES Corporation tendered its 82% interest in EDC to PDVSA in the tender offer. As a result of the tender offer, PDVSA obtained control of EDC by acquiring 93.61% of EDC's outstanding common stock.

### EDC's Controlling Shareholder

As of December 2007 the Bolivarian Republic of Venezuela, through PDVSA, controlled an approximately 93.62% interest in EDC.

Neither the Bolivarian Republic of Venezuela nor PDVSA has any obligation under the Notes, or is providing any guaranty relating to EDC's obligations under the Notes.

The following table sets forth the principal shareholders of EDC and their respective holdings of EDC common stock and ADRs as of December 31, 2007.

### Shares

	Shares	% of capital	Number of Shareholders
PDVSA	3,082,085,522	93.62%	1
Minority	210,128,556	6.38%	35,470
<b>Total Shares</b>	<b>3,292,214,078</b>	<b>100%</b>	<b>35,471</b>

### ADR's

	ADR's	%
PDVSA	61,078,025	99.97%
Minority	16,490	0.030%
<b>Total ADR's</b>	<b>61,094,515</b>	<b>100%</b>

Source: Venezolano de Crédito, Banco Universal –EDC Clearing Agent

## Treasury Stock

Under Venezuelan law, treasury shares:

- do not carry voting rights;
- are not counted for purposes of establishing a quorum at shareholders' meetings;
- are not entitled to receive dividends; and
- are subject to the pre-emptive rights of existing shareholders.

## Dividend Payments

Under the Capital Markets Law, Venezuelan companies must distribute annually a dividend of at least 50% of their net income, calculated before taking into account income from affiliates. At least 25% of this amount must be in cash.

Dividends must be proposed by the board of directors and approved by a majority of EDC's shareholders.

The following table sets forth the cash dividends distributed by EDC since 2005.

<u>Approval Date</u>	<u>Payment/Distribution Date</u>	<u>Amount</u>
		<i>(in millions of constant Bs.)</i>
March 3, 2005	April 8, 2005	Bs. 85,285
March 3, 2005	October 28, 2005	Bs. 255,537
March 30, 2006	April 7, 2006	Bs. 355,400
March 9, 2007	March 16, 2007	Bs. 305,528

## ADR Program

On November 1998, EDC established a "Level 1" American Depositary Receipts program ("ADR"). EDC's ADRs trade on the "over-the-counter" market under the symbol "ELDAY." Each ADR represents 50 ordinary shares of EDC. The Bank of New York acts as depositary and *Banco de Venezuela, S.A.C.A.* and *Banco Venezolano de Crédito* act as the local custodians under the program. As of December 31, 2007, the outstanding number of ADRs under the program was 61,094,515.

## LATIBEX

On July 13, 2006, EDC obtained all required authorizations and listed its shares in the Latin-American Stock Exchange (*LATIBEX*). *LATIBEX* is an international market for Latin-American securities that allows to diversify the transactions over securities in the European market, it is regulated by the Spanish Securities Exchange Law and promoted by the Securities Exchange of Madrid. EDC was the first Venezuelan company to list its shares in *LATIBEX*. The shares are listed under the trading key XEDC and the initial offering price was € 7.8 per share.

## THE ELECTRICITY INDUSTRY IN VENEZUELA

*The following information should only be read as a summary of certain matters relating to the electricity industry in Venezuela, including provisions of Venezuelan laws and regulations applicable to the electricity industry. This summary is not intended to constitute a complete analysis of any such laws and regulations. The following information is qualified in its entirety by the detailed information appearing elsewhere in this Offering Circular, including, without limitation, the section entitled "Risk Factors."*

### **Overview**

Electricity services in Venezuela were first offered in 1888. The Venezuelan government's involvement in the electricity sector began in 1946 with the creation of *Corporación Venezolana de Fomento* ("CVF"), a state-owned company created to coordinate and develop new electricity generation capacity in Venezuela and to manage the then existing state-owned transmission and distribution systems. In 1958, the Venezuelan government created CADAFE with the purpose to integrate into a single entity the 15 electricity utilities then existing under CVF. In 1953, the *Comisión para la Electrificación del Caroní* ("CEEC") was created under the predecessor of the MPC (currently MILCO). In 1963, the Venezuelan government created EDELCA, currently the largest producer of electricity in Venezuela, to replace the CEEC and supply electricity to the growing aluminum, steel and ferro-alloys industry of the Guayana region. From 1976 to 2007, approximately 80% of the electricity industry in Venezuela has been controlled by state-owned entities.

On July 31, 2007, Venezuelan President Hugo Chávez, issued Decree N° 5,330 ("Decree N° 5,330"), creating the Law of Reorganization of the Electrical Sector, in order to reorganize the national electricity sector, to improve the quality of the electricity service, maximize the efficiency in the use of primary sources of energy production and in the operation of the system and, redistribute the functions of the participants in the electricity sector. Such decree provides for the establishment of the CEN, the state owned entity that will become engaged in operating the electric sector, including the generation, transmission, distribution and retail of electric power and energy.

### **Demand**

The following table shows the demand for electricity, the size of the Venezuelan population and Venezuelan GDP between 1999 and 2007.

<b>For the Year Ended December 31,</b>	<b>Electricity Demand</b>	<b>Population</b>	<b>GDP<sup>(1)</sup></b>
	<i>(in GWh)</i>	<i>(in thousands)</i>	<i>(in millions)</i>
2007 <sup>(1)</sup> .....	81,188	27,483	52,841,302
2006 <sup>(1)</sup> .....	79,207	27,313	51,337,866
2005.....	74,575	26,725	46,530,000
2004.....	69,865	26,127	42,172,343
2003.....	65,327	25,674	35,652,678
2002.....	65,892	25,220	38,650,110
2001.....	64,389	24,766	42,405,381
2000.....	61,161	24,311	41,013,293
1999.....	59,052	23,867	39,554,925

*Sources: Cámara Venezolana de la Industria Eléctrica, Instituto Nacional de Estadística and the BCV.*

*Notes:*

(1) Estimated figures.

It is estimated that during 2007 the total generation of electricity in Venezuela was 88,188 GWh, 65% of which was produced by hydroelectric plants and 35% thermal plants (including gas, diesel, fuel and steam based plants). As of December 31, 2007, the total Installed Capacity in Venezuela was 22,540.1 MW. During peak hours, approximately 15,551 MW are required to meet the demand. The discrepancy between the percentage of Installed Capacity represented by hydroelectric plants and thermal plants and total electricity generated by hydroelectric and thermal plants is mainly due to irregular generation of electricity by thermal plants resulting from obsolete

generation facilities, lack of regular maintenance, unavailability of spare parts and the availability of less expensive substitute hydroelectricity.

### ***NIS***

The NIS connects CADAPE, EDELCA, EDC and ENELVEN. The NIS links 29 thermal plants and 9 hydro plants with a total Installed Capacity of 22,540.1MW. EDELCA is the only net supplier of electricity to the rest of the system, to which it sold an estimated 72.9% of its production as of December 31, 2007.

The following table sets forth the electricity flows from EDELCA to other interconnected companies through the NIS at December 31, 2007.

	<u>CADAPE<sup>(1)</sup></u>	<u>EDC</u>	<u>ENELVEN<sup>(1)</sup></u>
Purchases of EDELCA electricity (in GWh) .....	32,098.8	2,213.5	5,549.5
Purchasing company's own net generation (in GWh).....	10,119.5	10,897.1	5,514.1
Total electricity available (in GWh) .....	<u>42,218.3</u>	<u>13,110.6</u>	<u>11,063.6</u>

(1) Preliminary figures derived from Annual Report OPSIS December 2007.

### **The Interconnection Agreement**

The NIS is administered through an Interconnection Agreement, which was first signed in 1968 by CADAPE, EDELCA and EDC and ratified and amended in 1988, when ENELVEN became a party to the contract. The Interconnection Agreement was designed to foster interconnection and coordination of generation activities among the companies in order to satisfy the country's demand and ensure the quality and reliability of electricity service.

The OPSIS is an association established through the Interconnection Agreement to manage the day-to-day operations of the NIS. OPSIS' main functions, up to December 1, 2006, were the operation and coordination of the national grid for transmission lines above 230 kV. OPSIS coordinated the generation and reserve assignment, the frequency, voltage levels and maintenance program of generation plants, and the national transmission grid. In addition, OPSIS coordinated the interconnected companies' regional dispatches and registers the electricity flows between companies. Other responsibilities of OPSIS included:

- preparing studies related to the expansion of the national electricity system, and
- collecting and analyzing technical data for the member companies, such as performing tests to determine the capacity to be accredited by the member companies to the generation pool.
- The annual cost related to EDC's connection to the NIS is 25% of the investments and expenses incurred by OPSIS for a given year. Such costs vary from year to year. EDC's contributions to OPSIS were approximately Bs.6.84 billion for the year ended December 31, 2005, Bs.7.49 billion for the year ended December 31, 2006.

As of December 1, 2006, the CNGSE assumed all functions previously performed by OPSIS. Accordingly, EDC's payments to the CNGSE for the year ended December 31, 2007 was Bs.7.60 billion. The CNGSE is not responsible for enforcing payments between the companies.

### ***Dispatch***

There is currently no competitive dispatch system in operation in Venezuela. Electricity companies are therefore able to establish for themselves the units they dispatch and the power they purchase to service their load demands.

### ***Participants***

The power sector in Venezuela comprises a number of electricity companies serving approximately 5.26 million customers. As of December 31, 2007, the Venezuelan power sector had approximately 33,000 employees.

Practically all of the assets of the Venezuelan power system belong to five companies. Besides EDC, these companies are EDELCA, CADAPE, ENELVEN and ENELBAR.

#### ***CVG Electrificación del Caroní, C.A.***

EDELCA, a state-owned electricity company, was created in 1963 as a subsidiary of Corporación Venezolana de Guayana to develop the hydroelectric potential of the Caroní river basin in the Guayana region. EDELCA was created for the express purpose of facilitating an electricity-intensive industrial complex in the region linked to the production of aluminum, steel and ferro-alloys. Presently, EDELCA generates approximately 63.12% of the country's total electricity production from its hydroelectric plants: Guri 20 units (8,851 MW), Macagua I 6 units (360 MW), Macagua II 12 units (2,400 MW), Macagua III 2 units (170 MW) and Caruachi 12 units (2,196 MW).

EDELCA sells 34% of its electricity production to large industrial users, mainly in the Guayana region, and 4% directly to the Puerto Ordaz region through CADAPE. The remaining 62% is sold to distribution companies through the NIS. EDELCA owns all the 765 kV transmission lines in Venezuela and about half of the 400 kV transmission lines, which enables EDELCA to transport its electricity to the main consumption centers.

#### ***Compañía Anónima de Administración y Fomento Eléctrico***

CADAPE is the largest state-owned electricity distribution company in Venezuela. It was created in 1958 with the purpose to construct new generation facilities, increase generation capacity and manage the transmission and primary distribution of electricity in Venezuela, promoting nationwide access to electricity. Currently, CADAPE covers 90% of the territory and, as of December 31, 2007, served approximately 2.7 million clients.

CADAPE is a vertically integrated utility, with an Installed Capacity, as of December 31, 2005, of 3,690 MW (3,070 MW thermal, 620 MW hydro), and owns approximately half of the country's 400 kV lines and most of its 230 kV lines. The total electricity invoiced by CADAPE during the year 2005 was 22,667 GWh.

All electricity companies in Venezuela are members of CAVEINEL, the Venezuelan electricity industry trade body.

### ***Regulation and Regulatory Control***

#### ***Electric Service Law***

On September 17, 1999, Mr. Rafael Caldera, then President of Venezuela, in consultation with the Council of Ministers, approved the law-decree that established a regulatory framework for the electricity industry in Venezuela. The law-decree effectively repealed all prior decrees and regulations in effect with respect to the electricity sector. On December 31, 2001, the law decree was superseded by the Electric Service Law. The Electric Service Law, as amended, constitutes the basis for the current regulatory framework of the electricity sector in Venezuela.

The Electric Service Law provides, among other things:

- (a) the separation of the electricity sector in Venezuela based on the following activities:
  - generation;
  - transmission;
  - dispatch;
  - distribution; and
  - retail.
- (b) that no single entity may engage in more than one of the above listed activities, with the exception of retail activities which may be conducted by generation and distribution companies;

- (c) for electricity companies engaged in transmission and distribution activities to obtain formal concessions from the Energy Ministry;
- (d) the opening of generation activities to competition, principally by allowing consumers of more than 5 MW to purchase electricity freely in the market ;
- (e) the creation of a centralized, state-owned company, the *Centro Nacional de Gestión del Sistema Eléctrico* ("CNGSE"), to administer the dispatch of electricity nationwide; and
- (f) the creation of a single regulatory authority for Venezuela's electricity sector, the *Comisión Nacional de Energía Eléctrica* ("CNEE").

As of the date of this Offering Circular, due to the Venezuelan government's reorganization of the electricity sector through the adoption of Decree *N° 5,330* and the publication by Energy Ministry of Resolution 190 in the Official Gazette on October 8, 2007 ("Resolution *N° 190*"), certain provisions of the Electric Service Law (e.g. the legal separation of the electricity sector by area of activity, the opening of generation activities to competition and the concessions regime) have been superseded or have been rendered temporarily inoperative.

Notwithstanding the reorganization of the Venezuelan electricity sector, under the Electric Service Law, electricity companies are currently required to keep separate accounting for their generation, transmission, distribution and retail activities. EDC currently divides its activities into business units and implements consistent accounting practices. Accordingly, EDC's operating segments as of this date consist primarily of its vertically integrated electricity operations. Costs incurred by each such operation are separately tracked by EDC's internal reporting system and reported to management.

#### ***Reorganization of the Venezuelan Electricity Sector***

On July 31, 2007, Decree *N° 5,330* became effective. Article 14 of Decree *N° 5,330* provides that the Law of Reorganization of the Electrical Sector will prevail over the Electric Service Law and any municipal or state law (including the Value Added Tax Law, the Organic Law of the Municipal Power and the Public Administration Law).

Decree *N° 5,330*, among other things, provides for the establishment of the CEN, the state owned entity that will become engaged in operating the electric sector, including the generation, transmission, distribution and retail of electric power and energy. EDC, EDELCA, ENELVEN, Empresa Nacional de Generación C.A. ("ENAGEN"), CADAFE, Energía Eléctrica de la Costa Oriental del Lago, C.A. ("ENELCO"), ENELBAR, Sistema Eléctrico de Nueva Esparta C.A. ("SENECA"), as well as all remaining subsidiaries of the CEN must, within a period of three years, merge into one legal entity. Furthermore, Decree *N° 5,330* provides that all the private companies dedicated to the production, transmission, distribution and commercialization of electric power in the process of being acquired by the Venezuelan government or which have been judicially or otherwise intervened by the Venezuelan government shall merge into the CEN.

Resolution *N° 190* intends to improve the reorganization of the electricity distribution activities by, among other things, creating the following operative regions:

- Northwest region which comprises the states of Zulia, Falcón, Lara and Yaracuy.
- North-center region which comprises the states of Carabobo, Aragua, Miranda, Vargas and Distrito Capital.
- Northeast region which comprises the states of Anzoátegui, Monagas, Sucre, Nueva Esparta and Delta Amacuro.
- Central region which comprises the states of Guarico, Cojedes, Portuguesa, Barinas and Apure.
- Andean region which comprises the states of Mérida, Trujillo and Táchira.
- Southern region which comprises the states of Bolívar and Amazonas.

Resolution *N° 190* provides that:

- ENELBAR shall operate and maintain the electricity distribution facilities in the state of Yaracuy, in the northwest region, and Carabobo, in the north center region, in addition to the areas where it operates;
- ENELVEN shall operate and maintain the electricity distribution facilities in the state of Falcón, in the northwest region, in addition to the areas where it operates;

- EDELCA shall operate and maintain the electricity distribution facilities in the southern region, in addition to the areas where it operates; and
- EDC shall operate and maintain the electricity distribution facilities in the states of Aragua and Miranda, in the north-center region, and the state of Nueva Esparta, in the eastern region, in addition to the areas where it operates.

The designated operators shall define and implement the necessary operative, maintenance and investment actions for the efficient provision of the electrical service. Additionally, they shall be responsible for the provision of the electric service in the pre-determined regions and, as a consequence thereof, shall prepare investment and development plans to be implemented with (i) their own resources, (ii) resources that CADAFE had budgeted for such purpose in the corresponding regions and, (iii) resources obtained for the improvement of commercial activities.

EDELCA shall assume:

- the construction, operation and maintenance of the hydroelectric plants or centrals located in Venezuela, and therefore, it shall prepare and implement investment and development plans in such plants with its own resources and resources that CADAFE had budgeted for such purpose; and
- the operation and maintenance of power transmission lines for electricity at 765KV and 400KV; as well as the main transmission of electricity at 230KV that, as approved by the electric companies and with the authorization of the Energy Ministry, are considered to be operated and maintained by EDELCA. EDELCA shall be the sole responsible for the operation, administration and maintenance of such transmission lines, and therefore, it shall prepare and implement investment and development plans in the corresponding plants with its own resources and resources that CADAFE had budgeted for such purpose.

In addition, PDVSA shall assume the operation and maintenance of the Thermoelectric Generation Plant known as Planta Centro, and therefore, it shall prepare and implement investment and development plans in such plant with its own resources and resources that CADAFE had budgeted for such purpose.

The provisions set forth in Resolution 190 will continue in effect until the date determined by CEN.

### ***Service Quality Regulations***

In November 2003, the Energy Ministry adopted regulations governing the retail activities of distribution companies and their contractual arrangements with customers, including meter reading, billing and customer service. Regulations were also promulgated governing certain technical aspects of the services provided by distribution companies, including acceptable levels of voltage signal and frequency and duration of interruptions, and imposing information reporting requirements.

These regulations foresee the gradual implementation by distribution companies of the systems necessary for compliance with the prescribed quality standards and assume the application of appropriate tariff levels to cover the costs of implementing such systems. The service quality regulations provide incentives for distribution companies that comply with the prescribed standards, permitting them to remain profitable.

The regulations also impose penalties. With respect to the technical requirements, the penalties may be imposed range from 10 to 25 times the average tariff charged by the distribution company for the service that failed to meet such requirements. Penalties for failure to meet the requirements applicable to retail activities range from 5% to 50% of the average amount billed to customers with respect to whom such requirements were not met. Although the Energy Ministry has not imposed penalties as of the date of this Offering Circular based on these regulations there is no assurance that the Energy Ministry will not impose any such penalties in the future. See "Risk Factors - We are subject to a series of requirements relating to the quality of the electric service we provide to our customers which could result in increased operating costs."

For more information regarding the new service quality standards and capital expenditures EDC expects to incur in connection with its distribution activities, see "Risk Factors — Risks Factors Relating to us — We are subject to a series of new requirements relating to the quality of the electric service we provide to our customers, which include penalties in cases of non-compliance, which could result in increased operating costs" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Planned Capital Expenditures."

On November 25, 2003, the Energy Ministry published in the Official Gazette the Distribution Service Quality Norm (the "Original Quality Norms"). On August 23, 2004, the Energy Ministry published in the Official Gazette the new Distribution Service Quality Norm (the "Distribution Quality Norm"), with the purpose of extending the application periods originally set for the different stages in the Original Quality Norm. Additionally, on September 5, 2005, the Energy Ministry issued an official communication to EDC explaining that the Energy Ministry was considering the extension of the time period for the satisfaction of Stage I of the Distribution Quality Norm, which consisted of conditioning all internal systems and processes. As of the date of this Offering Circular, the Energy Ministry has not taken any additional steps or enforcement actions for the implementation of the Distribution Quality Norm, nor has it communicated any further developments in connection therewith. EDC believes that the Energy Ministry will adjust the time periods and certain obligations under the Distribution Quality Norm as a result of the adoption of Decree N° 5,330 and Resolution N° 190.

### ***Regulatory Entities***

#### **Ministerio del Poder Popular para la Energía y Petróleo**

The Energy Ministry is the principal regulatory authority of the electric sector in Venezuela. According to Article 19 of the Official Gazette N° 38,111 dated January 20, 2005, the Energy Ministry has the authority and shall:

- develop, regulate and review the application of policies, and shall plan, implement and overview the Venezuelan government activities, related to Hydrocarbons and energy in general;
- develop, use and control the non-renewable natural energy sources and all other energy sources.
- overview the oil and electricity industries;
- perform market studies and analysis to determine the prices of oil related products and the supply of electricity; and
- actively participate in the prevention of environmental pollution derived from the hydrocarbons and energy activities, in coordination with the Environment and Natural Resources Ministry (*Ministerio de Ambiente y de los Recursos Naturales*).

#### **Comisión Nacional de Energía Eléctrica (CNEE)**

The Electric Service Law provides the creation of the CNEE to regulate the electricity sector in Venezuela. CNEE is expected to be an agency under the Energy Ministry with functional, administrative and financial autonomy. Once established, it is expected that CNEE will gradually assume the functions now being conducted by FUNDELEC.

CNEE's functions include among others:

- supervision and enforcement of the Electric Service Law among public and private electric utility companies;
- promotion and development of competition in electricity retail and generation; and
- establishment of standards with respect to electricity sales to the public and tariffs that may be charged by distribution companies.

Until the CNEE is organized and functional, the Energy Ministry will continue to exercise such functions, other than those currently exercised by FUNDELEC.

#### **Sociedad Anónima Corporación Eléctrica Nacional (CEN)**

Decree N° 5,330 provides for the establishment of the CEN, the state owned entity that will become engaged in operating the electric sector, including the generation, transmission, distribution and retail of electric power and energy. Pursuant to such decree, 75% of the shares of CEN will be owned by Venezuela, and 25% will be owned by PDVSA.

### Centro Nacional de Gestión del Servicio Eléctrico (CNGSE)

Under Decree N° 5,026 published in the Official Gazette on December 1, 2006, and as provided in Decree N° 5,330, the CNGSE was created as a centralized, state-owned company which main functions are to coordinate, control and supervise the generation and transmission activities of Venezuela's public and private electricity companies, and develop and manage the wholesale market for electricity in Venezuela. The CNGSE assumed all functions that historically had been assumed by the electric companies through the Interconnection Agreement and administered by OPSIS. While CNGSE is a state owned entity where the Venezuelan government holds a stake through the Energy Ministry, private entities are permitted to own minority interests in the CNGSE.

### Fundación para el Desarrollo del Servicio Eléctrico (FUNDELEC)

FUNDELEC is an agency for the development of the electricity sector that has no regulatory powers. The duties of FUNDELEC include conducting studies for the drafting of laws and regulations applicable to the electricity industry in Venezuela. It is expected that FUNDELEC will be dissolved once the CNEE is fully functional.

### Ministerio del Poder Popular para las Industrias Ligeras y Comercio (MILCO)

The Ministry of the Popular Power for the Light Industries and Commerce, formerly the MPC, has the authority to develop, implement and regulate policies to achieve the democratization and transparency of the market as well as to establish prices and tariffs for products and services as well as the promotion and commercialization of the distribution channels of goods and services.

### ***Economic Remuneration of Electric Service Law***

Under the Electric Service Law, the approach to remunerating electricity services considers the division of the electricity sector into distribution, transmission, generation and retail activities. Each activity is regulated differently and will be subject to a different remuneration scheme.

Distribution and transmission activities are regulated and their remuneration is governed by a tariff regime implemented by the Energy Ministry in conjunction with MILCO. The current tariff regime under the Electric Service Law has been structured to:

- create incentives for the efficient use of electricity resources,
- ensure the lowest cost for consumers without diminishing the required level of service,
- consider differences in the cost of providing electricity services by analyzing the specific circumstances in which they are provided, and
- allow distribution and transmission companies to exist and realize reasonable returns on their investment.

The Energy Ministry has not published a new tariff regime applicable to distribution and transmission activities. The Electric Service Law provides that, until a new tariff regime is established by the Energy Ministry the current tariff regime will continue to be in effect. EDC believes it is possible that, following the new reorganization of the electricity industry and the creation of the CEN, an amendment to the Electric Service Law will redefine the current economic regime.

### ***Current Methodology for Setting Tariffs***

The current tariff regime requires that tariffs be established by the Energy Ministry and MILCO using a cost-plus methodology. The main principle underlying the setting of tariffs under the regime is that an electricity company's total revenues should reimburse it for its total costs and expenses for providing the service and provide a profit which is a rate of return on the *base tarifaria* ("Rate Base"), assets and working capital.

The current tariff regime defines which costs and expenses may be reimbursed by the tariff, which include:

- salaries and benefits for employees,
- fuel costs,

- rent,
- cost of services,
- maintenance costs,
- annual depreciation of total assets dedicated to provide the service,
- provisions for loss of assets,
- concession fees,
- taxes, and
- other fees paid to municipalities and the central government.

The Energy Ministry establishes the maximum return on assets and working capital so as to:

- enable electric companies to obtain access to funding (depending on each company's investment needs),
- stimulate efficient management related to indicators such as productivity and quality of service, and
- provide an appropriate return to shareholders, based on returns for long-term investments or similar risk as well as on the local cost of capital.

This return on assets and working capital is the same percentage for all companies in the electricity sector and has been set at 5% for generation activities, 4% for transmission activities and 9% for distribution activities.

The Rate Base to which this percentage is applied comprises average net fixed assets (as calculated according to the income tax law) dedicated to generation, transmission, distribution and retail, plus an amount equal to three months worth of operation and maintenance expenditures. The resulting model for calculating tariffs can be translated into the following formula:

$$(TT) = (C\&E) + R * (BT)/E$$

Where:

- TT = Target tariff.
- C&E = Operating costs and expenses.
- R = Rate of return (as established by the Energy Ministry).
- BT = Average Net Fixed Assets (as calculated according to the income tax law) + an amount equal to three months of operation and maintenance expenditures (1/4 of annual expenses before depreciation, as established by the Energy Ministry).
- E = (Electricity purchased + electricity generated)\* (1-allowed electricity losses).

### ***Tariff Resolutions and Adjustments***

#### **FAP Adjustments and CACE Adjustments**

According to Article 19 of the joint resolution dated January 28, 1999 (the "1999 Joint Resolution"), adopted by the Energy Ministry and MPC (currently MILCO), the basic tariffs are subject to semiannual adjustments to reflect fluctuations in inflation and the currency exchange rate, as published by the BCV. Tariff adjustments are made by the application of ratios which are determined by comparing projected inflation and exchange rate fluctuations against actual fluctuations in such rates ("FAP Adjustments").

In accordance with Article 20 of the 1999 Joint Resolution, tariffs are also subject to monthly adjustments to reflect fluctuations in the prices of purchased electricity and combustible fuel used by electric utility companies to generate electricity ("CACE Adjustments").

On December 29, 2000, a joint resolution of the Energy Ministry and the MPC was published in the Extraordinary Official Gazette N° 5,512 (the "2000 Joint Resolution"), which established the modifications of the

macroeconomic variables to be considered for the calculation of the adjustments of the tariffs of the electricity service.

FAP Adjustments and CACE Adjustments are made according to a procedure provided in the 1999 Joint Resolution. Within five business days following the end of each applicable six-month period for FAP Adjustments or monthly period for CACE Adjustments, respectively, electric utility companies may submit to the Energy Ministry an application proposing the FAP Adjustment or CACE Adjustment to be made together with a description of the calculation methodology and supporting documentation. During the ten business days after such submission, the Energy Ministry notifies each electric utility company of the FAP Adjustment or CACE Adjustment factors to be applied to its tariffs. Failure by the Energy Ministry to publish such adjustment factors may be treated as an implicit approval of the factors proposed by the electric utility companies.

If an electric utility company has not submitted any proposal, then the tariffs in effect during the previous period will remain in effect. Only electric utility companies that are in full compliance with their obligations to furnish operational and other information required by the Energy Ministry may be entitled to submit FAP Adjustment and CACE Adjustment proposals. FAP Adjustment and CACE Adjustments become effective 15 business days after they have been approved (whether by lapse of the ten-day waiting period described above or by notification from the Energy Ministry).

#### Basic Tariffs: 1999 and 2000 Joint Resolutions

Applying FAP Adjustments to the prices published on the Official Gazette is intended to maintain in real terms the tariff level of each type of service, other than residential social tariff. The application of FAP Adjustments is scheduled to take place every six months, allowing the correction of prices based on real changes to macro economical variables, correcting those changes originally predicted in the calculation of tariffs. The charge for CACE Adjustment is scheduled to take place every month, allowing the correction of prices of fuels and the purchase of energy with relation to what was originally predicted in the calculation of tariffs.

The 1999 Joint Resolution provided for a tariff regime applicable from 1999 through 2002. The 1999 Joint Resolution superseded and replaced prior resolutions governing tariffs, except for Decree N° 368. The 1999 Joint Resolution contemplated:

- annual tariff increases,
- FAP Adjustments, and
- CACE Adjustments.

The tariffs set forth in the 1999 Joint Resolution represent the basic rates applicable at the beginning of each year, which are subject to FAP Adjustments and CACE Adjustments.

The 2000 Joint Resolution established the tariffs for the companies in the electricity industry for the years 2001 and 2002. On June 30, 2001, the values of the parameters considered to set the tariffs of the electrical service (FAP Adjustments and CACE Adjustments) were modified as published in the Extraordinary Official Gazette N° 5,540, revoking those previously established in the Extraordinary Official Gazette N° 5,512 and preserving the prices of the maximum tariffs contemplated for the years 2001 and 2002.

On April 4, 2002, a joint resolution of the responsible Ministries was published in the Extraordinary Official Gazette N° 37,415, establishing new maximum applicable tariffs setting forth the conditions for its application and calculation methodology.

On February 6, 2003, Decree N° 2,304 was published in the Official Gazette N° 37,626 freezing the prices of basic necessity products, including those of electricity supply. On May 5, 2003, in Official Gazette N° 37,628, a joint resolution of the Energy Ministry and MPC was published under which an increase in tariffs as a result of FAP Adjustments was temporarily suspended. However, Article 2 of such resolution states that the Energy Ministry will exceptionally be able to approve the usage of such factor.

On March 25, 2004, a joint resolution of the Energy Ministry and the MPC was published in Official Gazette N° 37,906, which established the prices of methane gas in the distribution centers and the tariffs for the services for transport and distribution. The adjustment in the price of methane gas corresponding to years 2004 and

2005 was 56.5% and 39.7% respectively, representing an adjustment in the average price paid by the clients (other than clients subject to the social residential tariff) of the service of 5% in 2005 and 4.5% in 2004.

On February 13, 2006, a resolution was published in Official Gazette *N°* 38,378, which established the prices of methane gas in the distribution centers. On February 23, 2006, a joint resolution of the Energy Ministry and the MPC was published in Official Gazette *N°* 38,386, which established new prices for the transport and distribution of methane gas applicable retroactively as of January 1, 2006. Both resolutions supersede the joint resolution of the Energy Ministry and the MPC published in Official Gazette *N°* 37,906. In this sense, the final tariff of the Methane gas including the distribution tariff and the service tariff, was set at 48.29 Bs./m<sup>3</sup> for the year 2006 which represented a reduction of approximately 18% with respect to the applicable tariff for the previous year. On January 1, 2007, according to what was provided in the Official Gazettes *N°* 38,378 and *N°* 38,386, the new tariffs applicable to methane gas were increased, including tariffs of transport and distribution thereof. The final tariff to be paid on 2007 was 55,351 Bs./m<sup>3</sup>, which represents an increase of 14.62% from the tariff applied in 2006.

EDC's tariffs have not been adjusted nor modified by the Energy Ministry since March 22, 2006.

The Energy Ministry has not established a new tariff regime. Accordingly, electricity companies have continued to apply the provisions of the 1999 Joint Resolution and the 2000 Joint Resolution in determining tariffs applicable to their sales of electricity. For more information on the new tariff regime, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview of Factors Impacting EDC's Business — Regulatory Requirements Applicable to Electricity Utilities."

## DESCRIPTION OF THE NOTES

The Issuer will issue the notes (the "**Notes**{ XE "Notes" }") under a trust indenture (the "**Indenture**{ XE "Indenture" }"), to be dated as of April 10, 2008, among the Issuer, The Bank of New York, as trustee (the "**Trustee**{ XE "Trustee" }"), and principal paying agent (the "**Principal Paying Agent**{ XE "Principal Paying Agent" }"), and The Bank of New York (Luxembourg) S.A., as Luxembourg listing agent and paying agent. The following is a summary of the material provisions of the Indenture. It does not include all the provisions of the Indenture. You are urged to read the Indenture together with the summary below in making your decision to invest in the Notes. The terms of the Notes include those stated in the Indenture. You can obtain a copy of the Indenture at the offices of the Trustee located at 101 Barclay Street, 4E New York, New York 10286, United States and, for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange, at the office of the listing agent in Luxembourg.

You can find definitions of certain capitalized terms used in this description under "Certain Definitions."

The Principal Paying Agent will initially act as paying agent and the Trustee will act as registrar for the Notes. You may present Notes for registration of transfer and exchange at the offices of the registrar, which initially will be the Trustee's corporate office. No service fee will be charged for any registration of transfer or exchange or redemption of Notes, but the Issuer may require payment in certain circumstances of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith. The Issuer may change any paying agent and registrar without notice to Holders of the Notes. The Issuer will pay principal (and premium, if any) on the Notes at the Principal Paying Agent's corporate office in New York. At the Issuer's option, it may pay interest and Additional Amounts, if any, at the Principal Paying Agent's corporate trust office or by check mailed to the registered address of each holder of the Notes.

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trade them on the Euro MTF market of such exchange.

### Brief Description of the Notes

*The Notes.* The Notes will:

- be senior unsecured Obligations of the Issuer;
- rank equally in right of payment with all existing and future senior unsecured Obligations of the Issuer (other than Obligations preferred by statute or operation of law);
- rank senior in right of payment to all existing and future Obligations of the Issuer that by their terms are subordinated to the Notes; and
- be effectively subordinated to all existing and future secured Indebtedness of the Issuer to the extent of the value of the assets securing such Indebtedness.

As of December 31, 2007, the Issuer had consolidated total indebtedness of approximately U.S.\$262.4 million.

### Additional Notes

The Issuer may, without your consent, incur additional Indebtedness. At the Issuer's option, this additional Indebtedness may consist of additional Notes ("**Additional Notes**{ XE "Additional Notes" }") issued in one or more transactions, which have substantially identical terms (other than issue price, issue date and date from which the interest will accrue) as Notes issued on the Issue Date. Any Additional Notes will be consolidated and form a single class with the Notes issued on the Issue Date, so that, among other things, Holders of any Additional Notes will have the right to vote together with Holders of Notes issued on the Issue Date as one class.

Holders of Notes should be aware that Additional Notes that are treated for non-tax purposes as a single series with the Notes issued on the Issue Date may be treated for U.S. federal income tax purposes as a separate series and not part of the same issue as the Notes. In such case, the Additional Notes may be considered to have been issued with "original issue discount" for U.S. federal income tax purposes, which may affect the market value of the Notes issued on the Issue Date since such Additional Notes may not be distinguishable for non-tax purposes from the Notes issued on the Issue Date.

### **Principal, Maturity and Interest**

The Issuer will issue the Notes in fully registered form without coupons. The Notes will have minimum denominations of U.S.\$1,000 and integral multiples of U.S.\$1,000 in excess thereof. The Notes will be issued for an initial aggregate principal amount of U.S.\$650,000,000, but the Issuer may issue an unlimited principal amount of Notes under the Indenture, subject to the limitations set forth therein.

The Notes will mature at par on April 10, 2018, unless earlier redeemed in accordance with the terms of the Notes. See "Redemption" below. Interest on the Notes will accrue at the rate of 8.50% per annum and will be due and payable in cash semi-annually in arrears on each April 10 and October 10, commencing on October 10, 2008 to the Persons who are registered Holders of the Notes at the close of business on each March 24 and September 24 immediately preceding the applicable interest payment date. Interest on the Notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from and including the Issue Date. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Principal and interest on the Notes will be paid in U.S. dollars free and clear of any withholding or deduction for, or on account of, taxes imposed by Venezuela.

Claims against the Issuer for the payment of principal of, or interest and Additional Amounts (as defined below) on, the Notes will be prescribed unless made within six years of the due date for payment of such principal, interest or Additional Amounts.

### **Redemption**

***Optional Redemption.*** The Issuer may redeem the Notes as a whole or in part at any time or from time to time, at its option, at a redemption price equal to the greater of (1) 100% of the principal amount of the Notes to be redeemed, and (2) the sum of the present values of the remaining scheduled payments of principal, interest (exclusive of interest accrued to the date of redemption) and Additional Amounts, if any, on the Notes to be redeemed discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the applicable Treasury Rate plus 75 basis points, in each case plus accrued and unpaid interest on the principal amount being redeemed to the date of redemption.

***Selection and Notice of Redemption.*** Notice of redemption will be mailed by first-class mail at least 30 days but not more than 60 days before the redemption date to each holder of the Notes to be redeemed at its registered address. Notices of redemption shall be irrevocable and unconditional. Notice of redemption shall identify the Notes to be redeemed and shall state the redemption date (and that interest thereon will cease to accrue on and after such date), the redemption price, and the place of payment of the redemption price. If Notes are to be redeemed in part only, the notice of redemption shall state the portion of the principal amount thereof to be redeemed. A new Note in a principal amount equal to the unredeemed portion thereof will be issued in the name of the holder thereof upon cancellation of the original Note. For so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange, the Issuer will cause notices of redemption to also be published as provided under "Notices."

In the event that the Issuer elects to redeem less than all the Notes at any time, selection of the Notes for redemption will be made by the Trustee either:

- (1) if the Notes are listed, in compliance with the requirements of the principal securities exchange on which the Notes are listed, which is expected to be the Luxembourg Stock Exchange; or

- (2) if such securities exchange has no requirement governing redemptions of the principal securities exchange or if the Notes are not so listed on a securities exchange, on a pro rata basis, by lot or by such method as the Trustee may reasonably determine is fair and appropriate.

No Notes of a principal amount of U.S.\$1,000 shall be redeemed in part, and Notes of a principal amount in excess of U.S.\$1,000 may be redeemed in part in multiples of U.S.\$1,000 only.

Notes called for redemption become due on the date fixed for redemption. The Issuer will pay the redemption price for any Note together with accrued and unpaid interest, and Additional Amounts, if any, thereon, through the date of redemption. On and after the redemption date, interest will cease to accrue on Notes or portions thereof called for redemption as long as the Issuer has deposited with the paying agent funds in satisfaction of the applicable redemption price pursuant to the Indenture. Upon redemption of any Notes by the Issuer, such redeemed Notes will be cancelled.

***Redemption for Tax Reasons.*** The Issuer may, at its option, at any time redeem, as a whole but not in part, upon not less than 30 days, nor more than 60 days' notice, the Notes at a redemption price equal to 100% of the Outstanding principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date) and Additional Amounts, if any, to the redemption date, if as a result of:

- (1) any amendment to, or change in, the laws (or rules or regulations promulgated thereunder) of a Relevant Taxing Jurisdiction, or
- (2) any amendment to or change in an official interpretation or application regarding such laws, rules or regulations (including a holding, judgment or order by a court or administrative body of competent jurisdiction),

which amendment, change, interpretation or application is proposed and becomes effective on or after the Issue Date, the Issuer has become or would become obligated to pay, on or before the next date on which any amount would be payable with respect to such Notes, any Additional Amounts in excess of those attributable to Taxes that are imposed, deducted or withheld at a rate of 4.95% (or such lower rate as may be contemplated by any regulation issued by the President of Venezuela or new law enacted by the Venezuelan National Assembly exonerating payments of interest under the Notes from Venezuelan income tax or reducing the current 4.95% income tax withholding rate) on or from any payments of interest under the Notes (See "Tax Considerations—Venezuelan Taxation") and such obligations cannot be avoided by taking commercially reasonable measures available to the Issuer (which, for the avoidance of doubt, do not include changing the jurisdiction of incorporation of the Issuer); provided that:

- (a) no such notice of redemption may be given earlier than 90 days prior to the earliest date on which the Issuer would be obligated to pay such Additional Amounts were a payment in respect of the Notes then due and payable, and
- (b) at the time such notice is given, such obligation to pay such Additional Amounts remains in effect.

No such redemption shall be effective unless and until the Trustee receives the amount payable upon redemption as set forth above.

Immediately prior to the publication of any notice of redemption pursuant to this provision, the Issuer will deliver to the Trustee:

- (i) an Officer's Certificate (A) stating that (i) the amendment, change, interpretation or application as a result of which the Issuer has or will become obligated to pay such Additional Amounts is effective with respect to all companies in the Relevant Taxing Jurisdiction and (ii) the Issuer is entitled to effect such redemption and (B) setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and

- (ii) an Opinion of Counsel (which may be Issuer's counsel) to the effect that (i) the Issuer has or will become obligated to pay such Additional Amounts as a result of such amendment, change, interpretation or application and (ii) the amendment, change, interpretation or application as a result of which the Issuer has or will become obligated to pay such Additional Amounts is effective with respect to all companies in the Relevant Taxing Jurisdiction.

**No Mandatory Redemption; Open Market Purchases.** The Issuer is not required to make any mandatory redemption or sinking fund payments with respect to the Notes. The Issuer and its Subsidiaries may acquire Notes by means other than a redemption, whether by tender offer, open market purchases, negotiated transactions or otherwise, in accordance with applicable securities laws. Notes so repurchased may, at the Issuer's discretion, be held, resold or surrendered to the Trustee for cancellation.

### **Additional Amounts**

All payments made by the Issuer under, or with respect to, the Notes will be made free and clear of, and without withholding or deduction for or on account of, any present or future tax, duty, levy, impost, assessment or other governmental charge (including penalties, interest and other liabilities related thereto) (collectively, "**Taxes**{ XE "Taxes" }") imposed or levied by or on behalf of Venezuela or any political subdivision or taxing authority or governmental agency thereof or therein having the power to tax (each, a "**Relevant Taxing Jurisdiction**{ XE "Relevant Taxing Jurisdiction" }"), unless the Issuer is required to withhold or deduct Taxes by law or by the official interpretation or administration thereof.

If the Issuer is so required to withhold or deduct any amount for, or on account of, such Taxes of any Relevant Taxing Jurisdiction from any payment made under or with respect to the Notes, the Issuer will pay such additional amounts ("**Additional Amounts**{ XE "Additional Amounts" }") as may be necessary so that the net amount received by each holder (including Additional Amounts) after such withholding or deduction will not be less than the amount such holder would have received if such Taxes had not been required to be withheld or deducted; provided, however, that the foregoing obligation to pay Additional Amounts does not apply to:

- (1) any Taxes that would not have been so imposed but for the existence of any present or former connection between the relevant holder (or between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of power, over the relevant holder, if the relevant holder is an estate, nominee, trust, partnership, limited liability company or corporation) and the Relevant Taxing Jurisdiction (other than the receipt of such payment or the ownership or holding of or the execution, delivery, registration or enforcement of such Note);
- (2) any estate, inheritance, gift, sales, excise, transfer, personal property tax or similar Tax, assessment or governmental charge;
- (3) any Taxes that would not have been so imposed but for the presentation of such Notes (where presentation is required) for payment on a date more than 30 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever is later, except to the extent that the beneficiary or holder thereof would have been entitled to Additional Amounts had the Notes been presented for payment on any date during such 30 day period;
- (4) any Taxes that would not have been so imposed or would have been imposed at a lower rate if the holder of the Note had provided to the Issuer any information, certification, documentation or evidence required under applicable law, rules, regulations or generally published administrative practice of the Relevant Taxing Jurisdiction for such Taxes not to be imposed or to be imposed at a lower rate (provided that (a) such information, certification, documentation or evidence is required by the applicable law, rules, regulations or generally published administrative practice of the Relevant Taxing Jurisdiction as a precondition to exoneration from the requirement to deduct or withhold all or part of such Taxes and (b) at least 30 days prior to the first payment date with respect to which such information, certification, documentation or evidence is required under the applicable law, rules, regulations or generally published administrative practice of the Relevant Taxing Jurisdiction, the

relevant holder at that time has been notified in writing by the Issuer or any other Person through whom payment may be made, that such information, certification, documentation or evidence is required to be provided to the Issuer);

- (5) any withholding or deduction imposed on a payment to an individual that is required to be made pursuant to the European Union Directive on the taxation of savings income (the "**Directive**{ XE "Directive" }") implementing the conclusions of the European Council of Economic and Finance Ministers (ECOFIN) meeting on June 3, 2003, or any law implementing or complying with, or introduced in order to conform to, the Directive;
- (6) any Tax imposed other than by way of withholding or deduction; or
- (7) any Tax imposed on overall net income (or any branch profits tax imposed in lieu thereof).

Such Additional Amounts will also not be payable where, had the beneficial owner of the Note been the Holder of the Note it would not have been entitled to payment of Additional Amounts by reason of clauses (1) to (5) inclusive above.

Notwithstanding the foregoing, the limitations on the Issuer's obligation to pay Additional Amounts set forth in clause (4) above shall not apply if the provision of information, certification, documentation or other evidence described in such clause (4) would be substantially more onerous, in form, in procedure or in the substance of information disclosed, to a holder or beneficial owner of a Note (taking into account any relevant differences between U.S. law, rules, regulations or administrative practice and those of the Relevant Taxing Jurisdiction) than comparable information or other reporting requirements imposed under U.S. tax law, regulations and administrative practice (such as IRS Forms W-8 IMY, W-8BEN and W-9).

The foregoing provisions will survive any termination or discharge of the Indenture and shall apply mutatis mutandis to any taxing jurisdiction with respect to any successor Person to the Issuer. The Issuer will (i) make such withholding or deduction of Taxes as is required under applicable law and (ii) remit the full amount deducted or withheld to the Relevant Taxing Jurisdiction in accordance with applicable law. The Issuer will use reasonable efforts to obtain certified copies of tax receipts evidencing the payment of any Taxes so deducted or withheld from each Relevant Taxing Jurisdiction imposing such Taxes, and will furnish such certified copies to the Trustee promptly after the date the payment of any Taxes so deducted or so withheld is due pursuant to applicable law or, if such tax receipts are not reasonably available, furnish such other documentation that provides reasonable evidence of such payment.

In the event that Additional Amounts actually paid with respect to the Notes as described above are based on rates of deduction or withholding of withholding taxes in excess of the appropriate rate applicable to the holder of such Notes, and, as a result such holder is entitled to make a claim for a refund or credit in respect of such excess from the authority imposing such withholding tax, then by accepting such Notes such holder shall be deemed to have assigned and transferred all right, title, and interest to any such claim for a refund or credit in respect of such excess to the Issuer.

At least 30 days prior to each date on which any payment under or with respect to the Notes is due and payable (unless such obligation to pay Additional Amounts arises shortly before or after the 30th day prior to such date, in which case it shall be promptly thereafter), if the Issuer will be obligated to pay Additional Amounts with respect to such payment, the Issuer will deliver to the Trustee an Officer's Certificate stating the fact that such Additional Amounts will be payable and the amounts so payable and will set forth such other information necessary to enable the Trustee to pay such Additional Amounts to Holders of Notes on the payment date. Each such Officer's Certificate shall be relied upon until receipt of a new Officer's Certificate addressing such matters.

The Issuer will pay any present or future stamp, transfer, court or documentary taxes, or any other excise or property taxes, charges or similar levies or Taxes which arise in any Relevant Taxing Jurisdiction from the initial execution, delivery or registration of the Notes, the Indenture or any other document or instrument in relation thereto and the enforcement of the Notes following the occurrence and during the continuance of any Default, excluding all

such Taxes, charges or similar levies imposed by any Relevant Taxing Jurisdiction outside of Venezuela other than those resulting from, or required to be paid in connection with, the enforcement of the Notes or any other document or instrument in relation thereto following the occurrence and during the continuance of any Default with respect to the Notes, and the Issuer will agree to indemnify the Holders of the Notes for any such Taxes paid by such Holders.

Whenever this offering circular, the Indenture or the Notes mention, in any context, the payment of principal, premium or interest, if any, or any other amount payable under or with respect to the Notes by the Issuer, such mention shall be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

### **Certain Covenants**

Set forth below are summaries of certain covenants contained in the Indenture.

***Limitation on Liens.*** The Issuer will not, and will not cause or permit any of its Subsidiaries to, incur, permit or suffer to exist any Liens (the "**Initial Lien**{ XE "Initial Lien" }"), other than Permitted Liens, of any kind against or upon any property or assets of the Issuer or any of its Subsidiaries whether owned on the Issue Date or acquired after the Issue Date, to secure any Indebtedness, unless it has made or will make effective provision whereby (a) the Notes will be secured by such Lien equally and ratably with (or prior to, in the event such Indebtedness is subordinated in right of payment to the Notes) all other Indebtedness of the Issuer or any of its Subsidiaries secured by such Lien and (b) if such Lien secures Obligations subordinated to the Notes in right of payment, such Lien shall be subordinated to a Lien securing the Notes in the same property as that securing such Lien to the same extent as such subordinated Obligations are subordinated to the Notes.

Any Lien created for the benefit of the Holders of the Notes pursuant to the preceding sentence shall provide by its terms that such Lien will be automatically and unconditionally released and discharged upon release and discharge of the Initial Lien.

***Limitation on Consolidation, Merger, Sale or Conveyance.*** The Issuer will not, in one or a series of transactions, consolidate or amalgamate with or merge into any corporation or convey, lease or transfer substantially all of its properties, assets or revenues to any Person or entity (other than a direct or indirect subsidiary of the Issuer) or permit any person (other than a direct or indirect subsidiary of the Issuer) to merge with or into it unless:

- either the Issuer is the continuing entity, or the Person (the "**successor company**{ XE "successor company" }") formed by the consolidation or into which the Issuer is merged or that acquired or leased the property or assets of the Issuer will assume (jointly and severally with the Issuer unless the Issuer will have ceased to exist as a result of that merger, consolidation or amalgamation), by a supplemental indenture (the form and substance of which will be previously approved by the Trustee), all of the Issuer's obligations under the Indenture and the Notes;
- the successor company (jointly and severally with the Issuer unless the Issuer will have ceased to exist as part of the merger, consolidation or amalgamation) agrees to indemnify each Holders of Notes against any tax, assessment or governmental charge thereafter imposed on the Holders of Notes solely as a consequence of the consolidation, merger, conveyance, transfer or lease with respect to the payment of principal of, or interest, the Notes;
- immediately after giving effect to the transaction, no Default or Event of Default has occurred and is continuing; and
- the Issuer has delivered to the Trustee an Officer's Certificate and an Opinion of Counsel, each stating that the transaction and the supplemental indenture, comply with the terms of the Indenture and that all conditions precedent provided for in the Indenture and relating to the transaction have been complied with.

Notwithstanding anything to the contrary in the foregoing, and, except with respect to the CEN Merger, so long as no Default or Event of Default under the Indenture or the Notes will have occurred and be continuing at the time of the proposed transaction or would result from the transaction:

- any direct or indirect Subsidiary of the Issuer may merge or consolidate with or into, or convey, transfer, lease or otherwise dispose of assets to, any Person (other than the Issuer or any of its Subsidiaries or affiliates) in cases when the transaction would not have a material adverse effect on the Issuer and its Subsidiaries taken as a whole; or
- any direct or indirect Subsidiary of the Issuer may liquidate or dissolve if the Issuer determines in good faith that the liquidation or dissolution is in the best interests of the Issuer, and would not result in a material adverse effect on the Issuer and its Subsidiaries taken as a whole and if the liquidation or dissolution is part of a corporate reorganization of the Issuer; or
- the Issuer may merge, amalgamate or consolidate with or into, or convey, transfer, lease or otherwise dispose of all or substantially all of its properties, assets or revenues to the CEN in order to effect the CEN Merger as required by and in compliance with Venezuelan applicable law.

The Issuer may omit to comply with any term, provision or condition set forth in certain covenants or any term, provision or condition of the Indenture, if before the time for the compliance the Holders of at least a majority in principal amount of the outstanding Notes waive the compliance, but no waiver can operate except to the extent expressly waived, and, until a waiver becomes effective, the Issuer's obligations and the duties of the Trustee in respect of any such term, provision or condition will remain in full force and effect.

**Reports to Holders.** The Issuer shall provide the Trustee and the Holders of the Notes:

- (1) within 180 days following the end of each fiscal year of the Issuer after the Issue Date, the annual consolidated financial statements (including the notes thereto) of the Issuer, prepared in accordance with IFRS and presented in the English language, and a report thereon by the Issuer's certified independent accountants; and
- (2) within 90 days following the end of the second fiscal quarter of each fiscal year of the Issuer, after the Issue Date, the semi-annual consolidated financial statements of the Issuer, prepared in accordance with IFRS and presented in the English language, provided that each semi-annual and annual financial statement shall include a "management discussion and analysis" or other report of management providing an overview in reasonable detail of the results of operations and financial condition of the Issuer and its subsidiaries.

For so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, the above information will also be made available through the offices of the paying agent in Luxembourg. See "—Listing."

**Ratings.** The Issuer shall obtain international foreign currency global ratings by at least two of the three Rating Agencies no later than 45 days after the Issue Date and shall maintain such international foreign currency global ratings by at least two of the three Rating Agencies for as long as the Notes remain outstanding.

**U.S. Dollar Equivalent.** For purposes of determining compliance with any covenant in the Indenture that is limited or otherwise refers to a specified amount of U.S. dollars, the amount of any item denominated in a currency other than U.S. dollars shall be the U.S. Dollar Equivalent of such item.

**Additional Covenants.** The Indenture will also contain customary covenants with respect to, among other things, the following matters: (1) payment of principal and interest; (2) maintenance of corporate existence; (3) maintenance of insurance; (4) compliance with laws, (5) maintenance of books and records and (6) obtaining and maintaining of all necessary governmental approvals to comply with the Issuer's obligations under the Notes.

## Events of Default

The following events are defined in the Indenture as "**Events of Default**{ XE "Events of Default" }":

- (1) the failure to pay the principal of, or premium, if any, on any Notes, when such principal becomes due and payable, at maturity, upon redemption or otherwise;
- (2) the failure to pay interest and Additional Amounts, if any, on any Notes when the same becomes due and payable and the default continues for a period of 30 days;
- (3) a default in the observance or performance of any other covenant or agreement contained in the Indenture (other than the payment of the principal of, or premium, if any, or interest and Additional Amounts, if any, on any Note) which default continues for a period of 60 days after the Issuer receives written notice specifying the default (and demanding that such default be remedied) from Holders of at least 25% of the Outstanding principal amount of the Notes;
- (4) the failure to pay at final stated maturity (giving effect to any applicable grace periods and any extensions thereof) the principal amount of any Indebtedness of any of the Bolivarian Republic of Venezuela, PDVSA, the Issuer or any of its Significant Subsidiaries, or the acceleration of the final stated maturity of any such Indebtedness (which acceleration is not rescinded, annulled or otherwise cured within 30 days from the date of acceleration) if the aggregate principal amount of such Indebtedness, together with the principal amount of any other such Indebtedness in default for failure to pay principal at final stated maturity or which has been accelerated (in each case with respect to which the 30-day period described above has elapsed), aggregates U.S.\$100 million or more at any time;
- (5) (i) one or more judgments in an aggregate amount in excess of U.S.\$30 million shall have been rendered against the Issuer or any of its Significant Subsidiaries or (ii) one or more judgments in an aggregate amount in excess of U.S.\$100 million shall have been rendered against the Bolivarian Republic of Venezuela or PDVSA, and any such judgments remain undischarged, unpaid or, unstayed, unbonded or not suspended by agreement for a period of 60 days after such judgment or judgments become final and non-appealable;
- (6) the Issuer or any Significant Subsidiary shall (a) apply for or consent to the appointment of a receiver, trustee, liquidator or similar official for all or any substantial part of the property of the Issuer or such Significant Subsidiary, (b) make a general assignment for the benefit of the creditors of the Issuer or such Significant Subsidiary, (c) be adjudicated bankrupt (*declaración de quiebra*), in reorganization (*concurso mercantil*) or insolvent, or (d) file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization (*concurso mercantil*) or seeking to take advantage of any applicable insolvency law;
- (7) the entry by a court having jurisdiction in the premises of (A) a decree or order for relief in respect of the Issuer or any Significant Subsidiary, in an involuntary case or proceeding under any applicable bankruptcy, insolvency, suspension of payments, *concurso mercantil*, *quiebra*, reorganization or other similar law, or (B) a decree or order adjudging the Issuer or any Significant Subsidiary bankrupt or insolvent, or suspending payments, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Issuer or any Significant Subsidiary under any applicable law, or appointing a receiver, liquidator, trustee or other similar official of the Issuer or any Significant Subsidiary or of any substantial part of the property of the Issuer or any Significant Subsidiary, or ordering the winding up or liquidation of the affairs of the Issuer or any Significant Subsidiary, and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 60 consecutive days; and

- (8) any of the Notes, the Indenture or any part thereof, shall cease to be in full force and effect (except as contemplated by the terms thereof) or is declared to be null and void and unenforceable in a judicial proceeding or inadmissible in evidence in the courts of Venezuela, or the Issuer shall contest the enforceability of, deny or disaffirm its material obligations under the Notes.

If an Event of Default (other than an Event of Default specified in clauses (6) or (7) above with respect to the Issuer) shall occur and be continuing and has not been waived, Holders of at least 25% in principal amount of Outstanding Notes may declare the principal of, and premium, if any, accrued interest and Additional Amounts, if any, on all the Notes to be due and payable by notice in writing to the Issuer and the Trustee specifying the Event of Default and that it is a "notice of acceleration" (the "**Acceleration Notice**{ XE "Acceleration Notice" }"), and the same shall become immediately due and payable.

If an Event of Default specified in clauses (6) or (7) above with respect to the Issuer occurs and is continuing, then all unpaid principal of, and premium, if any, and accrued and unpaid interest and Additional Amounts, if any, on all of the Outstanding Notes shall ipso facto become and be immediately due and payable without any declaration or other act on the part of Trustee any Holder.

The Indenture will provide that, at any time after a declaration of acceleration with respect to the Notes as described in the preceding paragraphs, the Holders of a majority in principal amount of the Notes may rescind and cancel such declaration and its consequences:

- (a) if the rescission would not conflict with any judgment or decree;
- (b) if all existing Events of Default have been cured or waived except nonpayment of principal, premium, if any, interest or Additional Amounts, if any, that has become due solely because of the acceleration;
- (c) if the Issuer has paid or deposited with the Trustee (to the extent the payment of such interest is lawful) interest on overdue installments of interest and overdue principal and premium, if any, and Additional Amounts, if any, which has become due otherwise than by such declaration of acceleration; and
- (d) if the Issuer has paid or deposited with the Trustee the reasonable compensation of the Trustee and reimbursed the reasonable expenses, disbursements and advances of the Trustee, its agents, and counsel under the Indenture.

No such rescission shall affect any subsequent Default or impair any right consequent thereto.

The Holders of a majority in principal amount of the Notes may waive any existing Default or Event of Default under the Indenture, and its consequences, except a default in the payment of the principal of or premium, if any, interest or Additional Amounts, if any, on any Notes.

Subject to certain limitations, Holders of a majority in aggregate principal amount of the then Outstanding Notes may direct the Trustee in its exercise of any trust or power. Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any Holders unless such Holders have offered to the Trustee indemnity or security satisfactory to the Trustee against any loss, liability or expense.

Except to enforce the right to receive payment of principal, premium, if any, or interest when due, no Holder may pursue any remedy with respect to the Indenture or the Notes unless:

- (1) such Holder has previously given the Trustee notice that an Event of Default is continuing;

- (2) Holders of at least 25% in aggregate principal amount of the then Outstanding Notes have requested the Trustee to pursue the remedy;
- (3) such Holders have offered the Trustee security or indemnity satisfactory to the Trustee against any loss, liability or expense;
- (4) the Trustee has not complied with such request within 60 days after the receipt of the request and the offer of security or indemnity; and
- (5) Holders of a majority in aggregate principal amount of the then Outstanding Notes have not given the Trustee a direction inconsistent with such request within such 60-day period.

Under the Indenture, the Issuer will be required to provide an Officer's Certificate to the Trustee promptly upon any Officer obtaining knowledge of any Event of Default that has occurred and is continuing and, if applicable, describe such Event of Default and the status thereof.

If a Default or an Event of Default occurs and is continuing, and is known to a responsible officer of the Trustee, the Trustee will notify each Holder as provided herein under "—Notices" of the Default or Event of Default within thirty (30) days after obtaining knowledge thereof; provided that except in the case of a Default or an Event of Default in payment of principal of, premium, if any, or interest on any Notes, the Trustee may withhold the notice to the Holders if a committee of its trust officers in good faith determines that withholding the notice is in the interest of the Holders.

#### **Satisfaction and Discharge**

The Indenture will be discharged and will cease to be of further effect (except as to surviving rights or registration of transfer or exchange of the Notes, as expressly provided for in the Indenture) as to all Outstanding Notes when:

- (1) either:
  - (a) all the Notes theretofore authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid and Notes for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Issuer and thereafter repaid to the Issuer or discharged from such trust) have been delivered to the Trustee for cancellation; or
  - (b) all Notes not theretofore delivered to the Trustee for cancellation (i) have become due and payable, (ii) will become due and payable at their stated maturity within one year or (iii) are to be called for redemption within one year under arrangements reasonably satisfactory to the Trustee, and the Issuer has irrevocably deposited or caused to be deposited with the Trustee funds in an amount sufficient to pay and discharge the entire Indebtedness on the Notes not theretofore delivered to the Trustee for cancellation, for principal of, premium, if any, interest and Additional Amounts, if any, on the Notes to the date of deposit together with irrevocable instructions from the Issuer directing the Trustee to apply such funds to the payment thereof at maturity or redemption, as the case may be;
- (2) the Issuer has paid all other sums payable by it under the Indenture; and
- (3) the Trustee shall have received an Officer's Certificate of the Issuer and an Opinion of Counsel stating that all conditions precedent under the Indenture relating to the satisfaction and discharge of the Indenture have been complied with.

## Modification of the Indenture

From time to time, the Issuer and the Trustee, without the consent of the Holders adversely affected thereby, may amend, modify or supplement the Indenture and the Notes:

- (1) to cure any ambiguity, defect or inconsistency contained therein;
- (2) to make any change that would provide any additional rights or benefits to the Holders or that does not adversely affect in any material respect the legal rights of the Holders under the Indenture or the Notes;
- (3) to allow any Subsidiary or any other Person to guarantee the Notes;
- (4) to provide for the issuance of Additional Notes in accordance with the Indenture;
- (5) to evidence the replacement of the Trustee as provided for under the Indenture;
- (6) if necessary, in connection with any addition or release of any security permitted under the Notes;  
or
- (7) to conform the text of the Indenture or the Notes to any provision contained in this "Description of the Notes" to the extent that such provision in this "Description of the Notes" was intended to be a verbatim recitation of a provision of the Indenture or the Notes.

The Trustee will be entitled to rely on such evidence as it deems appropriate, including, without limitation, solely on an Opinion of Counsel. Other amendments of, and modifications to and supplements to, the Indenture and the Notes may be made with the consent of the Holders of a majority in principal amount of the then Outstanding Notes, except that, without the consent of each Holder affected thereby, no amendment may:

- (a) reduce the percentage of the principal amount of the Notes whose Holders must consent to an amendment, supplement or waiver of any provision of the Indenture or the Notes;
- (b) reduce the stated rate of or extend the stated time for payment of interest, including default interest, or Additional Amounts on any Notes;
- (c) reduce the principal of or change the fixed final maturity of any Notes, or change the date on which any Notes may be subject to redemption or reduce the redemption price therefor;
- (d) make any Note payable in currency other than that stated in the Notes;
- (e) impair the right of each Holder to receive payment of principal of, premium, if any, interest and Additional Amounts, if any, on such Note on or after the due date thereof or to institute suit to enforce such payment;
- (f) subordinate the Notes in right of payment to any other Indebtedness of the Issuer; or
- (g) make any change in the preceding amendment and waiver provisions which require each Holder's consent.

The consent of the Holders is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment. After an amendment under the Indenture becomes effective, the Issuer will be required to give notice to the Luxembourg Stock Exchange and the Holders as provided under "—Notices," briefly describing such amendment. The failure to give such notice to all Holders, or any defect therein, will not impair or affect the validity of such amendment.

In addition, under certain circumstances the Holders of a majority in principal amount of the Notes Outstanding may waive compliance with certain restrictive covenants and provisions of the Indenture. See "— Events of Default."

### **Currency Indemnity**

U.S. Dollars are the sole currency of account and payment for all sums payable by the Issuer under the Notes and the Indenture. Any amount received or recovered in a currency other than U.S. Dollars in respect of the Notes (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer, any Subsidiary of the Issuer or otherwise) by the Holder in respect of any sum expressed to be due to it from the Issuer shall constitute a discharge of the Issuer only to the extent of the U.S. Dollar amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that U.S. Dollar amount is less than the U.S. Dollar amount expressed to be due to the recipient under any Note, the Issuer shall indemnify the recipient against the cost of making any such purchase. If that U.S. Dollar amount is more than the U.S. Dollar amount expressed to be due to the recipient under any Note, such recipient will promptly remit the excess to the Trustee who, in turn, will remit such amount to the Issuer. For purposes of this indemnity, it will be sufficient for the Holder to certify (indicating the sources of information used) that it would have suffered a loss had the actual purchase of U.S. Dollars been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of U.S. Dollars on such date had not been practicable, on the first date on which it would have been practicable).

The above indemnity, to the extent permitted by law:

- constitutes a separate and independent obligation from the other obligations of the Issuer;
- shall give rise to a separate and independent cause of action;
- shall apply irrespective of any waiver or indulgence granted by any Holder; and
- shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or any other judgment.

### **Consent to Jurisdiction and Service of Process; Sovereign Immunity**

The Issuer has consented to the non-exclusive jurisdiction of any court of the State of New York or any United States federal court sitting in the Borough of Manhattan, New York City, New York, United States, and any appellate court from any thereof, and has waived any immunity from the jurisdiction of such courts over any suit, action or proceeding that may be brought in connection with the Indenture and the Notes. The Issuer has appointed CT Corporation System as its agent to receive and forward any writs, process and summonses in any suit, action or proceeding brought in connection with the Indenture or the Notes against the Issuer in any court of the State of New York or any United States federal court sitting in the Borough of Manhattan, New York City and has agreed that such appointment shall be so long as the Notes remain Outstanding or until the appointment by the Issuer of a successor in The City of New York as its agent for such purpose and the acceptance of such appointment by such successor.

To the extent that the Issuer has or hereafter may acquire any immunity from jurisdiction of any court or from any legal process, the Issuer will waive such immunity and will agree not to assert, by way of motion, as a defense or otherwise, in any suit, action or proceeding the defense of sovereign immunity or any claim that it is not personally subject to the jurisdiction of the above-named courts by reason of sovereign immunity or otherwise, or that it is immune from any legal process (whether through service of notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to itself or its property or from attachment either prior to judgment or in aid of execution by reason of sovereign immunity. Notwithstanding, The Law of the Office of the Attorney General of Venezuela (*Ley Orgánica de la Procuraduría General de la República*) and the Electric Service Law (*Ley Orgánica del Servicio Eléctrico*) as amended by the Law for the Restructuring of the Electric

Sector (*Decreto con Rango, Valor y Fuerza de Ley Orgánica de Reorganización del Sector Eléctrico*), provide for an attachment prior to judgment or in aid of execution on property located in Venezuela that is destined to the rendering of a public service to be stayed for a period of forty five (45) days after notice is given to the Attorney General, period of time within which the Venezuelan Government make take any action in order to avoid interruption of services, including taking possession of such assets if such attachment endangers the continuity, quality or security of the electric service rendered.

### **Governing Law**

The Indenture will provide that the Notes will be governed by, and construed in accordance with, the laws of the State of New York.

### **The Trustee**

The Bank of New York is the Trustee under the Indenture. Its address is 101 Barclay Street, 4E New York, New York 10286, United States.

The Indenture will provide that, except during the continuance of an Event of Default, the Trustee will perform only such duties as are specifically set forth in the Indenture. During the existence of an Event of Default, the Trustee will exercise such rights and powers vested in it by the Indenture, and use the same degree of care and skill in its exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

The Trustee may resign at any time by so notifying the Issuer. In addition, the Holders of a majority in aggregate principal amount of the Notes then Outstanding and the Issuer may remove the Trustee by so notifying the Trustee and may appoint a successor Trustee satisfactory to the Issuer.

If the Trustee resigns, is removed by the Issuer or by the Holders of a majority in aggregate principal amount of the Notes then Outstanding, and such Holders do not reasonably promptly appoint a successor Trustee, or if a vacancy exists in the office of the Trustee for any reason, the Issuer shall promptly appoint a successor Trustee. So long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, the successor Trustee shall mail a notice of its succession to Holders of the Notes and give notice as described under "— Notices."

### **Listing**

Application has been made to list the Notes on the Luxembourg Stock Exchange in accordance with the rules of that exchange; however, the Notes are not yet listed and the Issuer cannot assure you they will be accepted for listing. Following the issuance of the Notes, the Issuer will use its best efforts to obtain and maintain listing of the Notes on the Luxembourg Stock Exchange. In addition, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, a listing agent and a paying agent will be maintained in Luxembourg. The address of the listing agent and paying agent are set forth on the last page of this offering circular.

### **Notices**

All notices shall be deemed to have been given upon the mailing by first class mail, postage prepaid, of such notices to Holders at their registered addresses as recorded in the Notes register not later than the latest date, and not earlier than the earliest date, prescribed in the Notes for the giving of such notice. Any requirement of notice hereunder may be waived by the Person entitled to such notice before or after such notice is required to be given, and such waivers shall be filed with the Trustee.

As long as the Notes are listed on the Luxembourg Stock Exchange and its rules so require, the Issuer will also give notices to Holders by publication in a daily newspaper of general circulation in Luxembourg or on the website of the Luxembourg Stock Exchange at <http://www.bourse.lu>. If publication in Luxembourg is impracticable, the Issuer will make the publication in a widely circulated newspaper in Western Europe. By "daily newspaper" the Issuer means a newspaper that is published on each day, other than a Saturday, Sunday or holiday, in Luxembourg

or, when applicable, elsewhere in Western Europe. If the Issuer is unable to give notice as described in this paragraph because the publication of any newspaper is suspended or it is otherwise impractical for the Issuer to publish the notice, then the Issuer, or the Trustee acting on the Issuer's instructions, will give Holders notice in another form. That alternate form of notice will be sufficient notice to you.

Neither the failure to give any notice to a particular Holder, nor any defect in a notice given to a particular Holder, will affect the sufficiency of any notice given to another Holder.

### **Certain Definitions**

Set forth below is a summary of certain of the defined terms to be used in the Indenture. Reference is made to the Indenture for the full definition of all such terms, as well as any other terms used herein for which no definition is provided.

**"Affiliate{ XE "Affiliate" }**" shall mean, with respect to any specified Person, any other Person who directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, such specified Person. Solely for purposes of this definition, the term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. For purposes of this definition, the terms "controlling" and "controlled" have meanings correlative of the foregoing.

**"BCV"** shall mean the Venezuelan Central Bank.

**"Board of Directors{ XE "Board of Directors" }**" shall mean, as to any Person, the board of directors or similar governing body of such Person or any duly authorized committee thereof.

**"Business Day{ XE "Business Day" }**" shall mean a day other than a Saturday, Sunday or any day on which banking institutions are authorized or required by law to close in The City of New York, New York, Luxembourg or in Venezuela.

**"Capitalized Lease Obligations{ XE "Capitalized Lease Obligations" }**" shall mean an obligation that is required to be classified and accounted for as a capitalized lease for financial reporting purposes in accordance with Venezuelan GAAP or IFRS, and the amount of Indebtedness represented by such obligation shall be the capitalized amount of such obligation determined in accordance with Venezuelan GAAP or IFRS; and the stated maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be prepaid by the lessee without payment of a penalty.

**"CEN{ XE "CEN" }**" shall mean *Corporación Eléctrica Nacional*, a *compañía anónima* to be organized under the laws of Venezuela in accordance with Decree N° 5,330 dated May 2, 2007, whereby the Law of Reorganization of the Electrical Sector (*Decreto-ley sobre Reorganización del Sector Eléctrico Nacional*) was created in Venezuela.

**"CEN Merger{ XE "CEN Merger" }**" shall mean a merger of the Issuer with and into the CEN.

**"Clearstream{ XE "Clearstream" }**" shall have the meaning set forth under "—Book-Entry; Delivery and Form."

**"Comparable Treasury Issue{ XE "Comparable Treasury Issue" }**" shall mean the United States Treasury security selected by an Independent Financial Advisor as having a maturity comparable to the remaining term ("**Remaining Life{ XE "Remaining Life" }**") of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such Notes.

**"Comparable Treasury Price{ XE "Comparable Treasury Price" }**" shall mean, with respect to the redemption date, (1) the average of five Reference Treasury Dealer Quotations for the redemption date, after

excluding the highest and lowest Reference Treasury Dealer Quotations or (2) if the Independent Financial Advisor obtains fewer than five such Reference Treasury Dealer Quotations, the average of all such quotations.

**"Default{ XE "Default" }**" shall mean an event or condition the occurrence of which is, or with the lapse of time or the giving of notice or both would be, an Event of Default.

**"Euroclear{ XE "Euroclear" }**" shall have the meaning set forth under "—Book-Entry; Delivery and Form."

**"Exchange Act{ XE "Exchange Act" }**" shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder.

**"Guarantee{ XE "Guarantee" }**" shall mean any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person and any obligation, direct or indirect, contingent or otherwise, of any Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided, however, that the term "Guarantee" shall not include (i) endorsements for collection or deposit in the ordinary course of business and (ii) any guarantee to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness (each, a **"Funding Guarantee{ XE "Funding Guarantee" }**"), except for any Funding Guarantee in respect of which a claim or demand for payment has been made by the beneficiary thereof upon the occurrence of an event or circumstance giving rise to a claim or demand for payment under such Funding Guarantee in accordance with its terms. The term "Guarantee" used as a verb has a correlative meaning.

**"Holder{ XE "Holder" }**" shall mean the Person in whose name a Note is registered on the registrar's books.

**"Hedging Agreement{ XE "Hedging Agreement" }**" shall mean (a) any and all Interest Rate Agreement, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of the foregoing (including any option to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or are governed by, any form of master agreement published by the International Swaps and Derivative Association, Inc., any International Foreign Exchange Master Agreement or any other master agreement (including such master agreement, together with any related schedules, a **"Master Agreement{ XE "Master Agreement" }**") including any such obligations or liabilities under any Master Agreement.

**"Hedging Obligations{ XE "Hedging Obligations" }**" of any Person shall mean the obligations of such Person pursuant to any Interest Rate Agreement or Hedging Agreement.

**"IFRS{ XE "IFRS" }**" shall mean the International Financial Reporting Standards promulgated from time to time by the International Accounting Standards Board or any successor institution ("**IASB{ XE "IASB" }**") (which includes standards and interpretations approved by the IASB and International Accounting Standards issued under its previous constitutions), together with its pronouncements thereon from time to time.

**"Indebtedness{ XE "Indebtedness" }**" shall mean any obligation (whether present or future, actual or contingent and including, without limitation, any Guarantee) for the payment or repayment of money which has been borrowed or raised.

**"Independent Financial Advisor** { XE "Independent Financial Advisor" }" shall mean a nationally recognized accounting, appraisal or, investment banking firm or consultant in the United States: (1) which does not, and whose directors, officers and employees or do not, have a direct or indirect financial interest in the Issuer or any of its Subsidiaries; and (2) which, in the judgment of the Issuer's Board of Directors, is otherwise independent and qualified to perform the task for which such firm is being engaged.

**"Interest Rate Agreement"** shall mean, with respect to any Person, any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or other similar agreement or arrangement to which such Person is a party or a beneficiary.

**"Issue Date**{ XE "Issue Date" }" shall mean the date of original issuance of the Notes, which is expected to be April 10, 2008.

**"Lien** { XE "Lien" }" shall mean any lien, mortgage, pledge, security interest, charge or similar encumbrance.

**"Moody's"** shall mean Moody's Investors Service, Inc. and its successors.

**"Obligations**{ XE "Obligations" }" shall mean all payment obligations, whether or not contingent, for principal, premium, interest, Additional Amounts, penalties, fees, indemnification, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

**"Officer**{ XE "Officer" }" shall mean the Chief Executive Officer, the Chairman of the Board of Directors, the Chief Financial Officer, the Secretary of the Board of Directors, the Treasurer or the Controller of the Issuer (or any equivalent officer of the Issuer).

**"Officer's Certificate**{ XE "Officer's Certificate" }" shall mean a certificate signed by two Officers of the Issuer, at least one of whom shall be the principal financial officer of the Issuer.

**"Opinion of Counsel**{ XE "Opinion of Counsel" }" shall mean a written opinion of counsel, who may be an employee of or counsel for the Issuer and who is reasonably acceptable to the Trustee.

**"Outstanding**{ XE "Outstanding" }" when used with respect to the Notes, shall mean, as of the date of determination, all Notes theretofore authenticated and delivered under this Indenture, except:

- (1) Notes theretofore canceled by the Trustee or delivered to the Trustee for cancellation;
- (2) Notes, or portions thereof, for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee or any paying agent (other than the Issuer) in trust or set aside and segregated in trust by the Issuer (if the Issuer shall act as their own paying agent) for the Holders of such Notes; provided that, if such Notes are to be redeemed, notice of such redemption has been duly given pursuant to the Indenture or provision therefor satisfactory to the Trustee has been made; and
- (3) Notes which have been paid pursuant to the provisions for "Mutilated Notes" under the Indenture or in exchange for or in lieu of which other Notes have been authenticated and delivered pursuant to the Indenture, other than any such Notes in respect of which there shall have been presented to the Trustee proof satisfactory to it that such Notes are held by a bona fide purchaser in whose hands such Notes are valid obligations of the Issuer;

provided, however, that in determining whether the Holders of the requisite principal amount of the Outstanding Notes have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Notes owned by the Issuer or its Subsidiaries shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice,

consent or waiver, only Notes which a Responsible Officer of the Trustee actually knows to be so owned shall be so disregarded. Notes so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the reasonable satisfaction of the Trustee the pledgee's right so to act with respect to such Notes and that the pledgee is not either of the Issuer or its Subsidiaries.

"PDVSA{ XE "PDVSA" }" shall mean Petróleos de Venezuela, S.A., a corporation (*sociedad anónima*) organized under the laws of the Bolivarian Republic of Venezuela.

"Permitted Liens{ XE "Permitted Liens" }" means the following types of Liens:

- (1) Liens for taxes, assessments or governmental charges or claims either (a) not delinquent (taking into account all available extensions) or (b) contested in good faith by appropriate proceedings and as to which the Issuer or its Subsidiaries shall have set aside on its books such reserves to the extent required pursuant to IFRS;
- (2) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, suppliers, materialmen, repairmen and other Liens imposed by law or pursuant to customary reservations or retentions of title Incurred in the ordinary course of business for sums not yet delinquent or being contested in good faith, if such reserve or other appropriate provision, if any, to the extent required by IFRS shall have been made in respect thereof;
- (3) Liens Incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, or to secure public or statutory obligations, the performance of tenders, statutory obligations, surety and/or appeal bonds, bids, leases, government contracts, performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money), including any Lien securing letters of credit issued in the ordinary course of business in connection therewith;
- (4) any judgment Lien not giving rise to an Event of Default;
- (5) easements, rights-of-way, zoning restrictions and other similar charges or encumbrances in respect of real property not interfering in any material respect with the ordinary conduct of the business of the Issuer or any of its Subsidiaries;
- (6) any interest or title of a lessor under any Capitalized Lease Obligation provided that such Liens do not extend to any property or assets which are not leased property subject to such Capitalized Lease Obligation;
- (7) Liens granted upon or with respect to any assets hereafter acquired by the Issuer or any Subsidiary to secure the acquisition costs of such assets or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such assets, including any Lien existing at the time of the acquisition of such assets as long as the maximum amount so secured shall not exceed the aggregate acquisition costs of all such assets or the aggregate Indebtedness incurred solely for the acquisition of such assets, as the case may be;
- (8) Liens upon specific items of inventory or other goods and proceeds of any Person securing such Person's obligations in respect of bankers' acceptances issued or created for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;
- (9) Liens securing reimbursement obligations with respect to commercial letters of credit which encumber documents and other property relating to such letters of credit and products and proceeds thereof;

- (10) Liens arising in the ordinary course of business in connection with Indebtedness maturing not more than one year after the date on which such Indebtedness was originally incurred and which are related to the financing of export, import or other trade transactions;
- (11) Liens encumbering deposits made to secure obligations arising from statutory, regulatory, contractual, or warranty requirements of the Issuer or any of its Subsidiaries, including rights of offset and set-off;
- (12) Liens securing Hedging Obligations;
- (13) Liens existing on any asset or on any stock of any Subsidiary prior to the acquisition thereof by the Issuer or any Subsidiary as long as such Lien is not created in anticipation of such acquisition;
- (14) Liens existing as of the Issue Date;
- (15) Liens securing the Notes and all other monetary obligations under the Indenture;
- (16) Liens in favor of the Issuer or any Subsidiary of the Issuer;
- (17) Liens on property of a Person existing at the time such Person is merged with or into or consolidated with the Issuer or any Subsidiary of the Issuer or becomes a Subsidiary of the Issuer; provided that such Liens were in existence prior to the contemplation of such merger or consolidation and do not extend to any other assets owned by the Issuer or the Subsidiary of the Issuer;
- (18) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods or other Liens on inventory and goods to facilitate the purchase, shipment, or storage of such inventory or goods;
- (19) Liens on assets that are the subject of a Sale and Lease-Back;
- (20) Liens arising by operation of law;
- (21) Liens arising solely by virtue of any statutory or common law provisions relating to banker's Liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a depository institution;
- (22) Liens on the receivables or inventory of the Issuer or any Subsidiary of the Issuer securing obligations under or in connection with any lines of credit or working capital facilities;
- (23) leases, licenses, subleases or sublicenses granted to others in the ordinary course of business that do not interfere in any material respect with the business of the Issuer and its Subsidiaries;
- (24) Liens in favor of the Venezuelan government or any agency or instrumentality thereof to secure payments under any agreement entered into between such entity and the Issuer or a Subsidiary of the Issuer;
- (25) Liens to secure obligations of the Issuer or a Subsidiary of the Issuer under agreements that provide for indemnification, adjustment of purchase price or similar obligations, in each case, incurred in connection with the disposition of any business, assets or Subsidiary; provided that the maximum aggregate liability in respect of all such Liens will at no time exceed the gross proceeds actually received by the Issuer and the Subsidiary of the Issuer in connection with such disposition;
- (26) Lien over any Qualifying Asset relating to a project financed by, and securing Indebtedness incurred in connection with, the Project Financing of such project by the Issuer, any of the Issuer's

Subsidiaries or any consortium or other venture in which the Issuer has any ownership or similar interest;

- (27) Lien in respect of Indebtedness the principal amount of which in the aggregate, together with all Liens not otherwise qualifying as the Issuer's Permitted Liens pursuant to this definition, does not exceed 15% of the Issuer's consolidated total assets (as determined in accordance with IFRS) at any date as at which the Issuer's balance sheet is prepared and published as provided herein; and
- (28) any extension, renewal or replacement (or successive extensions, renewals or replacements), in whole or in part, of any Lien referred to in the foregoing clauses (7), (14), (17) and (26) or of any Indebtedness secured thereby; provided that the principal amount of Indebtedness so secured thereby shall not exceed the principal amount of Indebtedness so secured at the time of such extension, renewal or replacement (plus accrued and unpaid interest and reasonable fees and expenses incurred in connection therewith), and that such extension, renewal or replacement Lien shall be limited to all or part of the property that secured the Lien extended, renewed or replaced (plus improvements on or additions to such property).

**"Person{ XE "Person" }**" shall mean an individual, partnership, corporation, limited liability company, unincorporated organization, trust or joint venture, or a governmental agency or political subdivision thereof.

**"Project Financing{ XE "Project Financing" }**" shall mean the incurrence of Indebtedness relating to the exploration, development, expansion, renovation, upgrade or other modification or construction of a project pursuant to which the providers of such Indebtedness or any trustee or other intermediary on their behalf or beneficiaries designated by any such provider, trustee or other intermediary are granted security over one or more Qualifying Assets relating to such project for repayment of principal, premium and interest or any other amount in respect of such Indebtedness.

**"Qualifying Asset{ XE "Qualifying Asset" }**" with respect or in relation to any Project Financing, shall mean:

- (1) any concession, authorization or other legal right granted by any governmental authority to the Issuer or any Subsidiary, or any consortium or other venture in which the Issuer or any Subsidiary has any ownership or other similar interest;
- (2) any electrical substation, transmission line, electrical interconnection facility or other plant, facility or equipment involved in the generation, distribution or transmission of electricity, real property (whether leased or owned), right of way or plant or other fixtures or equipment;
- (3) any revenues or claims which arise from the operation, failure to meet specifications, failure to complete, exploitation, sale, loss or damage to, such concession, authorization or other legal right, the construction, financing, operation or exploitation of such project or other activities ancillary thereto, any rights under any performance bond, letter of credit or similar instrument issued in connection therewith and any insurance policies, credit support arrangements and other similar contracts, bank or trust accounts and the monies or investments contained therein and other similar assets to the extent relating to such project or the construction operation and financing thereof;
- (4) any product produced or service provided by such project, including any receivables or contract rights arising therefrom or relating thereto and any such product produced or service provided (and related receivables or contract rights) by other projects or assets to which the lenders providing the project financing required, as a condition therefor, recourse as additional security; and
- (5) shares or other ownership interest in, and any subordinated debt rights owing to the Issuer or any Subsidiary by, a special purpose company formed solely for the development of a project, and whose principal assets and business are constituted by such project and whose liabilities solely relate to such project.

**"Rating Agencies"** shall mean Fitch, Inc. ("*Fitch*"), Moody's and S&P or, if Fitch, Moody's or S&P or if any two of them shall not make a rating on the Notes publicly available, any one of them and such other "nationally recognized statistical rating organization" (within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act) as the Issuer may select as a replacement agency for Fitch, Moody's or S&P or all of them, as the case may be.

**"Reference Treasury Dealer"** { XE "Reference Treasury Dealer" } shall mean a primary U.S. government securities dealer in New York City, New York designated by the Issuer.

**"Reference Treasury Dealer Quotations"** { XE "Reference Treasury Dealer Quotations" } shall mean, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Financial Advisor, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Financial Advisor at 5:00 p.m., New York City, New York time, on the third Business Day preceding such redemption date.

**"Relevant Taxing Jurisdiction"** { XE "Relevant Taxing Jurisdiction" } has the meaning set forth under "—Additional Amounts."

**"S&P"** shall mean Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and any successor thereto.

**"Responsible Officer"** { XE "Responsible Officer" } shall mean, with respect to the Trustee, any officer within the corporate trust office of the Trustee with direct responsibility for the administration of this Indenture and also, with respect to a particular matter, any other officer to whom such matter is referred because of such officer's knowledge of and familiarity with the particular subject.

**"Sale and Lease-Back Transaction"** { XE "Sale and Lease-Back Transaction" } shall mean any direct or indirect arrangement relating to property now owned or hereafter acquired whereby the Issuer or a Subsidiary of the Issuer transfers such property to another Person and the Issuer or a Subsidiary of the Issuer leases it from such Person.

**"Securities Act"** { XE "Securities Act" } shall mean the Securities Act of 1933, as amended, and the rules and regulations of the SEC promulgated thereunder.

**"SEC"** { XE "SEC" } shall mean the Securities and Exchange Commission of the United States of America.

**"Significant Subsidiary"** { XE "Significant Subsidiary" } shall mean any Subsidiary of the Issuer that would be a "Significant Subsidiary" of the Issuer within the meaning of Rule 1-02 under Regulation S-X promulgated by the SEC.

**"Subsidiary"** { XE "Subsidiary" } with respect to any Person, shall mean:

- (1) any corporation of which the outstanding Capital Stock having at least a majority of the votes entitled to be cast in the election of directors under ordinary circumstances shall at the time be beneficially owned by such Person; or
- (2) any other Person of which at least a majority of the voting interest under ordinary circumstances is at the time beneficially owned by such Person.

**"Taxes"** { XE "Taxes" } shall have the meaning set forth under "—Additional Amounts."

**"Treasury Rate"** { XE "Treasury Rate" } with respect to the redemption date, shall mean (1) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under "Treasury Constant Maturities," for the maturity

corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the Remaining Life, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue will be determined and the Treasury Rate will be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (2) if such release (or any successor release) is not published during the week preceding the redemption date or does not contain such yields, the rate per annum equal to the semi-annual equivalent yield-to-maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price of the redemption date. The Treasury Rate will be calculated on the third Business Day preceding the redemption date.

**"U.S. Dollar Equivalent**{ XE "U.S. Dollar Equivalent" }" shall mean, with respect to any monetary amount in a currency other than U.S. dollars, at any time of determination thereof, the amount of U.S. dollars obtained by translating such other currency involved in such computation into U.S. dollars at the spot rate for the purchase of U.S. dollars with the applicable other currency as published in U.S. dollars on the date that is two Business Days prior to the date of such determination; provided that the exchange rate published by the BCV in the Venezuelan Federal Official Gazette, as the exchange rate for satisfaction of foreign currency denominated obligations in effect on the relevant date, will be used for any such translation of Bolívares Fuertes into U.S. dollars. Notwithstanding any other provision of the Indenture, no specified amount of U.S. dollars shall be deemed to be exceeded due solely to the result of fluctuations in the exchange rates of currencies.

**"Venezuela**{ XE "Venezuela" }" shall mean the Bolivarian Republic of Venezuela.

### **Book-Entry; Delivery and Form**

The Notes are being offered and sold in offshore transactions in reliance on Regulation S under the Securities Act ("**Regulation S Notes**{ XE "Regulation S Notes" }").

The Notes will be issued without coupons in minimum denominations of U.S.\$1,000 and integral multiples of U.S.\$1,000 in excess thereof. Notes will be issued on the Issue Date only against payment in immediately available funds.

The Regulation S Notes initially will be represented by one or more permanent global certificates in definitive, fully registered form without interest coupons (the "**Regulation S Global Note**{ XE "Regulation S Global Note" }").

The Regulation S Global Note will be registered in the name of the Common Depository. The Regulation S Global Note will be deposited upon issuance with the Common Depository for the Euroclear System ("**Euroclear**{ XE "Euroclear" }") and Clearstream Banking, société anonyme ("**Clearstream**{ XE "Clearstream" }").

Investors will hold their interests in the Regulation S Global Notes through Euroclear or Clearstream, if they are participants in either such system, or directly through organizations that are participants therein. Euroclear and Clearstream will hold interests in the Regulation S Global Notes on behalf of their participants through clients' securities accounts in their respective names in the books of their respective depositories.

As long as the Common Depository is the registered holder of the Regulation S Global Notes, the Common Depository or a representative, as the case may be, will be regarded as the only holder and owner of the notes represented by those Regulation S Global Notes for all purposes under the Indenture and the notes. Holders of a beneficial interest in global notes will not be entitled to have any portion of those Regulation S Global Notes registered in their names, and will not receive and will not be entitled to receive delivery of certificated notes in exchange for their interests in the Regulation S Global Notes, and will not be regarded as the owners or holders of the Regulation S Global Notes (or any securities represented thereby) under the Indenture or the Notes. Additionally, no beneficial owner of an interest in the Regulation S Global Notes will transfer such interest, except in accordance with the applicable procedures of Euroclear and Clearstream.

Payments of principal, premium, interest and other amounts on or in respect of the Regulation S Global Notes will be made to the Common Depository. None of the Issuer, the Trustee or the Paying Agents will be responsible for any aspect of registration with respect to payments made for the account of beneficial interests in the

Regulation S Global Notes, or for keeping, supervising or reviewing any record associated with such beneficial interests.

The Issuer expects Euroclear and Clearstream, upon receipt of any payment in respect of the Regulation S Global Notes held by the Common Depositary or a representative thereof, to credit promptly the accounts of the beneficial holders with the amount proportional to their respective beneficial interests in the principal amount of the Regulation S Global Notes, as evidenced by the records of Euroclear or Clearstream, as the case may be. The Issuer further expects that payments by participants to the holders of beneficial interests in the Regulation S Global Notes held through any such participant will be governed by the standing instructions and standard practices as is currently the case of securities held for the account of clients registered in the name of representatives for such clients. All such payments will be the responsibility of the relevant participant.

### **The Clearing Systems**

The following description of the operations and procedures of Euroclear and Clearstream are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them. Neither the Issuer nor the Dealer Managers take responsibility for these operations and procedures and urge holders to contact the system or their participants directly to discuss these matters.

Euroclear and Clearstream have advised the Issuer as follows:

***Euroclear.*** Euroclear Bank holds securities for its participants and clears and settles transactions between its participants through simultaneous electronic book-entry delivery against payment. Euroclear Bank provides various other services, including safekeeping, administration, clearance and settlement and securities lending and borrowing, and interfaces with domestic markets in several countries. Securities clearance accounts and cash accounts with Euroclear Bank are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable law (collectively, the "**Euroclear Terms and Conditions**{ XE "Euroclear Terms and Conditions" }"). The Euroclear Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear.

***Clearstream.*** Clearstream is incorporated under the laws of The Grand Duchy of Luxembourg as a professional depositary. Clearstream holds securities for its participants and facilitates the clearance and settlement of securities transactions between its participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to its participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries.

Subject to the transfer restrictions set forth under "Transfer Restrictions," transfers between participants in Euroclear and Clearstream will be effected in accordance with their respective rules and operating procedures.

### **Issuance of Definitive Notes**

So long as the Common Depositary, or any successor depositary, holds the Regulation S Global Notes, such Regulation S Global Notes will not be exchangeable for definitive securities unless:

- Euroclear or Clearstream are closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announce an intention permanently to cease business;
- the non-payment when due of amounts payable on the Notes (whether, in each case, on account of interest, redemption amounts or otherwise) shall have occurred and be continuing for 30 days.

If the Issuer issues definitive notes in exchange for the Regulation S Global Notes, the Common Depositary, as holder of that note, will surrender it against receipt of the definitive notes, cancel the book-entry notes, and distribute the definitive notes to the persons and in the amounts that the Common Depositary specifies.

Definitive notes will be issued in registered form only. To the extent permitted by law, the Issuer and any paying agent shall be entitled to treat the person in whose name any definitive security is registered as its absolute owner. Payments will be made in respect of the Notes by check drawn on a bank in New York or by wire transfer to the holder's account. Definitive securities should be presented to the Paying Agent for redemption.

***Exchange of Definitive Notes for Regulation S Global Notes.*** Definitive notes may not be exchanged for beneficial interests in any Regulation S Global Notes unless the transferor first delivers to the Trustee a written certificate (in the form provided in the Indenture) to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such notes. See "Transfer Restrictions."

### **Dealer Manager**

The Issuer has entered into a dealer manager agreement dated March 28, 2008 (the "**Dealer Manager Agreement**{ XE "Dealer Manager Agreement" }) with the Dealer Manager, pursuant to which the Issuer has agreed to indemnify the Dealer Manager against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Dealer Manager may be required to make in respect of those liabilities.

The Notes have not been registered under the Securities Act and may not be offered or sold in the United States or to U.S. persons (other than distributors) unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. The Dealer Manager proposes to solicit offers of the Notes in transactions not requiring registration under the Securities Act or applicable state securities laws pursuant to Regulation S under the Securities Act. The Dealer Manager will not solicit offers and we will not sell the Notes except pursuant to offers and sales to non-U.S. persons that occur outside the United States within the meaning of Regulation S under the Securities Act. The Dealer Manager agreed that neither it nor any of its affiliates nor any person acting on its or their behalf would make any directed selling efforts in the United States.

Investors in the Notes 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 offering price of the Notes so purchased. The Dealer Manager is not obligated to facilitate trading in the Notes and any such activities, if commenced, may be discontinued at any time, for any reason, without notice. If the Dealer Manager does not facilitate trading in the Notes for any reason, there can be no assurance that another firm or person will do so.

## **DEALER MANAGER**

We have retained the Dealer Manager to act on our behalf as dealer manager in connection with the offering of the Notes. The Notes are new securities for which there currently is no market.

We will agree to indemnify the Dealer Manager against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Dealer Manager may be required to make in respect of those liabilities.

The Notes have not been registered under the U.S. Securities Act and may not be offered or sold in the United States or to U.S. persons (other than distributors) unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. The Dealer Manager proposes to solicit offers of the Notes in transactions not requiring registration under the U.S. Securities Act or applicable state securities laws pursuant to Regulation S. The Dealer Manager will not solicit offers and we will not sell the Notes except pursuant to offers and sales to non-U.S. persons that occur outside the United States within the meaning of Regulation S. The Dealer Manager agrees that neither it nor any of its affiliates nor any person acting on its or its behalf would make any directed selling efforts in the United States.

Investors in the Notes 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 offering price of the Notes so purchased.

The Dealer Manager is not obligated to facilitate trading in the Notes and any such activities, if commenced, may be discontinued at any time, for any reason, without notice. If the Dealer Manager does not facilitate trading in the Notes for any reason, there can be no assurance that another firm or person will do so.

## TRANSFER RESTRICTIONS

The Notes are subject to restrictions on transfer as summarized below. By purchasing the Notes, each investor will be deemed to have made the following acknowledgements and representations to and agreements with the Issuer and the Dealer Manager:

(1) Each investor acknowledges that:

- the Notes have not been registered under the U.S. Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws, and
- unless so registered, the Notes may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act of any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in clause (4) below.

(2) Each investor represents that such investor is not a U.S. person (as defined in Regulation S) or purchasing for the account or benefit of a U.S. person, other than a distributor, and such investor is purchasing the Notes in an offshore transaction in accordance with Regulation S.

(3) Each investor acknowledges that neither the Issuer nor the Dealer Manager nor any person representing the Issuer or the Dealer Manager has made any representation to such investor with respect to the Issuer or the offering of the Notes, other than the information contained in this Offering Circular. The investor represents that it is relying only on this Offering Circular in making its investment decision with respect to the Notes as it has deemed necessary in connection with its decision to purchase the Notes, including an opportunity to ask questions and request information from the Issuer.

(4) Each investor represents that it is purchasing the Notes for its own account, or for one or more other investor's accounts for which it is acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the U.S. Securities Act, subject to any requirement of law that the disposition of the investor's property or the property of that other investor's account or accounts be at all times within its or their control and subject to its or their ability to resell the Notes pursuant to any available exemption from registration under the U.S. Securities Act. The investor agrees, and each subsequent holder of the Notes by its acceptance of the Notes will agree, that the Notes may be offered, sold or otherwise transferred only:

- (a) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S,
- (b) pursuant to any other exemption from the registration requirements under the Securities Act, or
- (c) pursuant to an effective registration statement under the U.S. Securities Act; *provided* that as a condition to registration of transfer of the Regulation S Notes as set forth above, the Issuer or the Trustee may require delivery of any documents or other evidence that it, in its absolute discretion, deems necessary or appropriate to evidence compliance with such exemption, and, in each case, in accordance with all applicable securities laws of the states of the United States and other jurisdictions.

Each investor also acknowledges that:

- the above restrictions on resale will apply from the issue date until the date that is forty (40) days after the later of the Closing Date and the last date that the Issuer or any of its affiliates was the owner of the Notes or any predecessor of the Notes (the "Resale Restriction Period"), and will not apply after the Resale Restriction Period ends, and
- each Regulation S Note will contain a legend substantially to the following effect:

THIS NOTE (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION ORIGINALLY EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THIS NOTE MAY NOT BE TRANSFERRED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR THE BENEFIT OF, ANY "U.S. PERSON" WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT, EXCEPT PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ALL APPLICABLE STATE SECURITIES LAWS.

(5) Each investor also acknowledges that the Issuer, the Dealer Manager and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements. The investor agrees that if any of the acknowledgements, representations and agreements the investor is deemed to have made by its purchase of the Notes is no longer accurate, the investor will promptly notify the Issuer and the Dealer Manager. If the investor is purchasing any Notes as a fiduciary or agent for one or more investor accounts, the investor represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

## **LEGAL MATTERS**

Certain legal matters relating to the Notes will be passed upon for the Issuer by Arnold & Porter LLP, special U.S. counsel to the Issuer, and by Aarons & Asociados Abogados, special Venezuelan counsel to the Issuer. Certain legal matters relating to the Notes will be passed upon for the Dealer Manager by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York and by Gabinete de Abogados Ardila & Asociados, S.C., special Venezuelan counsel to the Dealer Manager.

## **INDEPENDENT AUDITORS**

EDC's audited consolidated financial statements as of and for each of the years ended December 31, 2006 and 2005 have been audited by Lara Marambio & Asociados a member firm of Deloitte Touche Tohmatsu, EDC's independent auditors until June 8, 2007; and EDC's audited consolidated financial statements as of and for the year ended December 31, 2007 have been audited by Alcaraz Cabrera Vazquez, a member firm of KPMG International, EDC's independent auditors since September 27, 2007, as stated in their respective report appearing herein (which reports express an unqualified opinion).

## TAX CONSIDERATIONS

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

### *Venezuelan Taxation*

As used herein, the term "Resident of Venezuela" generally refers to an individual who is physically present in Venezuela for at least 183 days during the calendar year or the previous calendar year and a legal entity that either is organized under Venezuelan law or maintains a registered branch or a permanent establishment according to the definition contained in Venezuela's tax law and/or the tax treaties entered by Venezuela with other countries.

Generally, if a non-Venezuelan legal entity maintains a permanent office in Venezuela, that office should be subject to Venezuelan taxation. The term "Non-Resident of Venezuela" generally refers to a natural person who is not physically present in Venezuela for a period or periods aggregating more than 183 days during the calendar year or the previous calendar year and a legal entity that neither is organized under Venezuelan law nor maintains a registered branch or a permanent establishment in Venezuela.

Payment of interest by us on the Notes to holders who are natural persons considered Residents of Venezuela will be subject to Venezuelan income tax at a rate of 34%. Capital gains realized by natural persons who are Residents of Venezuela from the sale of the Notes will be subject to income tax in Venezuela at a rate of 34%.

Payment of interest by us on the Notes to holders who are natural persons considered Non-Residents of Venezuela will be subject to Venezuelan income tax at a rate of up to 34%, unless a lower rate is applicable under a relevant tax treaty with Venezuela. Capital gains realized by natural persons considered Non Residents of Venezuela from the sale of the Notes will be subject to Venezuelan income tax at a rate of up to 34%, unless a lower rate is applicable under a relevant tax treaty with Venezuela.

Payment of interest by us on the Notes to holders who are legal entities who are Non-Residents of Venezuela will be subject to income tax in Venezuela at a rate of up to 34%, unless a lower rate is applicable under a relevant tax treaty with Venezuela. Payment of interest will be subject to withholding at source at a progressive rate equivalent to 32.3%. Withheld amounts are creditable towards final income tax liability. Capital gains realized by legal entities who are Non-Residents of Venezuela will be subject to income tax in Venezuela at a rate of up to 34%, unless a lower rate is applicable under a relevant tax treaty with Venezuela.

Payment of interest by us on the Notes to holders who are legal entities who are Residents of Venezuela will be subject to income tax in Venezuela at a rate of up to 34%. Payment of interest will be subject to withholding at source at a rate equivalent to 5%. Withheld amounts are creditable towards final income tax liability. Capital gains realized by legal entities who are Residents of Venezuela will be subject to income tax in Venezuela at a rate of up to 34%.

Payment of interest by us on the Notes to holders who are offshore non-domiciled qualified financial institutions will be subject to Venezuelan income tax at a rate of 4.95% payable through withholding. Capital gains realized by offshore non-domiciled qualified financial institutions will be subject to Venezuelan income tax at a flat rate of 4.95%.

As the common depositary, an offshore non-domiciled qualified financial institution, will be the holder of record of the Notes issued in global form, we will make interest payments after withholding 4.95%. Under the Indenture we have agreed to pay Additional Amounts such that you receive the full amount of interest under the Notes as if the Venezuelan income tax was not applicable.

Generally, capital gains realized from the sale of the Notes by holders who are entitled to the benefits of tax treaties in effect between Venezuela and the United States, the United Kingdom, Italy, France, Germany, Portugal, the Czech Republic, Belgium, Sweden, the Netherlands, Switzerland, Norway, Barbados, Indonesia, Denmark, Spain, Canada, Iran, Korea, Cuba, China and Kuwait will not be subject to income tax in Venezuela.

We have requested the Venezuelan National Executive to make the regulatory adjustments necessary to exonerate payments of interest under the Notes and capital gains realized from the sale of the Notes from the Venezuelan income tax. There can be no assurance that such tax exoneration will be granted. See "Risk factors—The rate of Venezuelan withholding tax applicable to payments in respect of the Notes could be increased."

#### ***Financial Transactions Tax***

Effective October 3, 2007, the President of Venezuela approved a tax law-decree on financial transactions entered into by legal entities known as "*Ley de Impuesto a las Transacciones Financieras de las Personas Jurídicas y Entidades Económicas sin Personalidad Jurídica.*" Under such law-decree, debits on banking accounts executed by legal entities for the purpose of acquiring the Notes will be taxed with an equivalent of 1.5% of the amount of such debits.

#### ***Inheritance and Gift Tax***

Transfer of the Notes through inheritance or gift to Residents of Venezuela or Non-residents of Venezuela will be subject to Venezuelan inheritance tax.

#### ***Stamp Tax***

The issuance of the Notes will not be subject to stamp tax in Venezuela.

## GENERAL INFORMATION

1. The issue, execution and delivery of the Notes has been authorized by a resolution of the board of directors of the Issuer dated March 4, 2008.
2. Except as disclosed in this Offering Circular, there are no litigation or arbitration proceedings against or affecting the Issuer or any of its subsidiaries or any of their respective assets, nor is the Issuer aware of any pending or threatened proceedings, which are or might be material in the context of the issue of the Notes.
3. Except as disclosed in this Offering Circular, there has been no adverse change, or any development reasonably likely to involve an adverse change, in the Issuer's condition (financial or otherwise) or general affairs since December 31, 2007 that is material in the context of the issue of the Notes.
4. For so long as any of the Notes are outstanding, copies of the Indenture may be inspected during normal business hours at the office of the Trustee at the Corporate Trust Office.
5. For so long as any of the Notes are outstanding, copies in English and Spanish of the Issuer's audited consolidated financial statements for the years ended December 31, 2007, 2006 and 2005 may be obtained during normal business hours office of the Trustee at the Corporate Trust Office.
6. In connection with the application for the Notes to be listed on the Luxembourg Stock Exchange, copies of the Issuer's *Acta Constitutiva* and *Estatutos* (together with English translations thereof) and a legal notice relating to the issue of the Notes will be deposited prior to listing with the Trade and Commerce Register in Luxembourg, where they may be inspected and copies obtained upon request.
7. The Notes have been accepted for clearance through Clearstream, Luxembourg and Euroclear. The common code of the Regulation S Notes is 035652116 and the ISIN is XS0356521160.
8. Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trade on the Euro MTF Market of such exchange. In connection with the listing application, the Issuer's *Acta Constitutiva* and *Estatutos* have been deposited prior to listing with the Trade and Commerce Register in Luxembourg, where copies thereof may be obtained upon request. Copies of the above documents together with this Offering Circular, the Indenture and the future annual reports and quarterly reports of the Issuer, so long as any of the Notes are outstanding, will be made available at the main office of The Bank of New York (Luxembourg) S.A. The Bank of New York (Luxembourg) S.A. will act as intermediary between the Luxembourg Stock Exchange, the Issuer and the noteholders.

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### C.A. La Electricidad de Caracas

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**C. A. LA ELECTRICIDAD DE CARACAS  
AND SUBSIDIARIES**

(a majority-owned subsidiary of  
Petróleos de Venezuela, S. A. - PDVSA)

Consolidated Financial Statements

31 December 2007 and 2006

With Independent Auditors'

Report Thereon

## Independent Auditors' Report

The Board of Directors and Stockholders  
C. A. La Electricidad de Caracas:

We have audited the accompanying consolidated balance sheets of C. A. La Electricidad de Caracas and subsidiaries (a majority-owned subsidiary of Petróleos de Venezuela, S. A. - PDVSA) as at 31 December 2007, and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of C. A. La Electricidad de Caracas and subsidiaries as at 31 December 2006 and for the year then ended, presented for comparative purposes, were audited by other auditors, whose report thereon dated 16 February 2007, was unqualified and included an emphasis paragraph reporting that on 8 February 2007, the principal stockholder of the Company signed a memorandum of understanding with Petróleos de Venezuela, S. A. - PDVSA, establishing the guidelines to negotiate the sale of the Company's shares.

We conducted our audit in accordance with auditing standards generally accepted in Venezuela. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As indicated in note 4 to the consolidated financial statements, Decree 5330 published in Official Gazette dated 31 July 2007 established the creation of Corporación Eléctrica Nacional, S. A. ascribed to the Ministry of Popular Power for Oil and Energy. This Decree also establishes that ownership of the Company's shares must be transferred to Corporación Eléctrica Nacional, S. A. in a period of no more than three years.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of C. A. La Electricidad de Caracas and subsidiaries as at 31 December 2007, and the results of their operations and their cash flows for the year then ended, in accordance with generally accepted accounting principles in Venezuela.

ALCARAZ CABRERA VÁZQUEZ

/s/ Ramón de J. Ostos D.  
Public Accountant  
C.P.C. 23183  
C.N.V. 898

4 March 2008

Caracas, Venezuela

**C. A. LA ELECTRICIDAD DE CARACAS AND SUBSIDIARIES**

Consolidated Balance Sheets

31 December 2007 and 2006

(In millions of constant bolivars at 31 December 2007)

<b>Assets</b>	<b>Note</b>	<b>2007</b>	<b>2006</b>
<b>Current assets:</b>			
Cash and cash equivalents	5 and 24	304,288	502,154
Accounts receivable, net	6, 10 and 24	190,799	336,856
Inventories, net	7	145,669	102,439
Prepaid expenses		16,608	11,011
Deferred income tax	19	24,341	28,575
Total current assets		681,705	981,035
Property, plant and equipment, net	8	4,995,751	5,164,094
Investments	9	24,743	24,743
Long-term accounts receivable	10	144,189	74,920
Deferred income tax	19	99,699	60,617
Other assets and deferred charges	11	115,286	126,216
Total assets		<u>6,061,373</u>	<u>6,431,625</u>
<b>Liabilities, minority interests and stockholders' equity</b>			
<b>Current liabilities:</b>			
Short-term debt	12	9,580	110,023
Accounts payable	13	206,055	285,606
Other current liabilities	15	224,484	256,057
Total current liabilities		440,119	651,686
Long-term debt	12	554,499	686,501
Employees' severance indemnities	16	246,860	113,096
Other liabilities	17	181,659	135,116
Total liabilities		<u>1,423,137</u>	<u>1,586,399</u>
Minority interests in consolidated subsidiaries		4,839	3,625
Stockholders' equity	20		
Updated capital stock (equivalent to nominal capital stock of Bs329,221)		3,515,249	3,515,249
Paid-in surplus		546,479	546,479
Surplus from merger		62,825	62,825
Retained earnings			
Unappropriated		163,476	369,120
Legal reserve		352,423	352,423
Total retained earnings		515,899	721,543
Accumulated translation adjustment		(7,055)	(4,495)
Total stockholders' equity		<u>4,633,397</u>	<u>4,841,601</u>
Total liabilities, minority interests and stockholders' equity		<u>6,061,373</u>	<u>6,431,625</u>

The accompanying notes are part of the consolidated financial statements.

**C. A. LA ELECTRICIDAD DE CARACAS AND SUBSIDIARIES**

Consolidated Statements of Income

Years ended 31 December 2007 and 2006

(In millions of constant bolivars at 31 December 2007,

except for net income per share and ADS)

	<u>Note</u>	<u>2007</u>	<u>2006</u>
Operating income:			
Sale of electric energy		1,587,369	1,845,173
Services rendered		<u>84,875</u>	<u>67,635</u>
Total operating income		<u>1,672,244</u>	<u>1,912,808</u>
Cost of electric energy sold:			
Generation and purchase of energy		477,107	381,530
Transmission and distribution		325,027	263,961
Depreciation and amortization		<u>496,254</u>	<u>529,020</u>
Total cost of electric energy sold		<u>1,298,388</u>	<u>1,174,511</u>
Gross profit		373,856	738,297
General and administrative expenses		<u>321,261</u>	<u>364,060</u>
Operating income		<u>52,595</u>	<u>374,237</u>
Integral financial income, net	22	59,766	28,432
Other income, net:			
Other (expenses) income, net		26,909	(24,434)
Gain on sale of trading securities		51,862	33,921
Equity interest in affiliate		<u>-</u>	<u>705</u>
Total other income, net		<u>78,771</u>	<u>10,192</u>
Income before income tax and minority interests		191,132	412,861
Income tax, net	19	<u>89,972</u>	<u>101,852</u>
Income before minority interests		101,160	311,009
Minority interests in the results of consolidated subsidiaries		<u>1,276</u>	<u>667</u>
Net income		<u>99,884</u>	<u>310,342</u>
Net income per share		<u>30,34</u>	<u>96,84</u>
Weighted average of outstanding shares	3	<u>3,292,214,078</u>	<u>3,204,529,573</u>
Net income per ADS	3	<u>1,517</u>	<u>4,842</u>

The accompanying notes are part of the consolidated financial statements

**C. A. LA ELECTRICIDAD DE CARACAS AND SUBSIDIARIES**

Consolidated Statements of Stockholders' Equity

Years ended 31 December 2007 and 2006

(In millions of constant bolivars at 31 December 2007)

	Updated capital stock	Paid-in surplus	Surplus from merger	Retained earnings			Accumulated translation adjustment	Total stockholders' equity
				Un- appropriated	Legal reserve	Total		
Balances at 31 December 2005, previously reported	3,495,877	469,885	62,825	418,659	352,423	771,082	(1,756)	4,797,913
Accumulated effect of adoption of accounting principle to recognize asset retirement obligations (note 8)	-	-	-	(4,479)	-	(4,479)	-	(4,479)
Balances at 31 December 2005, restructured	3,495,877	469,885	62,825	414,180	352,423	766,603	(1,756)	4,793,434
Increase in capital stock	19,372	76,594	-	-	-	-	-	95,966
Net income	-	-	-	310,342	-	310,342	-	310,342
Dividends declared	-	-	-	(355,402)	-	(355,402)	-	(355,402)
Translation adjustment	-	-	-	-	-	-	(2,739)	(2,739)
Balances at 31 December 2006, restructured	3,515,249	546,479	62,825	369,120	352,423	721,543	(4,495)	4,841,601
Net income	-	-	-	99,884	-	99,884	-	99,884
Dividends declared	-	-	-	(305,528)	-	(305,528)	-	(305,528)
Translation adjustment	-	-	-	-	-	-	(2,560)	(2,560)
Balances at 31 December 2007	<u>3,515,249</u>	<u>546,479</u>	<u>62,825</u>	<u>163,476</u>	<u>352,423</u>	<u>515,899</u>	<u>(7,055)</u>	<u>4,633,397</u>

The accompanying notes are part of the consolidated financial statements.

**C. A. LA ELECTRICIDAD DE CARACAS AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Years ended 31 December 2007 and 2006

(In millions of constant bolivars at 31 December 2007)

	<u>2007</u>	<u>2006</u>
Cash flows provided by operating activities:		
Net income	99,884	310,342
Adjustments to reconcile net income to cash provided by (used in) operating activities -		
Loss on sale of property, plant and equipment	1,129	6,882
Return on short-term investments	-	(5,452)
Depreciation of property, plant and equipment	484,895	517,811
Amortization of deferred charges	11,359	11,209
Accrual for employees' severance indemnities	178,500	82,008
Translation adjustment	(2,560)	(2,739)
Equity interest in affiliate	-	(705)
Interests of minority stockholders in the results of consolidated subsidiaries	1,214	668
Effect of monetary adjustment of items of financing activities	(147,107)	(178,128)
Changes in operating assets and liabilities -		
Decrease (increase) in:		
Accounts receivable, net	76,788	(24,891)
Inventories, net	(43,230)	(4,522)
Prepaid expenses	(5,597)	10,662
Other assets and deferred charges	(429)	17,708
Deferred income tax	(34,848)	691
Increase (decrease) in:		
Accounts payable and other current liabilities	(111,124)	68,952
Other liabilities	46,543	5,170
Total adjustments	<u>455,533</u>	<u>505,324</u>
Net cash provided by operating activities	<u>555,417</u>	<u>815,666</u>
Cash flows from investing activities:		
Additions to property, plant and equipment	(332,793)	(248,419)
Sale and/or retirement of property, plant and equipment	15,112	11,998
Restricted short-term investments	-	129,821
Decrease in investments	-	(6,992)
Net cash used in investing activities	<u>(317,681)</u>	<u>(113,592)</u>
Cash flows from financing activities:		
Financial debt	(85,338)	(286,098)
Cash dividends	(305,528)	(355,402)
Payments of employees' severance indemnities	(44,736)	(90,016)
Capital stock increase	-	95,966
Net cash used in financing activities	<u>(435,602)</u>	<u>(635,550)</u>
(Decrease) increase, net in cash and cash equivalents	(197,866)	66,524
Cash and cash equivalents at beginning of the year	<u>502,154</u>	<u>435,630</u>
Cash and cash equivalents at the year-end	<u><u>304,288</u></u>	<u><u>502,154</u></u>
Supplementary information -		
Payments made during the year for:		
Interest	<u>67,664</u>	<u>106,685</u>
Taxes	<u>44,067</u>	<u>45,566</u>

The accompanying notes are part of the consolidated financial statements.

**(1) OPERATIONS**

C. A. La Electricidad de Caracas (EDC), founded in 1895, is an integrated company that generates, transmits and distributes electricity to the metropolitan area of Caracas, the cities of Guarenas, Guatire and Los Teques in Miranda State, the city of La Guaira and other zones of Vargas State, and the city of San Felipe in Yaracuy State, through its subsidiary C. A. Luz Eléctrica del Yaracuy (Caley). Also, EDC through its subsidiary Generación de Vapor Genevapca, C. A. supplies electric energy and gas to refineries in Cardón and Amuay, in Falcón State, owned by PDVSA Petróleo, S. A. On 15 May 2007, Petróleos de Venezuela, S. A. (PDVSA) purchased 93.60% of EDC's shares, thus becoming the principal stockholder of the Company.

The shares of the Company are listed on the Caracas Stock Exchange and the New York Stock Exchange in the form of ADRs and on Latibex, (Latin America's most important stock exchange), located in Madrid, Spain, in the form of American Depositary Shares (ADSs). In 2007, as a result of the takeover by PDVSA, ADRs issued in previous years were in their majority purchased by PDVSA on the New York Stock Exchange.

**(2) PUBLIC OFFERING OF OUTSTANDING SHARES OF EDC**

On 5 February 2007, the Ministry of Popular Power for Oil and Energy and AES Corporation (AES) entered into a Memorandum of Understanding establishing that the parties would execute final agreements so that the government or an appointed entity could purchase the interest of AES Corporation and its affiliates in EDC, including all shares and ADSs, for a total price of U.S.\$739,260,000.

On 8 February 2007, PDVSA subscribed a Memorandum of Understanding with AES Corporation, whereby PDVSA would purchase the latter's interest in EDC under the same terms and conditions as in the Memorandum of Understanding dated 5 February 2007.

On 15 February 2007, AES Corporation and its wholly-owned subsidiary, AES Shannon Holding B.V. executed an agreement with PDVSA setting forth the terms and conditions for the purchase by PDVSA of all of the shares held by AES, representing an 82.15% interest in EDC and for the price agreed on 5 February 2007. On 2 April 2007, the National Securities Commission issued Resolution 043-2007 authorizing disclosure of the Public Offer to Purchase all outstanding shares of EDC by PDVSA, in accordance with the provisions of the Capital Markets Law and standards for a public offer to purchase, exchange and takeover for business entities making public offers and other related rights.

On 8 April 2007, PDVSA made a public offer to purchase, which is outlined below:

PDVSA offered to purchase all of the 3,292,214,078 outstanding shares of EDC, free of liens, privileges, trusts, preferential rights, attachments, restrictions on transfers and encumbrances or any legal measures or right that may affect their transferability or disposal.

The price in Venezuela was the equivalent in bolivars of two thousand seven hundred thirty-four thousandths dollars of the United States of America U.S.\$0.2734 per share, determined at the official exchange rate of Bs2,150. The sum of U.S.\$0.2734 is equivalent to five hundred eighty-seven bolivars and eighty-one cents Bs587.81. The offer in Venezuela was open to all stockholders. No ADSs were accepted in Venezuela; nevertheless, ADSs were accepted in the United States of America.

Parallel to the offer for outstanding shares in Venezuela, PDVSA made another offer in the United States of America to purchase all outstanding ADSs of EDC, at a price of thirteen dollars and six thousand six hundred seventy-five thousandths U.S.\$13.6675. Each ADS represents 50 EDC shares.

On 8 May 2007, the public offer for outstanding EDC shares ended. On 15 May 2007, 3,081,780,522 shares were transferred to PDVSA, making it the majority stockholder of the Company, with a share interest of 93.60%. At 31 December 2007, PDVSA holds 3,082,085,522 shares representing 61,078,025 ADRs, which amounts to a share interest in EDC of 93.617% and 99.973%, respectively.

(3) **BASIS OF PRESENTATION**

(a) *Presentation of Consolidated Financial Statements*

The Company prepares its consolidated financial statements in accordance with generally accepted accounting standards approved by the National Securities Commission of Venezuela and based on Venezuelan generally accepted accounting principals issued by the Venezuelan Federation of Public Accountants.

The consolidated financial statements have been updated to record the effects of the loss in purchasing power of the bolivar resulting from inflation in Venezuela, in accordance with Statement of Accounting Principles 10 (DPC - 10) "Standards for Preparation of Financial Statements Adjusted for the Effects of Inflation".

The Company restated its consolidated financial statements in terms of purchasing power bolivars at 31 December 2007, using the general price-level method and the Consumer Price Index for the Metropolitan Area of Caracas published by the Central Bank of Venezuela. Furthermore, all financial information at 31 December 2006 has been updated in terms of bolivars at 31 December 2007 for comparison in a currency of homogeneous purchasing power.

The CPIs published by the Central Bank of Venezuela and used to record the effects of inflation follow:

	<b>Accumulated CPI</b>	<b>Inflation %</b>
31 December 2007	752.9045	22.45
31 December 2006	614.8318	16.97
31 December 2005	525.6489	14.36

(b) *Principles of Consolidation*

The consolidated financial statements include the accounts of C. A. La Electricidad de Caracas and its subsidiaries, at 31 December 2007 and 2006, listed below:

<u>Subsidiary</u>	<u>Share interest</u>	<u>Closing date</u>	<u>Domicile</u>	<u>Business</u>
C. A. Luz Eléctrica del Yaracuy and subsidiary	100	31-12	Yaracuy State	Vertically integrated company that transmits, distributes and markets electricity to municipalities in Yaracuy State.
Generación de Vapor Genevapca, C. A.	100	31-12	Falcón State	Designs, builds, operates, sells, leases, maintains and manages power generation plants throughout the country. Renders electricity and gas generation services to Cardón and Amuay refineries.
Administradora Serdeco, C. A.	100	31-12	Capital District	Provides collection services and performs all activities and legal business relating to such services.
Energía y Servicios Industriales Enerxis, C. A. and subsidiary	100	30-09	Capital District	Develops projects aimed at electric energy production and provides industrial services, including joint, auxiliary or complementary activities.
Phoenix Internacional, C. A.	100	31-12	Monagas State	Provides marketing, sale and supply services to the oil industry and operates surface plants for treatment, filtering and injection of water and other liquids; generates and injects steam for secondary or tertiary recovery of hydrocarbons.
Títulos Venezolanos, C. A. (TIVENCA)	100	31-12	Capital District	Renders various services to other companies relating to custody of assets and performs transfer agent activities.
EDC Network Comunicaciones, S. C. S.	80	31-12	Capital District	Establishes and operates networks and telecommunications services in all of the forms recognized by current laws; a wholesale supplier of transportation services from different locations in Venezuela to telecommunications operations.

<u>Subsidiary</u>	<u>Share interest</u>	<u>Closing date</u>	<u>Domicile</u>	<u>Business</u>
Electricidad de Caracas Finance B. V. and subsidiary	100	31-12	Netherlands	The purpose of the Company is to incorporate, participate in, supervise businesses and other companies, finance transactions and companies, obtain and grant loans, including debentures, drafts or other securities or financial instruments, and execute agreements relating to such activities.
C. A. Luz Eléctrica de Nueva Esparta	100	31-12	Capital District	Generates, transports, distributes and sells electric energy, and uses it in subsidiary expansions; creates and promotes new uses for such energy.
EDC Soluciones Tecnológicas, C. A.	100	31-12	Capital District	Invests and acts as stockholder or controlling partner in companies providing telecommunications services in all forms approved by law.
EDC Energía Global y Soluciones Tecnológicas, C. A.	100	31-12	Capital District	Exploration of telecommunications and related services; installation, operation and maintenance of telecommunications networks, and any other related aspect in national and foreign territory.
EDC Network Soluciones, C. A. and subsidiary	100	31-12	Capital District	Invests and acts as stockholder or controlling partner in companies providing all approved types of telecommunications services.

The subsidiaries Títulos Venezolanos C. A. (TIVENCA), Energía y Servicios Industriales Enerxis, C. A. and its subsidiary, EDC Energía Global y Soluciones en Telecomunicaciones, C. A., EDC Soluciones Tecnológicas, C. A. and C. A. Luz Eléctrica de Nueva Esparta are currently inactive.

Subsidiaries are controlled by EDC. Control exists when EDC has direct or indirect power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All significant balances and transactions between companies were eliminated in consolidation.

**(c) Foreign Currency Transactions**

Transactions in currencies other than the U.S. dollar are converted at the exchange rate effective on the transaction date. Monetary assets and liabilities in currencies other than the U.S. dollar are converted into dollars using the exchange rate applicable on the reporting date. Exchange gains and losses are recorded in the statement of income.

**(d) Off Balance Sheet Instruments**

In the normal course of business, EDC holds off balance sheet financial instruments for commitments to issue loans and commitments for letters of credit. These instruments are deemed commitments when the corresponding agreement is executed and are recorded in the financial statements upon disbursement. These transactions have fixed maturity dates, but in some cases they expire without disbursements being made.

**(e) Segment Reporting**

The Company operates mainly in Venezuela. Historically, the Company has been organized for the purpose of decision making by management into vertically integrated electricity operations and non-electricity businesses. The latter represent a lower volume of transactions, and the sum thereof is not significant compared with the electricity business. Consequently, all operating segments of the Company are comprised mainly of electricity transactions under a vertically integrated structure. Operating costs incurred under a vertically integrated

structure are taken from the internal reports of the Company and monitored by management. Income is determined based on the regulated fees for end users. Because these fees are not separately established for each business unit, operations are vertically integrated and allocation of income is not performed by management. Therefore, management does not report such activities as separate business units, as required by International Accounting Standard 14 (IAS - 14) "Segment Reporting".

**(f) Restructured Financial Statements**

The Company analyzed property, plant and equipment of the subsidiary Generación de Vapor Genevapca, C. A., based on International Accounting Standard 16 (IAS 16) "Property, Plant and Equipment" and International Accounting Standard 37 (IAS - 37) "Provisions, Contingent Liabilities and Contingent Assets", and decided to record the retirement obligations for these assets according to the energy and steam agreement. Pursuant to that standard, the latter was recorded retroactively. The effect of applying this standard to assets, liabilities and stockholders' equity for the year ended 31 December 2005 and the results of operations for 2006 is summarized below (see note 8):

Increase (decrease) in:	
Assets - property, plant and equipment, net	2,274
Liabilities - asset retirement obligation, net	<u>6,753</u>
Effect on stockholders' equity at 31 December 2005	(4,479)
Effect on consolidated net income for 2006	<u>(1,219)</u>
Net effect on stockholders' equity	<u><u>(5,698)</u></u>

**(g) Classification of Current And Non-Current Balances**

Balances presented in the accompanying consolidated balance sheets are classified according to their maturities. Those balances maturing in twelve months or less are deemed to be current and those maturing over a longer term are classified as non-current.

**(h) Cash and Cash Equivalents**

Cash and cash equivalents include cash in banks and investments in time deposits maturing in less than three (3) months. The effect of inflation and exchange rate fluctuations on cash and cash equivalents is presented separately in the consolidated statements of cash flows. These consolidated statements of cash flows were prepared using the indirect method based on Statement of Accounting Principles 11 (DPC - 11) "Statements of Cash Flows".

**(i) Allowance for Doubtful Accounts**

The allowance for doubtful accounts is the best estimate prepared by the Company of possible losses of existing trade accounts receivable and is based on the historical experience of write-offs for such accounts. EDC's policy is to create an allowance of 100% of all accounts receivable more than 365 days overdue and 50% of accounts receivable between 180 to 365 days overdue, except for large clients and official entities, which are evaluated separately.

**(j) Accounts Receivable from Official Entities**

These accounts receivable are recorded and subsequently measured at fair value using the valuation methodology of net estimated present value based on expected discounted cash flows over the collection period expected by management in accordance with International Accounting Standard 39 (IAS - 39), effective since 2005.

**(k) Inventories**

Inventories are presented at the lower of average cost in bolivars of purchasing power at 31 December 2007 and realizable and/or recoverable value. Inventory in transit is recorded at the cost of each shipment.

(l) **Prepaid Expenses**

Prepaid expenses in the consolidated balance sheets correspond mainly to insurance policies acquired by the Company to cover risks.

(m) **Property, Plant and Equipment**

Property, plant and equipment are stated at cost in terms of bolivars of purchasing power at 31 December 2007, which do not exceed their usage values. Depreciation is determined using the straight-line method based on the cost of assets adjusted for inflation over the original estimated useful lives of the assets, as follows:

	<u>Years</u>
Property, plant and equipment	20, 25, 30 and 38
Other property	<u>3, 5, 10, 14, 20, 50</u>

Disbursements for maintenance and repairs are charged to income in the year when incurred, whereas those for renewal or improvements which substantially increase the useful lives of assets are capitalized. Major maintenance costs scheduled approximately every five (5) years are capitalized when incurred.

Construction in process is presented at cost in bolivars of purchasing power at 31 December 2007, based on acquisition dates.

Management includes under this item any spare parts and permanent maintenance equipment that may be used for a term longer than one year. Spare parts and equipment are capitalized in property, plant and equipment, once the corresponding projects have been completed, in accordance with International Accounting Standard 16 (IAS - 16) "Property, Plant and Equipment".

The energy and steam contract with the subsidiary Generación de Vapor Genevapca, C. A. provides for the disposal of assets if there is not a sale agreement by the end of the contract. The Company has recorded a higher value, to include the present value of estimated cost for the disposal obligation at the beginning of the useful lives of assets. This estimate is reviewed on an annual basis so that the provision reflects the present value of all estimated future costs. The value of assets is adjusted only for variations from initial cost. Variations of the provision for financing costs are recorded under financial expenses.

(n) **Investments**

The Company classifies its investment securities in accordance with the following three categories: trading, available-for-sale or held-to-maturity, pursuant to Statement of Accounting Principles 15 (DPC - 15) "Accounting for Investments".

Trading securities are purchased and held mainly to be sold in the short term. Held-to-maturity securities are used by the Company for the purpose of being held to maturity. All securities not included under trading securities or held-to-maturity securities are deemed available-for-sale.

Trading securities and available-for-sale securities are recorded at fair value. Unrealized gains and losses on trading securities are included in income of the year when incurred. Unrealized gains on available-for-sale securities are recorded as a separate component of stockholders' equity until they are realized.

Held-to-maturity securities are presented at amortized cost, adjusted for the amortization of premiums or recognition of discounts. Decrease in the market value of any held-to-maturity investment, below its cost, other than a temporary effect, results in a decrease in the carrying value. Impairment is charged to income and a new cost base for the investment is established. Premiums are amortized and discounts recognized, based on the maturity of held-to-maturity securities as an adjustment using the effective interest method.

Premiums and discounts are amortized or credited over the life of held-to-maturity or available-for-sale securities as an adjustment to return using the effective interest method. Income from interest and dividends is recorded when due.

Investments with a share interest from twenty percent (20%) to fifty percent (50%) and investments in joint ventures are recorded using the equity method. Permanent investments in companies with a share interest of less than twenty percent (20%) are recorded at cost adjusted for inflation, and cash dividends are reported as income in the year received.

Interests in foreign companies are based on the value of the interest in bolivars, translated into the respective currency, in accordance with Statement of Accounting Principles 12 (DPC - 12) "Accounting for Foreign Currency Transactions and Conversion or Translation of Foreign Operations". The procedures applied are presented below:

- Assets and liabilities are converted at the exchange rate effective at year-end.
- Income and expenses are translated at the exchange rate effective on the transaction date.
- The effect of translation is presented in the consolidated statements of stockholders' equity as accumulated translation adjustment.

The Company periodically reviews its equity investments for signs of impairment. When the fair value of an equity investment is less than its carrying value, management determines if the decline in value is temporary. If it is determined that the decline in value is other than temporary, an impairment loss is recorded to reduce the carrying value of the investment to its fair value.

**(o) Other Assets**

Other assets comprise mainly deferred charges representing expenses incurred that will benefit future years, which are amortized using the straight-line method over three (3) to five (5) years, and are recorded at cost restated using the CPI coefficient, net of restated amortization.

**(p) Employees' Severance Indemnities**

The Company accrues the liability for Employees' Severance Indemnities established in the Organic Labor Law and/or the Collective Labor Contract, based on the benefits to which employees are entitled if they resign immediately, which includes seniority as a vested right of employees.

**(q) Pension Funds and other Postretirement Benefits**

The Company uses the methodology required by International Accounting Standard 19 (IAS-19) "Employee Benefits", effective since 1999, to determine and record obligations with employees for retirement plans and postretirement benefits.

For retirement plans with defined benefits, the cost of benefits is determined using the Projected Unit Credit Method with actuarial values determined by independent actuaries using nominal discount rates, return on assets, salary progressions and projected increases in medical costs to determine the obligation on the date of the consolidated balance sheets, and liabilities are deemed monetary for inflation-adjustment purposes. Actuarial gains and losses in excess of ten percent (10%) of the present value of the Company's benefit obligations is amortized over the remaining average expected useful lives of employees. Past service costs are recorded immediately when benefits have already been received, otherwise, they are amortized using the straight-line method over the average period until additional benefits are acquired.

Measurement of pension obligations, costs and liabilities depends on several long-term aspects, including estimated present values of future payments of pensions for employees included in the plan, and probability of potential future events, such as increase in minimum urban salaries and demographics. These aspects may affect the amount and date of future contributions. Furthermore, the trustee of the plan performs an independent fair value valuation of pension plan assets.

Inflation for the Company is based on the evaluation of external market indicators. Salary increases are recorded based on current long-term experience, future perspectives and projected inflation. Actuarial values are determined based on specific experience of the Company combined with published statistics.

At 31 December 2007, the Company has provided funds to partially cover liabilities for postretirement benefits.

The Company provides certain medical benefits to its retired employees and accrues costs of postretirement benefits as current employees earn these benefits.

**(r) *Current and Deferred Income Tax***

Income tax expense for the year comprises current and deferred tax. Current tax is the expected tax payable on net taxable income of the year, using current tax rates at the date of the consolidated balance sheets.

Deferred tax is recognized using the balance sheet method in accordance with Statement of Accounting Principles 3 (DPC - 3) "Income Tax Accounting", which establishes that deferred tax assets and liabilities must be recorded for future tax consequences of differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases, as well as tax loss and tax credits carryforwards. The amount of deferred tax assets and liabilities is determined based on the expected tax rates applicable to taxable income in the year in which temporary differences are recovered or paid. The effect of income tax rate changes on deferred tax assets and liabilities is recorded in the statement of income in the year in which they come into effect.

When assessing the reasonableness of deferred tax assets, the Company's management considers the probability, beyond any reasonable doubt, that any portion of the deferred tax asset is not realizable. The final realization of deferred tax assets depends on the availability of taxable income in the years in which temporary differences are deductible. Based on historical experience of generating taxable income and current estimates of future taxable income in years in which temporary differences will become deductible, management believes that it is probable that the Company will realize the benefits of these temporary items, net of the valuation allowance at 31 December 2007 and 2006; however, deferred tax assets deemed realizable may decrease in the near future if the estimates of future income are reduced.

Investment tax credits for property, machinery and equipment are recorded under income tax expense of the year in which these assets become operational and up to the amount of the tax expense. Any excess investment tax credits, as well as tax loss carryforwards and unused tax credits for the year are carried forward for three fiscal years, except for the tax loss related to the regular fiscal inflation adjustment, which is carried forward for one year; in which case, the tax benefit is presented as an extraordinary item in the consolidated statement of income.

**(s) *Commitments and Contingencies***

The Company estimates and records in the consolidated financial statements provisions for legal contingencies for labor, civil, commercial and tax matters, agreements with third parties or other, based on the circumstances, pursuant to Statement of Accounting Principles 8 (DPC - 8) "Contingencies", which based on the opinion of external legal advisors are probable and reasonably quantifiable. The Company records provisions taking into account the best information available for current obligations as a result of past events, the amount of such obligation and the probability of using resources involving benefits to pay such obligation.

**(t) *Impairment of Long-Lived Assets***

On an annual basis, the Company evaluates the provisions of Technical Publication 17 (PT-17) "Usage Value and Permanent Loss of Value of Long-Lived Assets", to determine whether the carrying value of its long-lived assets is subjected to events or changes in circumstances that may indicate that the net value of assets may not be recoverable. The recoverable value of an asset is the higher of the fair value less selling cost and its usage value. Usage value is the present value of future discounted cash flows expected to be generated by use or disposal of the assets. In the event that cash flow projections are not sufficient to recover the carrying value of assets, these are adjusted to reflect their recoverable value. In order to assess impairment, assets are grouped at the lowest level of cash flows identified separately (cash-generating unit).

If the recoverable value of an asset or cash-generating unit is less than its carrying value, the carrying value of the asset or cash-generating unit is reduced to its recoverable value, immediately recording an impairment loss. At 31 December 2007 and 2006, no impairment loss for long-lived assets has been recorded.

Management of the Company believes that its future estimated cash flows are reasonable; nevertheless, changes in estimates resulting in lower future cash flows or fair values caused by unexpected business circumstances may adversely affect the valuation of long-lived assets.

**(u) Recognition of Income and Expenses**

Income from sale of power is recorded in the year in which the service is rendered. Income from services provided is recorded in the year delivered. Operating income includes unbilled income from energy distributed at 31 December 2007 and 2006. This amount was included under trade accounts receivable in the consolidated balance sheets. Unbilled income is determined taking into account the number of days not invoiced in the month, the estimated amount of power provided during such term and the average price according to the type of consumer for that month. Expenses are recorded based on actual expenses incurred.

Interest income is accrued periodically using the outstanding principal balance and the applicable interest rate.

**(v) Bank Risks**

The treasury investments of the Company and its subsidiaries are in custody of the top ten (10) Financial Institutions determined by the Superintendency of Banks in Venezuela (SUDEBAN) according to their assets in their last annual report and complemented by bank ratings issued by qualified consultants.

**(w) Concentration of Operations**

The Company purchases fuel and gas to operate its plants from the only local supplier, Petróleos de Venezuela, S. A. (PDVSA) and its subsidiaries. During the years ended 31 December 2007 and 2006, purchases from this vendor amounted to approximately Bs235,245 million and Bs239,372 million, respectively, equivalent to 54% and 57%, respectively, of total power generation and purchase expenses. As a result of these transactions, balances payable to this supplier at 31 December 2007 and 2006 amounted to approximately Bs118,358 million and Bs127,402 million, respectively.

The Company is party to an interconnection agreement together with the main electricity companies in the country, CVG Electrificación del Caroní, C. A. (CVG EDELCA), Compañía Anónima de Administración y Fomento Eléctrico (CADAFE), and Energía Eléctrica de Venezuela, S. A. (ENELVEN), establishing general operating conditions for the interconnected system and exchange of electric energy among these companies for the purpose of meeting the energy requirements of the country. Prices of these exchanges are agreed by the National Government through resolutions published in Official Gazette.

**(x) Fair Value of Financial Instruments**

Financial instruments are recorded in the consolidated balance sheets under assets or liabilities at their respective market values. Carrying values of cash and cash equivalents, restricted short-term investments, accounts receivable and accounts payable approximate their fair market values, due the short-term maturity of these instruments. Management believes that the carrying value of loans and other financial obligations with interest subject to market rates approximate their fair market value. EDC has not identified financial assets that may be deemed derivatives and records transactions with financial instruments on the date of negotiation.

**(y) Net Income per Share and per American Depositary Shares (ADS)**

Net income per share at 31 December 2007 and 2006 is determined based on the weighted average of outstanding shares, which in the years then ended amounts to 3,292,214,078 and 3,204,529,573, respectively, with a nominal value of Bs100 each.

Net income per ADS is determined by multiplying the net income per share of each year by the number of ADS. At 31 December 2007 and 2006, each ADS is comprised of 50 common shares of the Company.

(z) ***Income from Monetary Position***

Income from monetary position of the year is the difference between the net estimated monetary position and the actual net monetary position at year-end. The estimated net monetary position is determined by adjusting the net monetary position at the beginning of the year for net changes in items affecting it, updated as of the date of the consolidated financial statements based on the average CPI (see note 23).

**(4) REGULATION, RATES AND OTHER ASPECTS INHERENT TO THE ELECTRICITY SECTOR**

(a) ***Regulation***

The electricity industry in Venezuela is governed by the Organic Law for Electricity Services (hereinafter the Law), enacted on 31 December 2001, thus superseding Decree Law for Electricity Services dated 21 September 1999 and other legal provisions and regulations contrasting with this new Law. However, articles 69 and 71 of Decree 1558, dated 13 November 1996, regarding determination of rates and the provisions set forth in Decree 368, dated 27 July 1989 on Standards for Determining Electricity Service Fees published on 6 October 1989, will remain in effect until new standards are enacted.

The most relevant aspects of this Law include the following:

- Legal, accounting and management separation of activities relating to generation, transmission, distribution and marketing of services; therefore, two or more generation, transmission or management activities of the national electricity system, as well as distribution thereof, may be performed by the same company. Specialized activities may be carried out by distributors at fees regulated by generators or companies specialized in marketing power and electric energy.
- Competition in generation and specialized marketing has been enabled, prior authorization by the National Electric Energy Commission.
- Unrestricted access to transportation capacity of transmission and distribution networks to other agents of electricity services, as well as large users, which will be compensated in accordance with this Law and any related standards issued by the National Electric Energy Commission.
- Establishment of regulatory agents, such as the National Electric Energy Commission, the National Center for Management of the Electricity System and Wholesale Electricity Market, in which different electricity service agents will be grouped, specifically those in the areas of generation and distribution, as well as large users.

The Law provides for gradual implementation of certain resolutions, initially establishing 31 January 2003 as the deadline for the legal, accounting and management separation of generation, distribution, transmission and marketing activities of this service. An extension of this term was approved by the Ministry of Popular Power for Oil and Energy (MENPET), formerly the Ministry of Energy and Mining, until 31 January 2004.

This term has not been officially extended. Also, the Law includes provisions restructuring regulations through a new economic scheme. However, the current fee structure must remain the same until the new system is implemented.

As it is essential to establish compensation according to each of the activities of the Electricity Service, prior to separating activities and in light of the issues within the sector, MENPET requested an extension before the National Assembly, which is in charge of making amendments to this Law. To date, the governing body has not demanded compliance from companies in the sector regarding the separation of activities agreed to be completed by 31 January 2004.

Expanding on the provisions established in the abovementioned Law, on 25 November 2003, Official Gazette N° 37825 was published containing Resolution N° 310 of MENPET setting forth the Regulation of the Service for the purpose of establishing standards and conditions to govern electricity distribution services and relations between distributors and users. This same Gazette contained Resolution N° 315 of MENPET aimed at establishing Quality Service Standards to be complied with by agents distributing electricity, to ensure that users receive electricity services in accordance with their requirements and at the least possible cost. On 23

August 2004, Official Gazette N° 38006 was published containing a new version of the Quality Standards for Distribution Services, mainly amended with regards to the terms of application of the different phases of this legal provision.

On 5 September 2005, the Vice Minister of Energy issued a notice to EDC indicating that MENPET is considering an extension to the application of Phase I of the Quality Standards for Distribution Services; that is, the phase requiring adjustment of processes and systems.

The National Center for Electricity System Management (CNGSE) was officially created by the National Government in Decree N° 5026 of the Presidency of the Republic, published in Official Gazette N° 38576 dated 1 December 2006. The main functions of CNGSE are control, supervision and coordination of integrated operation of resources for Generation and Transmission of the National Electricity System. CNGSE is a government company, incorporated as a business entity, in which the Bolivarian Republic of Venezuela, through MENPET, is a stockholder.

**(b) *Organic Law for Reorganization of the Electricity Sector***

On 31 July 2007, Official Gazette N° 38736 was published containing Decree Law N° 5330 enacting the Organic Law for Reorganization of the Electricity Sector, issued by the president of the Bolivarian Republic of Venezuela. Its purpose is to reorganize the National Electricity Service to improve service quality, enhance efficiency in the use of the main sources for energy production and system operation and redistribute workloads and functions of sector operators.

This Decree establishes the incorporation of Corporación Eléctrica Nacional, S. A. ascribed to MENPET, as a state-owned operating company in charge of generation, transmission, distribution and marketing of electrical energy and power. The capital stock will be determined and subscribed 75% by the Bolivarian Republic of Venezuela through MENPET and 25% by Petróleos de Venezuela, S. A. (PDVSA).

This Decree establishes that CVG Electrificación del Caroní, C. A. (CVG EDELCA), ascribed to MENPET, as a subsidiary of Corporación Eléctrica Nacional, S. A. and orders the merger of all electricity companies within a term of three years, forming part of the Corporation, and its Board of Directors is in charge of coordinating this process. Article 14 of this law establishes that the provisions of the aforementioned decree will prevail over those established in the Organic Law for Electricity Services, Value Added Tax Law, Organic Law of Municipal Public Power and the Organic Law for Public Administration, in any aspects contradicting or colliding with the foregoing decree.

Energía Eléctrica de Venezuela, S. A. (ENELVEN), Empresa Nacional de Generación, C. A. (ENAGEN), C. A. de Administración y Fomento Eléctrico (CADAFE), CVG Electrificación del Caroní, C. A. (CVG-EDELCA), Energía Eléctrica de la Costa Oriental del Lago, C. A. (ENELCO), Energía Eléctrica de Barquisimeto, S. A. (ENELBAR) and Sistema Eléctrico del Estado Nueva Esparta, C. A. (SENECA), as well as all other subsidiaries of Corporación Eléctrica Nacional, S. A., within a term of three (3) years beginning on the effective date of that decree, must merge into a single legal entity. These companies must transfer all of their assets and liabilities to Corporación Eléctrica Nacional, S. A.

Also, the Decree establishes that because of the importance of the electricity service in the development of the country and its social welfare and since this regulation exceeds municipal and state boundaries, the activities of generation, transmission, distribution and marketing of power and electric energy will not be subject to state and municipal taxes. All goods traded and services rendered among the different electricity companies are not subject to any taxes in accordance with the Value Added Tax Law.

**(c) *Territorial Reorganization of Distribution of Power and Electric Energy***

On 8 October 2007, Official Gazette N° 38785 was published containing Resolution N° 190 of MENPET establishing the territorial reorganization for distribution of power and electricity according to the following operating regions: Northwest region including the states of Zulia, Falcón, Lara and Yaracuy; North-Central region comprised of the states of Carabobo, Aragua, Miranda, Vargas and Capital District; Eastern region grouping the states of Anzoátegui, Monagas, Sucre, Nueva Esparta and Delta Amacuro; Central region

comprised of the states of Guarico, Cojedes, Portuguesa, Barinas and Apure; Andean region covering the states of Mérida, Trujillo and Táchira; and the Southern region including the states of Bolívar and Amazonas.

For electricity companies in the country, this Decree establishes the following:

- Energía Eléctrica de Barquisimeto, S. A. (ENELBAR) may operate and maintain electricity facilities for distribution in the states of Yaracuy of the Northwest Region and Carabobo of the North-Central Region, in addition to the areas in which it operates.
- Energía Eléctrica de Venezuela, S. A. (ENELVEN) may operate and maintain electricity facilities for distribution in the state of Falcón of the Northwest Region, in addition to the areas in which it operates.
- CVG Electrificación del Caroní, C. A. (CVG EDELCA) may operate and maintain electricity facilities for distribution in the Southern Region, in addition to the areas in which it operates.
- C. A. La Electricidad de Caracas (EDC) may operate and maintain electricity facilities for distribution in the states of Aragua and Miranda of the North-Central Region and in the state of Nueva Esparta in the Eastern Region, in addition to the areas in which it operates.

These operators must define operating actions for maintenance and investments required to provide efficient electricity services. Also, they will be responsible for rendering electricity services in the specified states. Therefore, they make investments and develop plans in these areas with their own resources, with those established by CADAPE and allocated for such purposes and those received from improvement in commercial activities.

Operating responsibilities agreed in the Resolution are transitory until Corporación Eléctrica Nacional, S. A. determines otherwise as established by Decree N° 5330.

*(d) Fees*

On 28 January 1999, the National Government established new fee structures for electricity sector companies through joint resolution by the Ministry of Popular Power for Production and Trade and MENPET. In this resolution, the fee structures are effective for four years with annual increases on the first of January of each year. In addition, a Price Adjustment Factor is established as well as a charge to transfer price variations in fuel and purchased energy. Application of the Price Adjustment Factor on prices published in Official Gazette is intended to maintain in current terms the new fees of each service, except for the Social Residential Rate. Application is every six months and prices may be adjusted taking into account the behavior of macro-economic variables to determine fees. The charge for adjustment of fuel and energy, applied monthly, allows for adjustment of variations in prices of fuel and purchases of energy from those agreed to determine fees.

On 29 December 2000, the National Government enacted Special Official Gazette N° 5512 amending the values of macro-economic variables to determine the adjustments of electricity service fees. This resolution establishes fees for electricity sector companies for 2001 and 2002, and supersedes articles 10 to 21 of Joint Resolution 177 and 016 published in Special Official Gazette N° 5296.

After 30 June 2001, it was resolved to amend the values of the parameters used to determine the adjustment of electricity sector fees through Special Official Gazette N° 5540, which superseded Special Official Gazette N° 5512, and maintaining the maximum fees established for 2001 and 2002.

On 3 April 2002, Official Gazette N° 37415 published a joint resolution of the Ministries of Oil and Energy and of Production and Trade establishing maximum fees to be applied, as well as application conditions and adjustment methodology.

On 6 February 2003, the National Government enacted Decree 2304 (Official Gazette N° 37626) freezing the prices of first-necessity goods and services, including electricity services. Subsequently, on 5 May 2003, Official Gazette N° 37682 was published containing a joint resolution of the Ministries of Oil and Energy and of Production and Trade temporarily suspending increases in fees from the application of a price adjustment

factor. Nevertheless, article 2 of this resolution establishes that MENPET may exceptionally approve application of this factor.

On 25 March 2004, Official Gazette N° 37906 published a resolution together with the Ministries of Oil and Energy and of Production and Trade establishing prices of methane gas at supply centers and fees for transportation and distribution services.

On 13 February 2006, Official Gazette N° 38378 published a resolution of MENPET, establishing new prices of methane gas at supply centers. Subsequently, on 23 February 2006, Official Gazette N° 38386 was published containing a joint resolution of the Ministries of Oil and Energy and of Light Industries and Trade (formerly the Ministry of Production and Trade) establishing new transportation fees, as well as methane gas distribution fees, applicable each 1 January. Both resolutions supersede Official Gazette N° 37906 dated 25 March 2004. In this connection, the final fee for methane gas, including transportation services and distribution fees was 48.29 Bs/m<sup>3</sup> for 2006, which represented a decrease of approximately 18% with regards to the rate of the previous year. On 1 January 2007, in accordance with the aforementioned Gazettes, the new fees for methane gas, including transportation and distribution, were applied. The final fee applied in 2007 was 55.351 Bs/m<sup>3</sup>, which represented an increase of 14.62%.

**(5) CASH AND CASH EQUIVALENTS**

Cash and cash equivalents at 31 December 2007 and 2006 are summarized below (in millions of constant bolivars):

	<u>2007</u>	<u>2006</u>
Cash and due from banks	242,788	65,323
Deposits and short-term investments	61,500	436,831
	<u>304,288</u>	<u>502,154</u>

At 31 December 2007 and 2006, cash equivalents in local currency bear annual interest ranging from 10.23% to 6.68%, respectively, and cash equivalents in foreign currency bear annual interest ranging from 4.78% to 5.20%, respectively.

**(6) ACCOUNTS RECEIVABLE, NET**

Accounts receivable at 31 December 2007 and 2006 are summarized below (in millions of constant bolivars):

	<u>2007</u>	<u>2006</u>
Individual clients	133,665	171,696
Official organizations	50,019	115,318
Related parties (see note 14)	2,760	12,911
Fondo de Previsión de los Trabajadores de C. A. La Electricidad de Caracas y sus Empresas Filiales, A. C.	4,296	8,972
Other	9,282	41,513
	<u>200,022</u>	<u>350,410</u>
Less allowance for doubtful accounts	9,223	13,554
	<u>190,799</u>	<u>336,856</u>

The average credit term granted to individual clients is 17 days.

Other accounts receivable correspond to interest receivable, insurance claims and advances to suppliers, in the normal course of operations.

At 31 December 2007 and 2006, the Company recorded in the allowance for doubtful accounts Bs16,706 million and Bs61,926 million, respectively, corresponding to uncollectible accounts receivable.

Accounts receivable from official organizations do not bear interest and, at 31 December 2007 and 2006, are aged as follows (in millions of constant bolivars):

	<u>2007</u>	<u>2006</u>
<b><u>Years</u></b>		
2007	126,059	-
2006	13,664	85,340
2005	33,011	45,544
2004	31,357	39,124
2003 and previous years	<u>7,101</u>	<u>8,890</u>
Total accounts receivable from official organizations	211,192	178,898
Less adjustment to present value	36,817	23,383
Less current portion	<u>50,019</u>	<u>115,318</u>
Long-term portion (see note 10)	<u>124,356</u>	<u>40,197</u>

Management believes that all outstanding balances receivable from official organizations will be fully recovered because they are guaranteed by the Venezuelan Government.

Management evaluates accounts receivable conservatively, and recorded a provision to cover certain overdue loans managed by the Prevision Fund.

The Company gives its employees the opportunity of joining the Prevision Fund, by contributing an amount, not greater than 10% of their salaries, and EDC and its subsidiaries will deposit 100% of the employee's contribution. Through the Prevision Fund, the Company grants credit facilities for personal loans to its employees to promote the purchase of homes. At 31 December 2007 and 2006, the Company has recorded expenses for contributions to the Prevision Fund of Bs15,206 million and Bs13,882 million, respectively.

#### (7) INVENTORIES, NET

Inventories at 31 December 2007 and 2006 are summarized below (in millions of constant bolivars):

	<u>2007</u>	<u>2006</u>
Materials and supplies	79,208	47,189
Fuel	4,897	-
Spare parts	63,168	60,403
Goods in transit	<u>9,437</u>	<u>4,303</u>
	156,710	111,895
Less allowance for obsolescence	<u>11,041</u>	<u>9,456</u>
	<u>145,669</u>	<u>102,439</u>

Inventories are valued at average cost adjusted for inflation at the date of the financial statements; the difference between this value and market value is presented in the consolidated statements of income under cost of electric energy sold.

#### (8) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at 31 December 2007 and 2006 is presented below (in millions of constant bolivars):

	<b>Property, plant and equipment</b>	<b>Land</b>	<b>Spare parts inventory</b>	<b>Construction in process</b>	<b>Total</b>
<b>31 December 2007 -</b>					
Cost:					
At 31 December 2006	16,202,972	146,967	80,553	228,707	16,659,199
Additions	228,514	-	-	321,895	550,409
Disposals	(4,098)	-	(14,842)	-	(18,940)
Transfers	-	-	-	(217,616)	(217,616)
At 31 December 2007	<u>16,427,388</u>	<u>146,967</u>	<u>65,711</u>	<u>332,986</u>	<u>16,973,052</u>
Accumulated depreciation:					
At 31 December 2006	(11,495,105)	-	-	-	(11,495,105)
Charges	(484,895)	-	-	-	(484,895)
Disposals	2,699	-	-	-	2,699
At 31 December 2007	<u>(11,977,301)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,977,301)</u>
<b>Total at 31 December 2007</b>	<u><u>4,450,087</u></u>	<u><u>146,967</u></u>	<u><u>65,711</u></u>	<u><u>332,986</u></u>	<u><u>4,995,751</u></u>
<b>Total at 31 December 2006</b>	<u><u>4,697,867</u></u>	<u><u>146,967</u></u>	<u><u>80,553</u></u>	<u><u>238,707</u></u>	<u><u>5,164,094</u></u>

During the years ended 31 December 2007 and 2006, the Company did not capitalize interest due to inflation rates exceeding interest rates.

The net effect of reclassifying to this item spare parts and permanent maintenance equipment that may be used in a term of more than one year was Bs65,711 million and Bs80,553 million at 31 December 2007 and 2006, respectively, thus complying with International Accounting Standard 16 (IAS - 16) "Property, Plant and Equipment".

The Company owns insurance policies to cover possible risks inherent to property, plant and equipment, as well as possible claims that may arise in the course of its business; management believes that those policies sufficiently cover the risks to which it is exposed.

As a result of certain analyses of property, plant and equipment for the subsidiary Generación de Vapor Genevapca, C. A., and service agreements, it was considered appropriate to record the corresponding estimated residual value and retirement obligation. The former gave rise to: a lower depreciation expense in the consolidated statement of income for the year ended 31 December 2007 of Bs26,402 million and the latter produced an increase in property, plant and equipment of the subsidiary Generación de Vapor Genevapca, C. A., of Bs2,274 million, recognition of a liability for this concept of Bs7,972 million, and a decrease in unappropriated retained earnings at 31 December 2006 and 2005 of Bs5,698 million and Bs4,479 million, respectively (see note 3 (f)). During the years ended 31 December 2007 and 2006, an increase in depreciation expense was recorded in the consolidated statements of income of Bs189 million and Bs189 million, respectively, and interest expense on the obligation of Bs960 million and Bs1,030 million, respectively (see note 17).

## (9) INVESTMENTS

Investments at 31 December 2007 and 2006 are summarized below (in millions of constant bolivars):

	<u>Share %</u>	<u>2007</u>	<u>2006</u>
Investments recorded at cost:			
C. V. V. Caja Venezolana de Valores, S. A.	16	1,536	1,536
Opinión Yaracuyana, C. A.	5	38	38
		<u>1,574</u>	<u>1,574</u>
Financial investments:			
Terminales Maracaibo, C. A.	<u>8</u>	<u>23,169</u>	<u>23,169</u>
		<u>24,743</u>	<u>24,743</u>

During the year ended 31 December 2006, subsidiary Enerxis acquired the remaining 50% of the capital stock of Energía y Servicios Enercenter, C. A. since the assets of the latter had been delivered to EDC in partial payment of debts. The Company established a provision for the full amount of this investment.

On December 2005 and 5 October 2006, the consolidated subsidiary Generación de Vapor Genevapca, C. A. subscribed and paid 46,775,000 new preferred shares of Terminales Maracaibo, C. A., which represented an investment of Bs23,169 million (Bs17,355 in millions of bolivars at historical cost). These shares have a nominal value of Bs200 each and do not bear voting rights and are entitled to annual dividends, preferential, fixed and accumulative equivalent to 8% of their nominal value. Furthermore, this investment will be fully restored by Terminales Maracaibo, C. A. over 5 years; these shares cannot be redeemed early (see note 19).

#### (10) LONG-TERM ACCOUNTS RECEIVABLE

Long-term accounts receivable at 31 December 2007 and 2006 are presented below (in millions of constant bolivars):

	<u>2007</u>	<u>2006</u>
Accounts receivable from official organizations (see note 6)	124,356	40,197
Fondo de Previsión de los Trabajadores de C. A. La Electricidad de Caracas y sus Empresas Filiales, A. C. (Fondo de Previsión) (see note 14)	14,185	21,865
Accounts receivable from employees	3,736	6,120
Accounts receivable trust fund for subscription of shares (see note 21 (b))	1,038	2,957
Other	874	3,781
	<u>144,189</u>	<u>74,920</u>

Long-term accounts receivable from the Prevision Fund correspond to amounts that EDC has delivered to such fund to provide mortgage loans to EDC employees. The Prevision Fund is solely responsible for granting loan documents, delivering funds to employees and managing agreements until these are fully paid. The Company recovers these funds as employees and/or former employees pay off their loans with the Prevision Fund. During the years ended 31 December 2007 and 2006, the average interest rate applicable to these loans was 7%.

#### (11) OTHER ASSETS AND DEFERRED CHARGES

Other assets and deferred charges at 31 December 2007 and 2006 are presented below (in millions of constant bolivars):

	<u>Investment property</u>	<u>Computer programs</u>	<u>Works of art</u>	<u>Total</u>
<b>Cost:</b>				
At beginning of the year	116,836	261,296	3,248	381,380
Retirements	(1,769)	-	-	(1,769)
Sales	(161)	-	-	(161)
Transfers	-	1,907	-	1,907
At end of the year	<u>114,906</u>	<u>263,203</u>	<u>3,248</u>	<u>381,357</u>
<b>Accumulated amortization:</b>				
At beginning of the year	(9,668)	(245,496)	-	(255,164)
Retirements	(766)	(10,594)	-	(11,360)
Sales	490	-	-	490
Transfers	-	(37)	-	(37)
At end of the year	<u>(9,944)</u>	<u>(256,127)</u>	<u>-</u>	<u>(266,071)</u>
<b>Balance at 31 December 2007</b>	<u>104,962</u>	<u>7,076</u>	<u>3,248</u>	<u>115,286</u>
<b>Balance at 31 December 2006</b>	<u>107,168</u>	<u>15,800</u>	<u>3,248</u>	<u>126,216</u>

Investment property is mainly comprised of residential buildings, offices and other real estate owned by the Company. Currently, 66.90% of assets not in use correspond to land, 33.10% of buildings for future use are under operating lease agreements.

Computer programs will be fully amortized by 31 December 2010. Expected amortization expenses until 2010 follow (in millions of constant bolivars):

<u>Years</u>	<u>Amount</u>
2008	4,127
2009	2,551
2010	398
	<u>7,076</u>

## (12) CONSOLIDATED FINANCIAL DEBT

### (a) Short-Term Debt

Short-term debt at 31 December 2007 and 2006 is presented below (in millions of constant bolivars):

	<u>2007</u>	<u>2006</u>
Loans	4,492	95,497
Current portion of long-term debt	5,088	14,526
	<u>9,580</u>	<u>110,023</u>

At 31 December 2007 and 2006, EDC does not have any loans with local commercial banks.

During the years ended 31 December 2007 and 2006, the Company issued commercial paper in local currency, with returns ranging from 5.75% to 7% and from 6.25% to 6.50%, respectively. At 31 December 2007, there is no commercial paper outstanding.

During the years ended 31 December 2007 and 2006, bank loans in foreign currency bear interest at market rates from 5.59% to 7.82% (Libor plus 2.5%) and from 3.97% to 9.28%, respectively.

(b) **Long-Term Debt**

Long-term debt at 31 December 2007 and 2006 is summarized below (in millions of constant bolivars):

	<u>Interest rate</u>	<u>Maturity</u>	<u>2007</u>	<u>2006</u>
Bearer bonds	10.25%	2014	559,000	684,535
JP Morgan Chase – OAM13	Libor + 0.20%	2008 to 2011	16,151	25,428
JP Morgan Chase – Purchases	3.97% a 5.91%	2008	473	9,455
			<u>575,624</u>	<u>719,418</u>
Less current portion			5,088	14,526
Less cost of issuing bonds			<u>16,037</u>	<u>18,391</u>
Long-term debt			<u>554,499</u>	<u>686,501</u>

On 28 October 2004, EDC Finance B. V. issued Bearer Bonds in the international market of U.S.\$260 million equivalent to Bs559,000 million, maturing in 10 years at 10.25% payable every six months. These bonds are redeemable fully or partially beginning in October 2009 and fully in the event of certain changes in the tax laws of Venezuela and/or the Netherlands. These bonds are secured by EDC. On the same date, EDC Finance B.V. used funds from the issuance of bonds for payment of 100% of a loan from Hollandische Bank-Unie N.V., a wholly-owned subsidiary of ABN AMRO

Bank N.V. (ABN AMRO), to EDC of U.S.\$260 million equivalent to Bs559,000 million, maturing in 10 years at 10.30% payable every six months. As part of this transaction, EDC paid a loan, received in June 2004, from ABN AMRO, U.S.\$50 million equivalent to Bs96,000 million, which originally expired in three years at Libor plus 7.00%.

According to the transaction document relating to notes payable in 2014, the sale of EDC shares does not represent an event that may cause the notes issued to be callable; however, certain procedures may be followed in the event that EDC is absorbed by or consolidated into another entity.

Bearer bonds have covenants restricting the capacity of the Company to incur additional debt, pay dividends, mortgage property and sell certain assets. EDC complied with these clauses at 31 December 2007.

The cost of issuing bonds corresponds to fees and other expenses relating to the purchase of long-term bonds, which are deferred over the life of such loans.

EDC maintains two credit facilities with JPMorgan Chase secured by a bond issued by the Export - Import Bank of the United States (Eximbank), which are described below:

- Credit facility granted in September 1999 of U.S.\$21.6 million equivalent to Bs13,583 million for a term of 10 years, maturing on 25 February 2011 bearing annual interest of 5.65% for the purchase of a Siemens-Westinghouse W-501D5 engine installed at the generating complex Oscar Augusto Machado (located in Miranda State). The balance of this credit facility amounts to U.S.\$7.5 million and U.S.\$9.6 million equivalent to Bs16,151 million and Bs25,428 million, at 31 December 2007 and 2006, respectively.
- Credit facility granted in September 1999 of U.S.\$35.9 million equivalent to Bs22,528 million payable over a term of 5 to 7 years, maturing on 10 January 2008 bearing annual interest of 5.91%. These funds have been used for the purchase of goods and services from the United States of America. The balance of this credit facility amounts to U.S.\$0.2 million and U.S.\$3.6 million equivalent to Bs473 million and Bs9,455 million, at 31 December 2007 and 2006, respectively. On 7 January 2008 the balance of principal and interest of this debt was paid in full.

Principal payments for years after 31 December 2007 are as follows (in millions of constant bolivars):

<u>Years</u>	<u>Amount</u>
2008	5,088
2009	4,614
2010	4,614
2011	2,308
Until 2014	<u>559,000</u>
	<u><u>575,624</u></u>

**(13) ACCOUNTS PAYABLE**

Accounts payable at 31 December 2007 and 2006 are presented below (in millions of constant bolivars):

	<u>2007</u>	<u>2006</u>
Trade	202,378	254,895
Related parties (see note 14)	<u>3,677</u>	<u>30,711</u>
	<u><u>206,055</u></u>	<u><u>285,606</u></u>

**(14) TRANSACTIONS AND BALANCES WITH RELATED COMPANIES**

The most significant transactions between the Company and its related companies are mainly intercompany accounts payable and receivable.

On 30 November 2006, subsidiary Enerxis, wholly-owned by EDC, executed a Memorandum of Understanding with the other stockholder in the investment held in Energía y Servicios Enercenter, C. A., (Enercenter) to liquidate the energy generation business. This memorandum established negotiations for payment of debts and creditors. Management has evaluated the impact of the settlement and, consequently, has reversed the provision recorded in previous years to cover the risk of loss of accounts receivable reported in the consolidated balance sheets. According to this Memorandum of Understanding, the account receivable from Enercenter will be recovered through a transfer of assets and cash. During the year ended 31 December 2007, the Enercenter accounts payable to EDC amounted to Bs12,556 million, which were paid in accordance with the Memorandum of Understanding.

At 31 December 2006, the Company ended the funds administration agreement with the Prevision Fund for Employees of C. A. La Electricidad de Caracas and subsidiaries, A. C. (Prevision Fund) and, consequently, paid most of the balance owed as of that date of Bs34,288 million.

Until 30 April 2007, the Company was part of a funds administration agreement with the Savings Fund for Employees of C. A. La Electricidad de Caracas and subsidiaries, A. C. (Savings Fund). These funds included deposits at the average rate of the six (6) main commercial and universal banks of the country. On 30 April 2007, the Administration Council of the Savings Fund notified EDC of its desire to rescind such agreement.

As a result of the aforementioned change in stockholders, on 15 May 2007 the Company paid net accounts held with AES and related companies of Bs14,140 million.

The above operations and other less significant ones between the Company and its related parties, resulted in the following balances of accounts receivable from and accounts payable to related companies at 31 December 2007 and 2006 (in millions of constant bolivars):

	<u>2007</u>	<u>2006</u>
Accounts receivable from related parties - current (see note 6):		
Fondo de Previsión de los Trabajadores de C. A. La		
Electricidad de Caracas y compañías filiales, A. C.	2,760	-
Energía y Servicios Industriales, C. A. and subsidiaries	-	12,838
Other	-	73
	<u>2,760</u>	<u>12,911</u>
Accounts receivable from related parties - long-term (see note 10):		
Fondo de Previsión de los Trabajadores de C. A. La		
Electricidad de Caracas y compañías filiales, A. C.	14,185	21,865
Accounts payable to related parties - current		
Caja de Ahorros de los Trabajadores de C. A. La Electricidad de		
Caracas y compañías filiales, A. C.	1,929	5,288
Fondo de Previsión de los Trabajadores de C. A. La		
Electricidad de Caracas y compañías filiales, A. C.	-	21,549
Other	1,748	3,874
	<u>3,677</u>	<u>30,711</u>

**(15) OTHER CURRENT LIABILITIES**

Current liabilities at 31 December 2007 and 2006 follow (in millions of constant bolivars):

	<u>2007</u>	<u>2006</u>
Taxes payable	61,305	46,044
Employees' severance indemnities	46,778	32,930
Freight payable	35,931	35,386
Dividends payable	27,040	29,004
Interest payable	11,360	18,113
Accruals, various	16,159	31,837
Tax debits	2,837	-
Legal contingencies (see note 25)	23,074	62,743
	<u>224,484</u>	<u>256,057</u>

**(16) RETIREMENT AND HEALTH PLAN AND OTHER POSTRETIREMENT BENEFITS**

Labor liabilities at 31 December 2007 and 2006 are presented below (in millions of constant bolivars):

	<u>2007</u>	<u>2006</u>
Accrual for employees' severance indemnities, net of advances	42,254	43,789
Accrual for pension plan and other benefits	204,606	69,307
	<u>246,860</u>	<u>113,096</u>

The Company has a Retirement and Health Plan and Other Postretirement Benefits for all of its employees. Pensions to be paid on a monthly basis are determined based on the average reference salary of the last twenty-three (23) months prior to the retirement of each employee.

This Plan was established in accordance with conditions listed in the Collective Labor Contract executed between C. A. La Electricidad de Caracas and Union of Electricity and Similar and Related Services of the Federal District and

Miranda State in representation of the employees of the Company taking into account the provisions of the Organic Labor Law and its Regulation.

The main aspects of the Retirement and Health Plan and Other Postretirement Benefits are summarized below:

- Conditions for beneficiaries of the Retirement Plan:
  - Minimum ten (10) years of uninterrupted employment with the Company.
  - Sixty (60) years of age for men and fifty-five (55) years for women.
  - Early retirement with reduced pension as defined in the Plan.
  - Incapacity retirement, with the expectations defined in the Plan.
- Benefits of the Retirement and Health Plan and Other Postretirement Benefits:
  - Pension granted by the Company
  - Life insurance.
  - Registration with Prevision Fund (optional).
  - Registration with Savings Fund (optional).
  - Medical and dental assistance.
  - Exoneration of payment of electricity services.
  - Bonus payment of one month.
- The methodology to determine the accrual for the Retirement Plan was the Accrued Benefit Method or the Projected Unit Credit Method, which establishes that plan benefits must correspond to the years in which such benefits are generated.
- Actuarial liabilities of the Company represent an obligation for projected benefits including current and retired employees, based on time of service and time of future payments.
- To determine actuarial liabilities, behavior of several factors was determined, such as the following:
  - Permanence of employee in the Company (turnover).
  - Variation of wages and salaries of employees.
  - Existing commitments with retired employees.

The main assumptions used by the independent actuary to determine the accrual for retirement and health plan and other postretirement benefits at 31 December 2007 and 2006, include the following:

	<u>2007</u>	<u>2006</u>
Discount rate (current rate)	9.00%	7.00%
Rate of salary increase (current rate)	2.00%	2.00%
Increased pensions	Minimum salary	10% inflation
Rate of increased health cost (current rate)	2.00%	2.00%
Inflation rate for the year	22.46%	17.00%
Average health payment per retiree	<u>3,700,000</u>	<u>2,615,641</u>

At 31 December, liabilities relating to the above, net follow (in millions of constant bolivars):

	<u>Pensions</u>		<u>Health Plan and Other</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Liabilities at beginning of the year	20,916	78,055	48,391	36,404
Expense of the year	147,850	21,714	24,130	22,940
Contributions and actual payments	2,005	(71,583)	(7,726)	(5,672)
Effect of monetary adjustment	(20,201)	(7,270)	(10,759)	(5,281)
Liabilities at year-end	<u>150,570</u>	<u>20,916</u>	<u>54,036</u>	<u>48,391</u>

At 31 December, the cost of the plan is comprised of the following (in millions of constant bolivars):

	<u>Pensions</u>		<u>Health plan and other</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current service cost	3,671	5,020	1,288	1,782
Interest cost	31,922	24,015	16,274	20,273
Expected return on plan assets	(10,189)	(7,476)	-	-
Amortization of past service costs	1,403	155	161	-
Amortization of actuarial loss	-	-	1,270	885
Past services costs - in the year	121,043	-	5,137	-
	<u>147,850</u>	<u>21,714</u>	<u>24,130</u>	<u>22,940</u>

On 1 July 2007, management decided to standardize retirement pensions established in the current collective contract according to the national urban minimum salary. The effects of this decision on the statement of income for the year ended 31 December 2007 was Bs121,043 million.

#### (17) OTHER LIABILITIES

Other liabilities at 31 December 2007 and 2006 follow (in millions of constant bolivars):

	<u>2007</u>	<u>2006</u>
Provision for contingencies	63,952	62,574
Compensation to long-term employees	-	22,991
Subscriber deposits	29,492	21,972
Asset retirement obligations (see note 8)	8,828	7,972
Deferred credits from user contributions	58,270	5,864
Other	21,117	13,743
	<u>181,659</u>	<u>135,116</u>

At 31 December 2007 and 2006, the Company reports, as a provision for contingencies, a provision for tax contingencies of Bs53,457 million and Bs55,549 million, respectively, to cover certain differences in interpretations to current tax laws in Venezuela; nevertheless, future assessments or reviews performed by authorities of years open to review may give rise to other tax liabilities for amounts, if any, not currently quantifiable by the Company. However, management estimates that liabilities derived from these concepts would not have a significant effect on future consolidated income of the Company.

As a result of the change in stockholders explained in previous notes, the long-term compensation plan that AES maintained with certain EDC employees became ineffective; therefore, related liabilities recorded on 15 May 2007 of Bs24,886 million have been fully reversed in the consolidated statement of income at that date.

Subscription deposits are comprised mainly of initial deposits made by clients upon acquiring the energy service.

#### (18) COMPENSATION OF THE BOARD OF DIRECTORS AND ADMINISTRATORS

(a) **Board of Directors**

Clause 30 of the Company's by-laws establishes that members of the Board of Directors will receive for attending the Board of Directors meetings an amount approved by the stockholders. The total amount paid to members of the Board of Directors for the years ended 31 December 2007 and 2006 was Bs410 million and Bs523 million, respectively.

(b) **Salary Compensation**

The total compensation for salaries and other benefits to employees with executive responsibilities (administrators) paid in 2007 and 2006 amounted to Bs7,670 million and Bs11,412 million, respectively.

(c) **Seniority Benefits**

The total amount of accumulated seniority benefits for 2007 and 2006 corresponding to employees with executive responsibilities (administrators) in the Company was Bs498 million and Bs2,065 million, respectively.

**(19) INCOME TAX AND OTHER**

(a) **Income Tax**

Income tax for the years ended December 2007 and 2006 was determined based on the provisions of the Income Tax Law applied to taxable income which differs from accounting income, as according to Venezuelan tax laws, certain items are not taxable or deductible permanently or temporarily.

Income tax expense for the years ended 31 December 2007 and 2006 is as follows (in millions of constant bolivars):

	<u>2007</u>	<u>2006</u>
Current	124,820	102,544
Deferred	34,848	692
	<u>89,972</u>	<u>101,852</u>

A reconciliation between the income tax expense and the amount resulting from applying the current tax rate to income before taxes reported in the consolidated financial statements, for the years ended 31 December 2007 and 2006 (in millions of constant bolivars) is presented below:

	<u>2007</u>	<u>2006</u>
Income before tax and minority interests	191,132	412,861
Tax on income for the year (34% - 500 T.U.)	64,967	140,353
Effect of accounting inflation adjustment	59,832	75,738
Add (less) non-deductible and/or non-taxable items, net:		
Retirement and health plans and other postretirement benefits	48,739	(8,778)
Capitalized interest	12,581	17,096
Provision for contingencies	10,426	9,865
Return on National Public Debt Bonds	(15,892)	(14,244)
Other non-deductible provisions	(5,037)	-
Other, net	4,251	7,242
Regular fiscal inflation adjustment	(66,912)	(81,315)
Total taxable income, net	<u>112,955</u>	<u>145,957</u>
Prior year tax loss carryforwards	<u>(2,963)</u>	<u>(698)</u>
Total net taxable income	109,992	145,259
Less investment tax credits	<u>20,020</u>	<u>43,407</u>
Income tax expense	<u>89,972</u>	<u>101,852</u>
Current tax rate (%)	<u>39.96</u>	<u>24.67</u>

Venezuelan tax laws establish that on an annual basis an adjustment for inflation of its non-monetary items, which is included in the reconciliation of net taxable income as a taxable or deductible item, as the case may be. The total adjustment for the year is determined by totalling the different adjustments for inflation of each non-monetary item.

In accordance with such provisions, taxpayers subject to income tax undertaking transactions with offshore related parties must determine their income from exports and cost of goods and services acquired from offshore related parties using one of the methods set forth in such law. The Company did not perform transactions with offshore related parties in 2007.

Also, in accordance with such law, the Company can transfer tax losses, other than those resulting from the fiscal inflation adjustment, for up to three (3) years following the year in which incurred. The deductible tax effect of the fiscal inflation adjustment can be carried forward to the following year. At 31 December 2007, subsidiaries reported tax loss carryforwards of Bs2,255 million, expiring in 2008.

According to the tax laws, the Company can carryforward tax credits on new investments in property and equipment for up to three (3) years following the year in which incurred. At 31 December 2007 and 2006, the Company and its subsidiaries do not have any investment tax credits carryforwards.

Furthermore, the law establishes, among others, taxes on dividends, net income from foreign source under the Worldwide Income Regime, and any income from investments and shares under the International Tax Transparency Regime.

**(b) *Deferred Income Tax***

Items giving rise to deferred income tax at 31 December 2007 and 2006 are presented below (in millions of constant bolivars):

	2007		2006	
	Current	Non-current	Current	Non-current
Assets -				
Allowance for doubtful accounts	4,021	-	5,572	-
Discount on accounts receivable from official organizations	-	12,517	-	7,950
Difference between accounting and tax basis of inventory	-	22,221	-	14,361
Provision for pension and health plans	-	69,566	6,484	17,068
Difference between accounting and tax basis of property, plant and equipment	-	520,450	-	504,649
Provisions and allowances	20,320	-	18,034	-
Provision for asset retirement obligation	-	2,292	-	2,372
Business assets tax	-	-	56	-
Liabilities -				
Cost of issuing bonds	-	(3,224)	(1,571)	(5,193)
	24,341	623,822	28,575	541,207
Less valuation allowance	-	524,123	-	480,590
	24,341	99,699	28,575	60,617

(c) **Value Added Tax**

On 26 February 2007, the Presidency of the Republic approved a Decree Law to lower the Value Added Tax (VAT) rate, from 14% to 11% beginning 1 March 2007, and to 9% beginning 1 July 2007.

(d) **Investment Tax Credits - Law to Reactivate the National Merchant Marine**

Pursuant to article 5 of the Law to Reactivate the National Merchant Marine, a rebate of 75% of the amounts of new investments in the merchant marine segment, including the purchase of shares in companies with income described by such law was approved. As indicated in note 9, the consolidated subsidiary Generación de Vapor Genevapca, C. A. has used this benefit by investing, during the year ended 31 December 2006, in preferred stock of Terminales Maracaibo, C. A.

(e) **Tax Standards for Dutch Companies**

The subsidiary EDC Finance B.V. and its subsidiary were incorporated in the Netherlands and are subject to the tax laws of that country. Under these laws corporate income tax is applicable to resident and non-resident companies at a rate of 29.6% for 2006, which will be lowered to 27.4% in 2007 and 26.95% in 2008. Furthermore, these standards establish that dividends are subject to a withholding tax of 25%; also, the annual statements of income must be filed six months after the end of the fiscal year unless the Company requests an extension of nine months.

(f) **Organic Law on Science, Technology and Innovation**

Official Gazette N° 38242 dated 3 August 2005, established the Organic Law on Science, Technology and Innovation, aimed at developing guidelines on science, technology and innovation, as well as application thereof, set forth in the Constitution of the Bolivarian Republic of Venezuela.

Pursuant to article 37 of the Law, large companies of the country must contribute annually a sum corresponding to one percent (1%) of gross income generated in the national territory, in any of the activities listed in article 42. According to article 44 of this law, large companies are defined as companies with annual gross income greater than 100,000 TU.

Official Gazette N° 38544 dated 17 October 2006 included Partial Regulation of the Organic Law on Science, Technology and Innovation regarding Contributions and Investments, and establishes in article 2 paragraph 7 that gross income refers to economic benefits obtained by large companies or entities forming part of the

National Science, Technology and Innovation System, on any activity performed, without considering costs or deductions incurred to obtain such income.

The Transitory Provisions of the Partial Regulation establish that gross income for 2006 will be used as the basis for calculation of contributions and investments to be made in 2007. Management of the Company determined that the obligation under this Law amounted to Bs14,547 million; however, because the amount of investments made during the year amounted to Bs15,815 million, no expense for this concept was recorded in the year ended 31 December 2007.

The final return of contributions and investments corresponding to 2007 must be prepared at the time of preparing the final income tax return for that year.

## (20) STOCKHOLDERS' EQUITY

The capital stock of the Company at 31 December 2007 and 2006 is comprised of 3,292,214,078 and 3,204,529,573 common shares, respectively, with a nominal value of Bs100 each, fully subscribed and paid-in.

At the Stockholders' Meeting dated 20 March 2002 it was approved to maintain the authorized capital stock at Bs598,800 (in millions of bolivars at historical values) to comply with article 71 of the Capital Markets Law.

Paid-in surplus represents additional contributions paid by stockholders upon subscribing the increase in capital stock which resulted in an excess of the sale price of shares over their nominal value.

Surplus from merger represents the result of the merger of Corporación EDC, C. A. (CEDC) and EDC in July 2003, whereby the assets and liabilities of CEDC were recorded at carrying values in the financial statements of EDC and net assets were classified as a separate component of stockholders' equity.

The Code of Commerce, the Capital Markets Law and CNV standards contain provisions regulating the distribution of dividends. The Code of Commerce requires that profits be "liquid and collected" for the payment of dividends. Under the Capital Markets Law, the Company must distribute annually among its stockholders no less than 50% of its annual net income, after the provision for income tax and deducting legal reserves. Also, the Capital Markets Law establishes that no less than 25% of that 50% must be paid as cash dividends. If the Company has an accumulated deficit, income can be used to offset that deficit.

According to CNV standards, net income on an unconsolidated basis excluding the equity interest in affiliates is the basis for distributing dividends.

The Capital Markets Law also establishes that dividends must be declared at the Stockholders' Meeting, which will determine the amount, form and date of payment. Also, entities subject to CNV control must establish in their corporate by-laws their dividend policy.

At the Special Stockholders' Meetings dated 1 March 2007 and 30 March 2006, dividends were approved of Bs305,528 million and Bs355,402 million, respectively, representing Bs78.36 and Bs80 per share, respectively.

During the year ended 31 December 2007, the Company reported the following net income for the purpose of distributing dividends, according to CNV standards (in millions of constant bolivars):

Net income	99,884
Net income of subsidiaries	<u>(60,098)</u>
Income available for declaration of dividends according to CNV standards	<u><u>39,786</u></u>

The Code of Commerce establishes that 5% of net income of companies must be transferred to a legal reserve, until such reserve reaches at least 10% of the capital stock. This reserve cannot be distributed as dividends. The Company uses net income in constant bolivars to determine the basis for this reserve.

On 30 November 1998, the U.S. Securities and Exchange Commission authorized the ADS, Level 1, program for the EDC Group. ADSs are traded in the over-the-counter market using the *ELDAY PK* symbol and each ADS represents

50 common shares of EDC. The Bank of New York acts as escrow agent, while Banco de Venezuela, Banco Universal, S. A. and Banco Venezolano de Crédito S. A., Banco Universal act as local custodians. At 31 December 2007 and 2006, the number of ADS is 61,094,515 and 56,012,137, respectively, with a nominal value of Bs5,000 for both years.

On 13 July 2006, the Company recorded its shares as ADS on Latibex, the most significant securities market in Latin America, which operates on the Stock Exchange of Madrid, Spain.

**(21) SHARE SUBSCRIPTION PROGRAMS**

On 30 March 2006, at the Stockholders' Meeting of EDC, the Board of Directors was authorized to promote share subscription programs of the Company; in this connection, on 17 May 2006, the Board of Directors approved two share issue programs: (a) public offering of shares and (b) share option plan for employees. These programs are summarized below:

*(a) Public Offering of Shares*

The Company made a public offering of shares in the months of July and August 2006, with approval of CNV, whereby a total of 143,636,637 new shares were subscribed. This program was addressed to the general public (legal entities or individuals over 18 years old).

*(b) Share Option Plan for Employees*

This plan was offered to all Company employees and was carried out under the following conditions:

<b>Nominal value per share</b>	<b>Maximum purchases per employee</b>	<b>Initial value</b>	<b>Financing term</b>
Bs503.43	2,500 common shares	20%	5 years

The remaining 80% was financed by EDC, for five (5) years, at an interest rate equivalent to the average return on commercial paper issued by the Company; this rate is reviewed on a quarterly basis (see note 10).

Shares are deposited in a trust fund on behalf of each employee, and dividends generated are applied to debt payments.

Also, employees may release their shares at any time upon payment of the outstanding balance. Two thousand three hundred and forty (2,340) employees took part in this plan, subscribing a total of 5,844,700 shares recorded with the National Securities Registry in accordance with Resolution 108-2006 of CNV.

**(22) INTEGRAL FINANCIAL INCOME, NET**

The amounts reported in the consolidated statements of income as integral financial income follow (in millions of constant bolivars):

	<b>2007</b>	<b>2006</b>
Interest and financial expenses	(108,314)	(138,959)
Interest income	24,516	48,786
Interest and financial expenses, net	(83,798)	(90,173)
Foreign exchange loss	(8,083)	(184)
Monetary gain for the year – REME (see note 23)	151,647	118,789
	<u>59,766</u>	<u>28,432</u>

**(23) MONETARY POSITION AND MONETARY GAIN FOR THE YEAR**

Net monetary position at 31 December 2007 and 2006 is as follows (in millions of constant bolivars):

	<u>2007</u>	<u>2006</u>
Monetary assets	779,900	1,014,116
Monetary liabilities	<u>(1,364,867)</u>	<u>(1,586,399)</u>
Net monetary position	<u>(584,967)</u>	<u>(572,283)</u>

The gain from monetary position for the years ended 31 December 2007 and 2006 is presented below (in millions of constant bolivars):

	<u>2007</u>	<u>2006</u>
Net monetary position at beginning of the year	<u>(572,283)</u>	<u>(895,559)</u>
Increase due to -		
Sale of electric energy	1,587,369	1,845,173
Services provided	84,875	67,635
Earnings from sale of trading securities	51,862	33,921
Equity interest in subsidiary	-	705
Surplus paid	-	76,594
Interest income	24,516	48,786
Other income, net	26,909	-
Total increase	<u>1,775,531</u>	<u>2,072,814</u>
Decrease due to -		
Dividends paid	305,528	355,402
Cost of electric energy sold	802,134	645,191
General and administrative expenses	321,261	364,060
Foreign exchange loss, net	8,083	184
Income tax, net	89,972	101,852
Interest and financial expenses	108,314	138,959
Minority interests	1,276	667
Other expenses, net	-	24,434
Total decrease	<u>1,636,568</u>	<u>1,630,749</u>
Estimated net monetary liability position	<u>(433,320)</u>	<u>(453,494)</u>
Net monetary liability position at year-end	<u>(584,967)</u>	<u>(572,283)</u>
Gain from monetary position	<u>151,647</u>	<u>118,789</u>

**(24) ASSETS AND LIABILITIES IN FOREIGN CURRENCY**

A summary of monetary assets and liabilities in U.S. dollars at 31 December 2007 and 2006 recorded in bolivars at the exchange rate of Bs2,150 to U.S.\$1.00 follows:

	<u>2007</u>	<u>2006</u>
<b>Assets:</b>		
Cash and cash equivalents	76	90
Accounts receivable	13	5
Total assets	<u>89</u>	<u>95</u>
<b>Liabilities:</b>		
Short-term debt	2	8
Accounts payable	8	15
Other current liabilities	9	15
Long-term debt	267	267
Total liabilities	<u>286</u>	<u>305</u>
Excess of liabilities over assets in foreign currency	<u>(197)</u>	<u>(210)</u>

Transactions in foreign currency are recorded at the transaction date. Assets and liabilities in foreign currency are adjusted to reflect the exchange rate at the reporting date and foreign exchange gains and losses are recorded in income for the year.

In February 2003, the National Government executed a foreign currency exchange agreement with BCV, establishing controls for currency administration. In this connection, BCV centralizes the purchase and sale of currency in the country, sets the common exchange rate agreed by the government and adjusts it at any time. The Foreign Currency Administration Commission (CADIVI) was also created and is responsible for the administration and control of foreign currency markets as well as for establishing new procedures for foreign currency controls.

The exchange rates effective since foreign exchange controls have been in effect are presented below (in bolivars to U.S. dollar):

<u>Effective date</u>	<u>Purchase</u>	<u>Sale</u>
5 February 2003	1,596	1,600
6 February 2004	1,915	1,920
2 March 2005	<u>2,145</u>	<u>2,150</u>

Currency entering the country as a result of exports, investments, financing or any other concept must be sold to BCV. Also, purchases of foreign currency for the payment of imports of goods and services, financial obligations in foreign currency, dividends and interest resulting from a direct foreign investment, service agreements, technology and royalties, and other, is limited and subject to requirements and conditions established by CADIVI. To obtain authorization to purchase foreign currency from BCV, interested parties must register with the Registry for Users of the Currency Administration System (RUSAD).

On 14 October 2005, the Law against Foreign Currency Infringements was enacted by the National Government to support controls over the foreign exchange market. This Law basically defines illegal acts derived from foreign exchange transactions and establishes fines and penalties for parties using the system to obtain currency illegally. Transactions with securities are exempt from this law. On 28 December 2007, Special Official Gazette N° 5867 published the Reform of the Law against Foreign Currency Infringements. This reform establishes new fines and penalties for such infringements. The reform establishes fines from 500 tax units to 1,000 tax units for non-compliance with the Law.

The Company, as a subsidiary of Petróleos de Venezuela, S. A. (PDVSA), is subject to the provisions of Foreign Currency Convention number 9, which regulates, among other aspects, the flow of foreign currency of PDVSA and its subsidiaries, including income in foreign currency, bank accounts in foreign countries, as well as the use of funds in those accounts.

On 1 April 2003, the presidency of the Bolivarian Republic of Venezuela approved that electricity service companies ascribed to the Ministry of Oil and Energy may request foreign currency directly from the BCV for the purchase of goods and services required to ensure public security and national defense.

**(25) COMMITMENTS AND CONTINGENCIES**

At 31 December 2007 and 2006, the Company has the following commitments and contingencies:

**(a) *Energy and Steam Agreement***

In December 1993, a former subsidiary of PDVSA, subscribed with the subsidiary Generación de Vapor Genevapca, C. A. an agreement to design, build and operate an energy and gas generation plant to service the refineries of Cardón and Amuay. The plant began its operations in September 1995 and is located in the facilities of the Cardón refinery, in the peninsula of Paraguaná, Falcón State, and has three engines, each with an installed capacity of 105 MW. According to the agreement, two of the engines must be operating continuously and producing approximately 800 GWh of energy per year. At 31 December 2007, the carrying value of the plant amounts to Bs403,227 million.

This agreement establishes, among other things, the following: PDVSA must purchase a minimum amount of energy and steam for a year up to a price payable in U.S. dollars and established annually based on the price specified in the agreement, adjusted by the U.S. Gross Domestic Product. Gas, fuel and water are supplied by PDVSA. Generación de Vapor Genevapca, C. A. may produce and deliver to third parties energy produced in excess, under certain conditions. The plant is connected to two small clients in the area and to transmission lines of CADAPE. Generación de Vapor Genevapca, C. A. may be subject to penalties if certain operating criteria are not met.

Since 2000, Generación de Vapor Genevapca, C. A. has supplied energy to CADAPE mainly because of an increase in the demand of the region and certain operating issues experienced by CADAPE in nearby plants. The sale of energy to CADAPE is established in an agreement entered into by GENEVAPCA, CADAPE, PDVSA and the Government of the State of Falcón. This agreement establishes, among others, that the price is payable in bolivars but fixed in U.S. dollars, and that PDVSA is under the obligation to provide the fuel required under the agreement.

**(b) *Operating Lease***

The Company has equipment under operating leases for a one-year term or less. The leases generally include automatic renewal clauses for equal terms, unless there is written notice indicating otherwise. None of the operating leases for Company equipment are redeemable for periods of less than one year. Operating lease expense for equipment was Bs2,792 million and Bs4,722 million for the years ended 31 December 2007 and 2006, respectively. None of these amounts refer to subleases or contingent leases.

**(c) *Litigation, Claims and Provisions for Contingencies***

At 31 December 2007 and 2006, the Company has contingencies for litigation which have been recorded in accordance with Statement of Accounting Principles 8 (DPC - 8) "Contingencies".

The most significant cases involve labor contingencies, specifically a claim filed by employees and former employees seeking inclusion of special contributions to the Savings Fund as part of the salary for determining Employees' Severance Indemnities. In this connection, on 26 October 1999, the Ninth Court of First Instance in Labor Matters of the Judicial Circuit of the Metropolitan Area of Caracas ruled in favor of the Company and on 22 March 2000 the Fourth Superior Court of Labor Matters of the Metropolitan Area of Caracas upheld the decision of the First Instance Court and declared that the Savings Fund was not deemed part of salaries. On 3 May 2001, the Social Chamber of the Supreme Court of Justice issued a ruling voiding the decision appealed by the employees and ordered a new pronouncement by the Superior Court. After several appeals, on 16 July 2004, the Second Superior Transitory Court on Labor Matters ruled that the Savings Fund did have salary status, and the Company lodged an Appeal for Annulment before the Social Annulment Chamber of the Supreme Court of Justice of the Bolivarian Republic of Venezuela. On 12 December 2006, the Supreme Court of Justice issued ruling 2029 declaring partially with merit the complaint filed by certain employees and former employees of the Company, establishing the salary status of special contributions to the Savings Fund. The

ruling appointed an accounting expert to

quantify the contributions. In December 2006, management of the Company, together with its legal advisors, estimated the probable payment at Bs51,639 million, which was recorded in the 2006 financial statements. Also, the Company determined that there may be an additional reasonably probable but not probable risk of Bs10,495 million.

In 2007, the Company paid to its current employees, plaintiffs and non-plaintiffs Bs40,076 million; corresponding to the concepts established in the decision, thus complying with the provisions thereof. The payment corresponding to plaintiffs and non-plaintiffs adhering to the complaint, in accordance with this ruling will be determined once the Court makes available the results of the complementary expert analyses it ordered.

On 26 October 2006, the Constitutional Chamber of the Supreme Court of Justice found merit in the appeal filed in June 2000 against the purchase of shares of EDC by Inversora DS 2000, C. A. After processing the appeal, the Constitutional Chamber agreed to summon certain entities of the public and private sector including Inversora DS 2000, C. A., which bought the shares, and EDC.

At 31 December 2007, the Company has other legal contingencies for civil, mercantile, administrative and labor matters deemed probable which amount to Bs29,904 million, for which a provision of Bs15,073 million has been recorded.

**(d) Commitments**

At 31 December 2007 EDC has unused credit facilities with ABN AMRO of Bs19,350 million (U.S.\$9 million represented by U.S.\$8 million and YEN85 million).

At 31 December 2007, the balance of interest payable on bank loans and financial long-term debt is approximately U.S.\$8.6 million equivalent to Bs18.5 million.

**(26) CONTROL OF MONEY-LAUNDERING ACTIVITIES**

On 10 January 2006 Official Gazette N° 38354 of the Bolivarian Republic of Venezuela was published containing "Standards for Prevention, Control and Assessment of Money-Laundering Activities Applicable to the Venezuelan Capital Market". This resolution has been effective since 11 May 2006 and supersedes Resolution 510-97 dated 12 December 1997, published in Official Gazette N° 36411 dated 11 March 1998.

The purpose of this Resolution is to establish Policies, Standards and Procedures, continuous and permanent, to be complied with by the respective parties to avoid being used as instruments for Money Laundering and related activities established in the Law against Organized Crime and the Organic Law against Illicit Trafficking and Consumption of Stupeficient and Psychotropic Substances and enable the CNV to control, inspect, and supervise activities carried out in the Venezuelan capital market.

EDC and its subsidiaries obtain cash flows mainly from the operation of their business (see notes 1 and 4). Cash flows from financing activities are obtained from financial institutions subject to the General Law on Banks and Other Financial Institutions and borrowings from issuing commercial paper and unsecured bonds complying with the provisions of the Capital Markets Law.

**(27) CORPORATE GOVERNANCE**

The actions and processes of the Institution are governed by principles of ethics, honesty and transparency based on shared values, guiding decision-making, performance of activities and internal and environmental interaction. This aims at protecting the interests of citizens, users, employees, suppliers and other related parties, by carrying out activities outlined by the highest professional and ethical standards, to ensure transparent and efficient management of the Institution.

These principles are established in documents, programs and internal standards of the Institution describing its organization, powers and responsibilities and regulatory internal processes. In this connection, the fundamental principles of the Institution's Government are established in the following:

- Incorporation agreement and by-laws of the Institution, most recently amended on 18 December 2007, registered with the Second Registry of the Judicial Circuit of the Capital District and Miranda State under number 38 volume 259-A, second.
- Laws and Regulations of the Bolivarian Republic of Venezuela relating to Internal Control and Corporate Governance.
- The Corporate Governance structure of C. A. La Electricidad de Caracas is comprised of, in addition to the Stockholders' Meeting, the Board of Directors and the Human Resources Committee. This structure is complemented by the Office of Internal Auditing and the Area of Standards, Risks and Investors.

## **(28) NEW LEGISLATION**

### **(a) *Monetary Reconversion Law***

On 6 March 2007, Official Gazette N° 38638 published the Decree Law on Monetary Reconversion which establishes that from 1 January 2008, the unit for the monetary system of the Bolivarian Republic of Venezuela will be restated to the equivalent of one thousand current bolivars. Consequently, bolivars existing at that date must be converted into the new monetary unit by dividing them by one thousand and rounding to the nearest cent.

On 21 June 2007, the Board of Directors of BCV issued Resolution 07-06-02, establishing "Standards Governing Monetary Restatement and Rounding". Article 6 of this Resolution establishes that preparation and presentation of financial statements corresponding to years ended prior to 1 January 2008, approved after that date, must be prepared in current bolivars according to Generally Accepted Accounting Principles. For purposes of comparison with prior years, amounts in those financial statements are converted according to article 1 of Decree Law on Monetary Reconversion. EDC, in compliance with that Law, applied all the technological, administrative and financial measures to ensure compliance throughout the company.

### **(b) *Enabling Law***

Official Gazette N° 38617 published on 1 February 2007 contains the Law that authorizes the President of Venezuela to issue at cabinet meetings with rank, value and force of law, in accordance with the guidelines, purposes and legal framework of the matters discussed in this Law, pursuant to the last paragraph of article 203 and number 8 of article 236 of the Venezuelan Constitution; consequently, laws for 11 different areas of national interest can be enacted, including economic, financial and fiscal areas.

## **(29) FUTURE ADOPTION IN VENEZUELA OF A NEW STRUCTURE OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

In June 2004, the Venezuelan Federation of Public Accountants (FCCPV) approved a Plan for the Adoption of International Financial Reporting Standards (IFRSs) as generally accepted accounting principles in Venezuela. This adoption would initially be mandatory for fiscal years beginning on or after 1 January 2007, but may be adopted early in 2006. After approval of the aforementioned Adoption Plan, FCCPV has considered several aspects relating to the content and form of those standards as well as the timetable for application or adoption according to the type and size of companies. In a decision made in August 2006, the Board of Directors of FCCPV agreed that the adoption of International Financial Reporting Standards would be as follows:

1. Entities in general, except those listed on the stock exchange and those classified as Small and Medium Sized Companies (PYME) will have as the initial adoption date, the end of the fiscal year ending on 31 December 2008, or the date immediately thereafter.
2. Small and Medium Sized Companies (PYME) will have an effective date for adoption, the date of the fiscal year ending 31 December 2010, or the date immediately thereafter.
3. Entities listed on the stock exchange will have an initial adoption date agreed by the National Securities Commission. As of the date of this report, the regulating body has not established a mandatory adoption date for the entities that it regulates. At the Directors' Meeting of FCCPV held in August 2006 it was agreed that

the initial adoption date for companies listed on the stock exchange would be established by CNV as the regulating body. At the date of this report, the CNV has made no pronouncements regarding adoption dates.

EDC is currently evaluating the impact of the adoption of International Financial Reporting Standards on its consolidated financial statements.

**(30) SUBSEQUENT EVENTS**

**(a) *Resolution 190, Investment in Region 4 of CADAPE***

As a result of approval by the Presidency of the Republic of Resolution 190, the Company prepared an investment budget for 2008 to operate Region 4 of CADAPE (Miranda and Aragua States). This project encompasses the installation of power transformers, maintenance of circuits from insulation to pruning and recovery of buildings in the zones of La Victoria, Barlovento, Villa de Cura, Choroni Office, Palo Negro Office and the head office in San Bernardino (see note 4).

**(b) *Board of Directors of Corporación Eléctrica Nacional (CELEN)***

On 18 February 2008, Official Gazette N° 38872 published the appointment of the Board of Directors of Corporación Eléctrica Nacional, S. A., the corporation grouping all electricity sector companies (see note 4).

**(31) ADJUSTMENTS AND RECLASSIFICATIONS**

The amounts in the consolidated financial statements of the Company at 31 December 2007 and 2006, and for the years then ended, presented in this report, differ from those reported in the legal books at those dates due to the subsequent recognition of certain adjustments. Also, certain amounts in the 2006 consolidated financial statements and their footnotes have been reclassified to conform to the classifications used in 2007.

*INDEPENDENT AUDITORS' REPORT*

To the Board of Directors and Stockholders of C.A. La Electricidad de Caracas

We have audited the accompanying consolidated balance sheets of C.A. La Electricidad de Caracas and subsidiaries (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended (all expressed in constant bolivars as of December 31, 2007). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Venezuela. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Venezuela.

As discussed in Note 29, the accompanying financial statements have been restated.

**LARA MARAMBIO & ASOCIADOS**

A Member Firm of DELOITTE TOUCHE TOHMATSU

Henry M. Sardo  
C.P.C. N° 10.171  
C.N.V. N° S-796

February 16, 2007

(June 8, 2007 as to the effects of the restatement discussed in Note 29 and disclosure regarding acquisition of the Company by PDVSA explained in Note 2, and March 12, 2008 as to the presentation of financial statements in constant bolivars as of December 31, 2007 and certain reclassifications made on the financial statements as indicated in Note 3cc.)

## C.A. LA ELECTRICIDAD DE CARACAS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2006 AND 2005

IN CONSTANT BOLIVARS AS OF DECEMBER 31, 2007

(In millions of bolivars)

ASSETS	(Restructured) 2006	(Restructured) 2005
CURRENT ASSETS:		
Cash and cash equivalents	502,154	439,404
Short-term restricted investments	-	124,368
Accounts receivable - net	336,856	258,656
Inventories - net	102,439	97,918
Prepaid expenses	11,011	21,673
Deferred income taxes	28,575	42,350
Total current assets	981,035	984,369
PROPERTY, PLANT AND EQUIPMENT - NET	5,164,094	5,454,829
INVESTMENTS	24,743	14,484
LONG-TERM ACCOUNTS RECEIVABLE	74,920	128,229
DEFERRED INCOME TAXES	60,617	47,533
OTHER ASSETS AND DEFERRED CHARGES	126,216	135,615
TOTAL	6,431,625	6,765,059
<b>LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY</b>		
CURRENT LIABILITIES:		
Short-term debt	110,023	243,323
Accounts payable	285,606	324,941
Other current liabilities	256,057	147,770
Total current liabilities	651,686	716,034
LONG-TERM DEBT	686,501	961,924
LABOR LIABILITIES	113,096	153,824
OTHER LIABILITIES	135,116	136,886
Total liabilities	1,586,399	1,968,668
MINORITY INTERESTS	3,625	2,957
STOCKHOLDERS' EQUITY:		
Restated capital stock (equivalent to nominal capital stock of Bs. 329,221 and Bs 314,273, respectively)	3,515,249	3,495,877
Paid-in surplus	546,479	469,885
Merger surplus	62,825	62,825
Retained earnings:		
Undistributed	369,120	414,180
Legal reserve	352,423	352,423
Cumulative translation adjustment	(4,495)	(1,756)
Total stockholders' equity	4,841,601	4,793,434
TOTAL	6,431,625	6,765,059

See notes to the consolidated financial statements

## C.A. LA ELECTRICIDAD DE CARACAS AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**  
**IN CONSTANT BOLIVARS AS OF DECEMBER 31, 2007**  
**(In millions of bolivars, except for net earning per shares and ADS amounts)**

	<b>(Restructured)</b> <b>2006</b>	<b>(Restructured)</b> <b>2005</b>
OPERATING REVENUES:		
Sales of energy	1,845,173	1,870,419
Services rendered	67,635	79,103
	<u>1,912,808</u>	<u>1,949,522</u>
OPERATING EXPENSES:		
Generation and purchase of energy	381,530	443,161
Transmission and distribution	263,961	209,141
Depreciation and amortization	529,020	556,414
	<u>1,174,511</u>	<u>1,208,716</u>
GROSS INCOME	738,297	740,806
GENERAL AND ADMINISTRATIVE EXPENSES	364,060	334,601
OPERATING INCOME	<u>374,237</u>	<u>406,205</u>
COMPREHENSIVE FINANCIAL INCOME (COST) – NET	28,432	(139,726)
OTHER INCOME (EXPENSES) - NET		
Other income (expenses) - net	(24,434)	(52,711)
Gain on sale of securities	33,921	119,502
Equity in affiliate	705	(508)
	<u>10,192</u>	<u>66,283</u>
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	412,861	332,762
PROVISION FOR INCOME TAXES	(101,852)	(87,457)
INCOME BEFORE MINORITY INTERESTS	311,009	245,305
MINORITY INTEREST	(667)	(1,088)
NET INCOME	<u>310,342</u>	<u>244,217</u>
Net earning per share	<u>97</u>	<u>77</u>
Weighted average number of outstanding shares	<u>3,204,529,573</u>	<u>3,154,837,711</u>
Net earning per ADS	<u>4,842</u>	<u>3,868</u>

See notes to the consolidated financial statements

C.A. LA ELECTRICIDAD DE CARACAS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
 FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005  
 IN CONSTANT BOLIVARS AS OF DECEMBER 31, 2007  
 (In millions of bolivars)

	Restated capital stock	Paid-in surplus	Merger surplus	Retained earnings			Cumulative foreign currency translation adjustment	Treasury stock	Total stockholders' equity
				Undistributed	Legal reserve	Sub-total			
PREVIOUSLY REPORTED BALANCES									
AS OF DECEMBER 31, 2004	3,524,218	469,718	62,825	534,569	352,423	886,992	826	(28,384)	4,916,195
Cumulative effect of the adoption of the recognition and measurement of asset retirement obligation (Note 29)	-	-	-	(4,627)	-	(4,627)	-	-	(4,627)
Cumulative effect of the adoption of the recognition and measurement of accounts receivable from governmental entities (Note 29)	-	-	-	(19,155)	-	(19,155)	-	-	(19,155)
RESTRUCTURED BALANCES									
AS OF DECEMBER 31, 2004	3,524,218	469,718	62,825	510,787	352,423	863,210	826	(28,384)	4,892,413
Capital stock increase	43	167	-	-	-	-	-	-	210
Restructured net income	-	-	-	244,217	-	244,217	-	-	244,217
Dividends declared	-	-	-	(340,824)	-	(340,824)	-	-	(340,824)
Redemption of treasury stock	(28,384)	-	-	-	-	-	-	28,384	-
Foreign currency translation adjustment	-	-	-	-	-	-	(2,582)	-	(2,582)
RESTRUCTURED BALANCES									
AS OF DECEMBER 31, 2005	3,495,877	469,885	62,825	414,180	352,423	766,603	(1,756)	-	4,793,434
Capital stock increase	19,372	76,594	-	-	-	-	-	-	95,966
Restructured net income	-	-	-	310,342	-	310,342	-	-	310,342
Dividends declared	-	-	-	(355,402)	-	(355,402)	-	-	(355,402)
Foreign currency translation adjustment	-	-	-	-	-	-	(2,739)	-	(2,739)
BALANCES AS OF DECEMBER 31, 2006	3,515,249	546,479	62,825	369,120	352,423	721,543	(4,495)	-	4,841,601

See notes to the consolidated financial statements

## C.A. LA ELECTRICIDAD DE CARACAS AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005 IN CONSTANT BOLIVARS AS OF DECEMBER 31, 2007 (In millions of bolivars)

	(Restructured) 2006	(Restructured) 2005
<b>OPERATING ACTIVITIES:</b>		
Net income	310,342	244,217
Adjustments to reconcile net income to cash provided by operating activities:		
Monetary result for the period	(118,789)	(116,260)
Exchange differences - net	184	87,803
Foreign currency translation adjustment	(2,739)	(2,582)
Minority interests	667	1,088
Return on short-term restricted investments	(5,452)	(5,833)
Depreciation and amortization	529,020	556,414
Amortization of deferred financial costs	4,393	3,878
Amortization of preoperating and start-up expenses	2,655	3,106
Provision for labor liabilities	82,010	78,745
Deferred income taxes	692	5,374
Provision for impairment of long-term investments	-	-
Equity in affiliate	(705)	508
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable - net	(24,891)	123,447
Inventories - net	(4,523)	(3,503)
Prepaid expenses	9,084	57,146
Other assets and deferred charges	20,454	158,494
Assets from entities held for sale	-	-
Increase (decrease) in:		
Accounts payable and other current liabilities	38,297	(233,497)
Liabilities from entities held for sale	-	-
Labor liabilities paid	(122,735)	(121,779)
Other liabilities	(194)	73,131
Net monetary result from operating activities	(12,066)	2,892
Net cash provided by operating activities	705,704	912,789
<b>INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(248,419)	(209,834)
Sales - disposals of property, plant and equipment	11,998	(53,693)
Decrease in restricted cash	-	446,652
Decrease in short-term restricted investments	124,368	4,056
Decrease (increase) in investments	29,666	(10,803)
Net, monetary result from investing activities	18,040	(14,679)
Net cash (used in) provided by investing activities	(64,347)	161,699
<b>FINANCING ACTIVITIES:</b>		
Decrease in short and long-term debt	(428,720)	(1,156,374)
Payment of cash dividends	(358,667)	(336,775)
Capital stock increase	95,965	210
Share repurchase program	-	-
Settlement of hedging instruments	-	100,496
Net monetary result from financing activities	178,129	307,900
Net cash used in financing activities	(513,293)	(1,084,543)
<b>EFFECT OF EXCHANGE DIFFERENCES ON CASH AND CASH EQUIVALENTS</b>		
	-	(62,251)
<b>EFFECT OF INFLATION ON CASH AND CASH EQUIVALENTS</b>		
	(65,314)	(179,853)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
	62,750	(252,159)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR</b>		
	439,404	691,563
<b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR</b>		
	502,154	439,404
<b>SUPPLEMENTAL INFORMATION</b>		
Payments during the year:		
Interests	106,685	219,983
Taxes	45,567	35,179

See notes to the consolidated financial statements

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED  
DECEMBER 31, 2006 AND 2005**

**(In millions of constant bolivars)**

**1. ORGANIZATION**

C.A. La Electricidad de Caracas (EDC or the Company) founded in 1895, is a vertically integrated electricity utility that generates, transmits and distributes electricity to the Metropolitan Area of Caracas, Guarenas and Guatire and Los Teques in Miranda State, Vargas State and San Felipe in Yaracuy State, through its subsidiary C.A. Luz Eléctrica del Yaracuy. Likewise, EDC through its subsidiaries renders electric power generation service to the oil industry, telecommunications services, commercial and financial management, among other. As of December 31, 2006 and 2005 EDC is 82.15% and 86.05% owned by AES Corporation (AES), respectively.

The Company's shares are listed in the Caracas Stock Exchange, as well as in the New York's Stock Exchange under ADRs and under American Depositary Shares (ADS) in Latibex, the most important Latin-American securities market, which operates in the Madrid's Stock Exchange, Spain.

**2. PUBLIC OFFERING OF EDC'S OUTSTANDING SHARES**

On February 5, 2007, the People's Power Ministry for Energy and Oil and AES Corporation (AES), entered into a Memorandum of Understanding establishing that the parties would execute final agreements for Government, or the entity appointed thereby, to acquire all stock participation of AES Corporation and subsidiaries in EDC, including all Shares and ADRs, for a total price of U.S.\$ 739,260,000.

On February 8, 2007, Petróleos de Venezuela S.A. (PDVSA) entered into a Memorandum of Understanding with AES Corporation establishing that PDVSA would acquire all the equity in EDC under the same terms and conditions established in the Memorandum of Understanding dated February 5, 2007.

On February 15, 2007, AES Corporation and its 100% owned subsidiary AES Shannon Holding B.V. entered into a final agreement with PDVSA establishing the terms and conditions for the acquisition by PDVSA of total share interest in EDC (82.15%) and for the price agreed on February 5. On April 2, 2007, the Venezuelan Securities and Exchange Commission (CNV) through Resolution N° 043-2007, authorized the disclosure of the Public Offering circular related to all the outstanding shares of EDC to be acquired by PDVSA, in conformity with the provisions of the Capital Market Law and regulations on acquisition, exchange and control of public offerings on shares and other rights thereon.

On April 8, 2007, PDVSA announced the public offering, the main characteristics of which are as follows:

PDVSA offered to acquire all the outstanding shares of EDC (3,292,214,078) free of any lien, guarantee assignments, privileges, guarantee trusts, preferred rights, attachments, prohibition to sale or encumber or other legal measures or other taxes or rights that might affect their full enjoyment, use and disposal.

The price of the offer in Venezuela was equivalent in bolivars to U.S.\$ 0.2734 per share, calculated at the official exchange rate for sale of US dollars in effect at closing date. To date, U.S.\$ 0.2734 are equivalent at the official exchange rate of Bs. 2,150, to Bs. 587.81. The offer in Venezuela was open for all stockholders. No ADRs were accepted for Venezuela offering; however, the ADRs could be submitted in the USA offering.

Parallel to this offering in Venezuela to purchase outstanding shares, PDVSA submitted an offering in the United States of America to acquire all the outstanding ADRs representing EDC's shares, at a price of

U.S.\$ 13.6675. Each ADR represents 50 EDC's shares (see Note 30 (a) – Subsequent Events – Change in Shareholding Structure).

### 3. SIGNIFICANT ACCOUNTING POLICIES

The main accounting policies used by the Company and its subsidiaries in the preparation of their consolidated financial statements are summarized as follows:

- (a) **Basis of presentation** – The consolidated financial statements have been prepared in accordance with "Standards for the Preparation of Financial Statements of Entities Subject to the Control of Comisión Nacional de Valores," issued by the Venezuelan Securities and Exchange Commission (CNV) in accordance with Generally Accepted Accounting Principles in Venezuela (Venezuelan GAAP) issued by the Venezuelan Federation of Public Accountants (FCCPV).

For the convenience of the reader, the consolidated financial statements and their accompanying notes have been translated from Spanish into English. Certain accounting practices applied by the Company that conform with Venezuelan GAAP may not conform with generally accepted accounting principles in the United States ("U.S. GAAP").

- (b) **Consolidation** – The consolidated financial statements of EDC as of December 31, 2006 and 2005, include the financial statements of C.A. Luz Eléctrica del Yaracuy (Caley) and Subsidiary; C.A. Luz Eléctrica de Nueva Esparta (Calene); Generación de Vapor Genevapca, C.A. (Genevapca); Energía y Servicios Industriales Enerxis, C.A. (Enerxis) and Subsidiary; Títulos Venezolanos, C.A. (Tivenca); Administradora Serdeco, C.A.; AES Network Communications S.C.S.; AES Global Energy and Telecom Solutions, C.A. (Gets); AES Network Solutions, C.A. and Subsidiary; AES Soluciones Tecnológicas C.A., Electricidad de Caracas Finance B.V. and Subsidiary (EDC Finance B.V.) and Subsidiary and Phoenix Internacional, C.A. (Phoenix). All companies have been incorporated in Venezuela, except for EDC Finance B.V. and Subsidiary, incorporated in The Netherlands.

The subsidiaries Tivenca, Enerxis and Subsidiary, Gets and AES Soluciones Tecnológicas. C.A. are dormant. These companies have not been presented as discontinued operations since to date, no detailed and formal plans have been prepared for their disposal. The total deficit stockholders' equity of these subsidiaries amounts to Bs. 1,891. During 2005, the following subsidiaries were liquidated: K-Listo Publicidad, C.A.; Inmobiliaria EDC, C.A. and Subsidiaries; Telemática Enerzul, S.C.S and Energía del Zulia, C.A. (Enerzul). The effect of the liquidation of these companies was not significant for the consolidated financial statements.

All subsidiaries are wholly owned by EDC, except for AES Network Communications S.C.S. and the subsidiary of Caley, Aracoi, S.A., which are 80% and 96.33% owned by EDC and Caley, respectively. All intercompany transactions and balances, including revenues, expenses, and dividends are eliminated in consolidation; gains and losses from intercompany transactions are totally eliminated in consolidation.

The Company's fiscal year ends on December 31. The fiscal years for certain subsidiaries ends on different dates. However, the difference is no more than three months. Accordingly, the consolidated financial statements of the Company include the accounts of the subsidiaries to the date of their respective fiscal year-ends or interim period, and the necessary adjustments are made to reflect transactions and significant events occurred, if any, between the Company's fiscal year-end and the subsidiaries' fiscal year-end. There have been no significant events at these subsidiaries between the Company's fiscal year-end and the subsidiaries' fiscal year-end that may have a material impact on the consolidated financial statements.

- (c) **Segment information** – The Company's operations are mainly performed in Venezuela. Historically, for management's decision-making purposes, the Company is organized by its vertically integrated electricity operations and non-electric businesses. Non-electric activities

represent a minor percentage in connection with the volume of transactions and amounts if compared to the electric business. Accordingly, the Company's operating segments mainly consist primarily of its vertically integrated electricity operations. Operating costs incurred under a vertically integrated structure are taken from the Company's internal reports and monitored by management. Revenues are based on regulated rates for each final consumer. Because these rates are not separately established for each business unit, the activities of which are vertically integrated, allocations of revenues to these activities are not performed by management. Accordingly, management does not report these activities as separate business segments, as provided by International Accounting Standard N° 14 (IAS 14) "Segment Reporting."

- (d) **Financial statements in constant bolivars** – The consolidated financial statements are presented in constant bolivars, for the purpose of eliminating the distortion generated by changes in the price levels in the Venezuelan economy. The General Price Level Method (G.P.L.) was used to prepare the financial statements in constant bolivars. This method consists in substituting the measurement unit used in traditional accounting for a constant currency, restated at the date of the consolidated financial statements. For restating purposes, the "Consumer Price Index" (C.P.I.) for the metropolitan area of Caracas was used, which is issued by the Central Bank of Venezuela.

Monetary items included in the consolidated balance sheet are presented at nominal value, since they reflect the purchasing power of the monetary unit to the date of the last consolidated balance sheet. Nonmonetary items such as inventories, prepaid expenses, property, plant and equipment, investments, other assets and deferred charges, pension plan (until the year 2005) and other post-retirement benefits, capital stock and other nonmonetary items such as depreciations and amortizations are expressed in constant bolivars using the accumulated inflation factor from the date of acquisition or origin. Sales, revenues, expenses and other monetary items are expressed in constant bolivars, based on the monthly inflation factor with respect to the transaction date. The monetary result for the year is calculated applying during the period, the inflation rates to net monetary assets and liabilities. This represents the result from exposure to inflation for holding net monetary assets or liabilities during inflationary periods.

The 2006 and 2005 consolidated financial statements, previously presented in constant bolivars at that date, are presented for comparison purposes in constant bolivars as of December 31, 2007 through the application of the annual variation in the C.P.I.

The Consumer Price Indexes at the beginning, end and average for the years ended December 31, are as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
At the beginning of year	614.83179	525.64893	459.65073
At the end of year	752.90453	614.83179	525.64893
Average for the year	670.68502	565.01247	497.13329
Inflation for the year and YTD	22%	17%	14%

- (e) **Classification of current and noncurrent balances** – In the accompanying consolidated balance sheets, balances are classified based on their due dates, i.e. current balances are due in twelve months or less and noncurrent balances are due over twelve months.
- (f) **Cash and cash equivalents** – Cash in banks and investments in time deposits maturing in three months or less are considered to be cash and cash equivalents. The effect of inflation and the effect of the exchange differences on cash and cash equivalents are reflected as separated captions in the consolidated statements of cash flows. The consolidated statements of cash flows are presented by using the indirect method based on Statement of Accounting Principles N° 11 (DPC-11) "Statement of Cash Flows."

Short-term investments include National Public Debt Bonds (DPN) issued by the Government of the Bolivarian Republic of Venezuela, since their maturity is three months or less.

- (g) **Allowance for doubtful accounts** – The Company maintains an allowance for doubtful accounts at levels that management considers adequate to cover potential uncollectible accounts. Management evaluates the levels of the allowance on the basis of factors that may affect the collectability of billed amounts. The aging of balances receivable and the customers’ situation are constantly monitored to assure an adequate allowance in the consolidated financial statements.

During the year ended December 31, 2006, the Company’s management decided to change the policy regarding the allowance for doubtful account, by fully provisioning all clients representing aging over 365 days, except for large clients and public entities that will be individually assessed.

- (h) **Accounts receivable from governmental entities** – Accounts receivable from governmental entities are originally recognized at their fair value and are subsequently measured at their amortized cost using the effective interest rate method. Adjustments from the original face value to present value are recognized as financial revenues in the consolidated statement of income in conformity with IAS-39 (See Note 6 – Accounts receivable - net).

- (i) **Inventories** – Inventories, except for goods in transit, are valued at the lower of cost or market value, using the average cost method. These inventories are presented at restated values, which are determined through the application of the CPI. The restatement was based on the origin date of each level, grouping captions per month. Goods in transit are valued at actual cost of each freight. Restated values obtained for these inventories do not exceed their net realization value.

As of December 31, 2005, the Company decided to change its inventory valuation method for materials and supplies from the “Last in- First out” method (LIFO) to the average cost method. This change did not affect the consolidated financial statements, since inventories recovery value is lower than their inflation-adjustment value, for both the LIFO method and the average method. Therefore, inventories are presented at their recovery value.

- (j) **Prepaid expenses** – Prepaid expenses presented in the consolidated balance sheets mainly correspond to insurance policies contracted by the Company to cover contingencies related to industry risk, advertising, industry and commerce patent, and cestatickets (food bonuses given to the Company’s employees in advance).

- (k) **Property, plant and equipment** – Property, plant and equipment are presented at inflation-adjusted acquisition cost. Disbursements for maintenance and repairs are charged to income for the year as incurred, while those for renewals or improvements are capitalized. Planned major maintenance costs related to activities scheduled to occur approximately every 5 years are capitalized as incurred. Depreciation is calculated using the straight-line method based on the originally estimated useful lives of assets, as follows:

	<u>Years</u>
Real-estate, plant and equipment	20, 25, 30 and 38
Other properties	3, 5, 10, 14, 20 and 50

The portion of interest rate exceeding inflation rate applicable to disbursements related to investment projects is capitalized as an additional cost of constructions in process. This portion is amortized based on the applicable useful life of assets.

When assets are sold or disposed, the corresponding cost and related accumulated depreciation adjusted for the effects of inflation are eliminated from the accounts and the gain or loss is reflected in income for the period (See Note 8 – Property, plant and equipment - net).

Management presents in this caption spare parts and permanent maintenance equipment, which can be used over one year. Spare parts and equipment will be capitalized to property, plant and equipment, upon completion of all related projects, thus complying with International Accounting Standards N° 16 (IAS 16) "Property, plant and equipment."

The energy and steam agreement entered into by the subsidiary Genevapca sets forth the obligation of disposal of assets provided that no sale agreement is reached thereon. The Company has recorded as higher value, the current value of estimated costs for this concept at the beginning of assets' useful life. This estimation is annually reviewed so the provision reflects the current value of estimated future costs. The asset's value is only adjusted by deviations from the beginning cost. The variations on the provision by virtue of its financial updating are recorded under financial expenses.

- (l) **Leasing** – During 2004, the International Accounting Standards Board (IASB) issued Interpretation N° 4 (IFRIC-4) "Determining whether an Arrangement contains a Lease," which shall be applied for annual periods beginning on or after January 1, 2006. The Company assessed this new standard and determined that the contract disclosed in Note 26 may contain a lease, which based on Statement of Accounting Principles N° 14 (DPC-14) "Accounting for Leases," led to conclude that the same is assimilated to an operating lease.
- (m) **Investments** – Investments are recorded in accordance with Statement of Accounting Principles N°15 (DPC 15) "Accounting for Investments."

Investments considered as "trading" are presented at market value. The effects generated by the fluctuation in the market value of these investments are recorded in income for the period.

Investments considered as "available-for-sale" are presented at fair value. The effects generated by the fluctuation in the fair value of these investments are recorded in the statement of changes in stockholders' equity under "Unrealized result from investments" until their realization through sale or disposal.

Investments in debt securities considered as "held-to-maturity" are presented at their original cost, decreased by principal payments, add or less the accumulated amortization of the differences between the original cost and the amount to be received upon maturity (amortized cost). Amortization of these differences is calculated using the straight-line method until maturity. Dividends, interests and amortizations of premiums or discounts of these investments are recorded in the statement of income for the period (See Note 12 (b) Debt-long-term debt).

Investments in companies which represent between 20% and 50% ownership, where a significant influence rather than control is exercised by the Company, are accounted for under the equity method. Under the equity method, the investment is carried at the cost of the Company's share in the net assets of the investee, and the Company's equity in gains or losses since acquisition, less dividends received. The Company's equity in the net gain or losses of these investments is recorded in the item "Equity in affiliate" in the consolidated statements of income.

Investments without a readily determinable fair value that do not represent more than 20% voting power and for which the Company does not have the ability to exert a significant influence are accounted for on an inflation-adjusted cost basis. Dividends and other gains and losses from these investments are recorded under "Other Income, net" in the consolidated statements of income.

The equity participation in foreign companies is based on the equity value in bolivars, translated into their respective foreign currency, in accordance with the Statement of Accounting Principles N° 12 (DPC-12) "Accounting Treatment for Transactions in Foreign Currency and Conversion or Translation of Foreign Transactions," as follows:

- Assets and liabilities are translated at the year-end exchange rate.

- Revenues and expenses are translated at the exchange rate in effect at the transaction date.
- The resulting translation effect is presented in the consolidated statements of changes in stockholders' equity in the "Cumulative translation adjustment."

The Company periodically reviews whether there are indicators of impairment in equity investments. If indicators of impairment exist, the Company reviews if the equity investments where fair value is less than the carrying value to determine if the decline in value is other than temporary. If the decline in value is considered to be other than temporary, an impairment loss is recognized to reduce the carrying value of the investment at its fair value.

- (n) ***Other assets and deferred charges*** – Costs incurred to acquire an implement software for internal use have been capitalized and classified as intangible assets and are being amortized using the straight-line method over a period between three (3) and five (5) years. Internal use computer software includes those acquired, internally developed, or modified solely to meet the internal needs of the Company, and not destined for external sale.

Maintenance costs and non-significant modifications relating to existing software are expensed as incurred.

Likewise, intangible assets include preoperating and start-up expenses, which are amortized using the straight-line method over five (5) years (See Note 11 – Other assets and deferred charges).

- (o) ***Labor liabilities***

***Accrual for severance benefits*** – Employee severance benefits are calculated and recorded in accordance with the Venezuelan Labor Law and the Company's current collective bargaining agreement (see Note 16 (a) – Labor liabilities – Accrual for severance benefits). The benefit is accrued based on the total value of the benefit to which employees would be entitled if all employees were to resign immediately on the consolidated balance sheet date. Under the current Labor Law, employees earn a severance indemnity equal to five (5) days salary per month, up to a total of 60 days per year of service, without retroactive adjustments.

***Pension plan and other postretirement benefits*** – The Company applies the methodology required by the International Accounting Standard N° 19 (IAS 19) "Employee benefits," effective since 1999, for recognizing pension plan and other postretirement benefits.

For defined benefit retirement plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations determined by independent actuaries using nominal discount rates, asset yields, salary progression and estimated medical cost increase to calculate the obligation to be recorded at the consolidated balance sheet date, and the liability to be non-monetary for inflation adjustment purposes. Actuarial gains and losses that exceed ten percent (10%) of the present value of the Company's defined benefit obligation are amortized over the expected average remaining working lives of the participating employees. Past service is recognized immediately to the extent that benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the additional benefits become vested.

Determination of pension's obligations, costs and liabilities depend on a variety of long-term premises, including estimates of the present value of future projected pension payments for the plan participants, considering the probability of future potential events, such as minimum urban wage raise and demographic experience. Such premises may have an effect on the amount and opportunity of the future contributions, in case a variation exists. In addition, the plan trustee carry out and independent valuation of the fair value of the pension plan assets.

The discount rate allows establishing future cash flows at present value at measurement date. A lower discount rate increases the present obligation value and it usually increases expenses. The

Company's inflation premise is based on the evaluation of market external indices. The salary raise premise considers long-term actual experience, future perspective, and projected inflation. Actuarial values are calculated based on the Company's specific experience combined with published statistics. As of December 31, 2006 and 2005, the Company has provided cash funds to partially cover the liability recorded in the consolidated financial statements. (See Note 16 - (b) Labor liabilities – Pension plan and other post-retirement benefits).

The Company provides certain medical benefits to most retired employees and accrues costs determined for post-retirement benefits as active employees earn such benefits.

- (p) **Income taxes** – The income tax provision is calculated based on the net taxable income of each company included in consolidation, determined in conformity with the Venezuelan tax legislation, which does not allow consolidating the results of subsidiaries for tax purposes. The deferred income taxes were determined in accordance with Statement of Accounting Principles N° 3 (DPC-3 Accounting for income taxes – Revised August 2003). In accordance with said statement, deferred tax assets and liabilities corresponding to the amount of income tax expected to be recovered or payable on temporary differences between reported book values of assets and liabilities and their corresponding tax bases should be recognized (See Note 19 – Tax regime).

Deferred tax assets and liabilities are determined by using tax rates established or decreed by current tax law to the consolidated balance sheet date.

- (q) **Provisions** – The Company estimates and records in the consolidated financial statements provisions for labor, legal, and tax contingencies, contracts with third parties and other, in accordance with the circumstances, which based on the opinion of its legal counsels, are probable and can be fairly quantifiable (See Note 26 – Commitments and contingencies). The Company recognizes such provisions considering the best available information regarding the present obligation as a result of a past event, the determination of such obligation amount, and the probability that an outflow of resources embodying economic benefits will be required to settle the obligation.
- (r) **Recognition of the effects of inflation** - The Company restates all of its financial statements in terms of the purchasing power of the Venezuelan Bolivar as of the end of the most recent period presented, thereby comprehensively recognizing the effects of inflation. The prior year amounts presented herein differ from those originally reported in terms of Venezuelan Bolivar of the respective year. Consequently, all financial statement amounts are comparable, both for the current and the prior year, because all are stated in terms of Venezuelan Bolívar of the same purchasing power. However the financial statements have been restated to thousands of Venezuelan Bolivar of purchasing power of December 31, 2007, since they are included with other financial statements in Venezuelan Bolivar of purchasing power of this date.
- (s) **Impairment in the value of long-lived assets** – The Company annually assesses the book value of long-lived assets, whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. The recovery value of an asset is the higher between its fair value less any cost to sell it and its use value. The use value is the present value of future discounted cash flow projections estimated to be generated from the use or disposal of such asset. In case these future discounted cash flow projections are not sufficient to recover the value of assets recorded, these will be adjusted at their recovery value. For the purpose of evaluating impairment, assets are grouped at the lower level for which individually identifiable cash flow exist (cash-generating units).

In case the fair value of an asset or a cash generating unit is lower than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recovery value, thus recognizing an impairment loss. As of December 31, 2006 and 2005, no impairment loss in the value of long-lived assets has been recorded.

Upon reversal of an impairment loss, the carrying amount of the asset increases at its estimated reviewed recovery value, so the increased carrying amount does not exceed the value that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior periods. A reversal of the impairment loss in the value of the assets is immediately recognized thereafter.

The Company's Management considers that its estimated future cash flows are reasonable; however, changes in estimates that may originate lower future cash flows or fair value due to unpredictable changes in the business premises, may negatively affect the valuation of long-lived assets.

- (t) **Revenue and expense recognition** – Revenues from the sale of energy are recognized in the period where output is delivered. Revenues from services rendered are recognized in the period where services are rendered. Operating revenues include unbilled revenues from energy supplied as of December 31, 2006 and 2005. This amount was included in trade accounts receivable in the accompanying consolidated balance sheets. The calculation of unbilled revenues is based on the number of days not billed during the month, the estimated amount of energy delivered during those days and the average price per customer class for that month. Expenses are recorded on an annual basis.

Interest income is accrued on a regular basis taking as a reference the outstanding capital balances and effective interest rate applicable.

- (u) **Operating revenues** – Operating results are presented after charging expenses for energy generation, purchase, transmission and distribution, depreciation, amortization, and general and administrative expenses, but before investment income and financial expenses.
- (v) **Concentration of credit risk** – Although EDC's cash and equivalents, and accounts receivable are exposed to potential credit loss, the Company does not believe such risk to be significant. Most of the Company's accounts receivable comes from a broad and diverse group of customers, which, individually, do not represent a significant credit risk. Sales to Venezuelan governmental entities represent 21.77% and 22.76% for the years ended December 31, 2006 and 2005, respectively. (See Note 6 – Accounts receivable - net)
- (w) **Market risk** – The Company is exposed to market risks, including changes in interest rates and foreign currency exchange rates. The Company limits the investment risk by placing its investments principally in securities of the most reliable companies and institutions. The Company is reluctant to investment loss and ensures the safety and preservation of its invested funds by limiting default and market risk.

Prudent management of the liquidity risk implies maintaining sufficient cash and short-term investments, funding availability through an adequate number of credit lines, and ability to close market positions. Due to the dynamic nature of the business involved, the Company's Treasury seeks to maintain funding flexibility by maintaining lines of credit available.

- (x) **Concentration of operations** – The Company purchases fuel and gas for plants' operations from its only local supplier Petróleos de Venezuela, S.A. (PDVSA). During the years ended December 31, 2006 and 2005, purchases made from such supplier amounted to Bs. 239,372 and Bs. 288,157, respectively, corresponding to 57% and 65%, respectively, of total generation and purchase of energy expenses. As a result of these operations, balances payable to such supplier as of December 31, 2006 and 2005 amount to Bs. 127,402 and Bs. 141,586, respectively.

The Company takes part in an interconnection program with the main electric companies in Venezuela, i.e. CVG Electrificación del Caroní, C.A. (CVG Edelca) Compañía Anónima de Administración y Fomento Eléctrico (Cadafe), Energía Eléctrica de Venezuela (Enelven), whereby general conditions for the operation of the interconnected system and energy exchange between

such companies is established in order to meet local energy needs. Prices of such exchanges are determined by the National Government through public resolutions published in Official Gazette.

- (y) ***Fair value of financial instruments*** – Financial instruments are recorded in the consolidated balance sheets as part of assets or liabilities at their corresponding market value. The carrying amount for cash and cash equivalents, restricted short-term cash investments, accounts receivable and accounts payable, approximate their fair values due to the short-term maturity of these financial instruments. Management considers that the carrying amount of the loans and other financial obligations approximate their fair market value. EDC has not identified financial assets that may be qualified as derivatives and it recognizes transactions with financial instruments at the transaction date.
- (z) ***Net earnings per share and ADS*** – Net earnings per share for the years ended December 31, 2006 and 2005 was calculated by dividing net income by the weighted average number of outstanding shares during the last period, adjusted for stock dividends, increases in capital stock and treasury stock.

Net earnings per American Depositary Shares (ADS) are calculated by multiplying the net earnings per share for each period by the number of shares represented by an ADR (See Note 20 (g) – Stockholders’ equity - American Depositary Shares (ADS). An ADS is comprised by 50 common shares of the Company.

- (aa) ***Assets and liabilities denominated in foreign currency*** – Transactions in foreign currency are recorded using the exchange rates applicable at the transaction date. Foreign currency assets and liabilities are adjusted at the year-end exchange rate. The resulting exchange gains or losses are recorded in the statement of income (See Note 25 – Assets and liabilities denominated in foreign currency).
- (bb) ***Transition to the application of International Financial Reporting Standards*** – Currently, accounting requirements for listed companies in Venezuela are based on approved principles published by the FCCPV and the CNV. International Financial Reporting Standards (“IFRS”) are considered to be an integral part of Venezuelan GAAP when Venezuelan GAAP do not include a standard that covers a specific situation. If an issue is not covered neither by Venezuelan GAAP nor IFRS, Mexican GAAP must be applied. In the absence of authoritative literature under Mexican GAAP, U.S. GAAP are to be followed.

According to the Venezuelan Federation of Public Accountants and based on Resolution 177-2005 issued by CNV on December 8, 2005, amending Resolution 157-2004, it was decided to defer the adoption of IFRS for the purpose of the preparation and presentation of financial statements of those companies listed in Venezuela under the terms of the Capital Market Law until the FCCPV adopts IFRS as GAAP in Venezuela.

At the Board of Directors’ Meeting of the FCCPV held in August 2006, it was decided that for entities listed in the securities market, the initial date of adoption shall be established by CNV, as regulator. To the date of this report, the CNV has not made any pronouncement in this regard.

- (cc) ***Reclassifications*** – Certain items of the consolidated balance sheets and consolidated statements of income for the years ended December 31, 2006 and 2005 have been reclassified for comparative purposes with the 2007 consolidated financial statements included in the Offering Circular. Main captions affected by the reclassifications were: in the balance sheets - deferred income taxes/current and non-current portion and deferred financial cost and long-term debt; and in the statement of income - operating expenses, other income (expenses) and comprehensive financial income/gain on sale of securities. These reclassifications decreased current assets by

Bs. 48,739 and Bs. 21,979, decreased total assets by Bs. 18,387 and Bs. 22,783, and decreased long-term debt and other liabilities by Bs. 20,182 and Bs. 26,156, in 2006 and 2005, respectively,

and increased operating income by Bs. 41,846 for the year ended December 31, 2006 and caused a decrease (increase) in other income (expenses), net by Bs. 6,189 and Bs.(118,994), decreased comprehensive financial income (cost), net by Bs. 36,530 and Bs. (119,502), for the years ended December 31, 2006 and 2005, respectively.

#### 4. REGULATION AND RATES

##### (a) *Regulation*

The electric utility industry in Venezuela is regulated by the Electric Service Law (LOSE or the Law) enacted on December 31, 2001, which superseded the Electric Service Decree-law, dated September 21, 1999, and other legal or regulating provisions contrary to this Law. Articles 69 and 71 of Decree N° 1558, dated November 13, 1996, as to determination of rates is concerned, and provisions included in Decree N° 368, dated July 27, 1989, related to the Standards for the Determination of Rates for the Electric Service, published on October 6, 1989, remain effective until new standards on those matters are set forth.

Some of the main aspects of this new Law are as follows:

- Separation of the legal, accounting and management areas from generation, transmission, distribution and commercialization of the service, which means that the same company shall not develop two or more activities of generation, transmission, national electric system management and distribution. The specialized activity may be developed by distributors with their customers with regulated rates, by generators or by companies specialized in the commercialization of electric power and energy.
- Open competition in the generation and specialized commercialization activities subjected to prior authorization of the Comisión Nacional de Energía Eléctrica (National Commission of Electric Power).
- Free access to the national energy distribution and transmission system networks, to other electric service agents, as well as large users. Its use shall be paid according to this Law and the standards provided by Comisión Nacional de Energía Eléctrica on this matter.
- Creation of control agencies such as the National Commission of Electric Power, the National Management Center of the Electric System and the Wholesale Electricity Market, whereby different agents of the electric service, especially in the generation and distribution activities, as well as large customers, will participate

The LOSE provides for gradual implementation of its resolutions, indicating January 31, 2003 as the deadline for the separation of the legal, accounting and management functions from the generation, distribution and commercialization functions of the service. Nevertheless, the Ministry of Energy and Oil (MENPET) (formerly the Ministry of Energy and Mines) extended this term until January 31, 2004. This term has not been officially extended. Additionally, the Electric Service Law provides for the restructuring of the regulatory system through a new economic regime. However, the current rate regime must remain in effect until implementation of the new system.

Given that it is essential to establish remunerations in accordance with every activity included in the Electric Service before separating the activities, the Ministry of Energy and Oil has considered requesting a deferment to the National Assembly, which in this regard shall proceed to amend the Law. To date, the Regulator has not requested to the companies of the sector full compliance with the separation of the activities referred to above as of January 31, 2004.

Separation of the electric sector in Venezuela, including opening for competition in certain activities may impact the level of revenues, and therefore, the value of the companies' assets. To date, such impact cannot be reasonably estimated.

In accordance with provisions of the Electric Service Law, on November 25, 2003, Resolution 310 of the Ministry of Energy and Oil regarding Service Regulations was published in Official Gazette N° 37825, for the purpose of establishing the norms and conditions that shall rule power energy service supply and the relationships between suppliers and customers. Resolution 315 of the Ministry of Energy and Oil was also published in such Gazette, for the purpose of establishing Service Quality Standards to be met by energy suppliers in order to guarantee an electric service in accordance with customers' requirements at the lowest cost. On August 23, 2004, an amendment to the Supply Service Quality Standards was published in Official Gazette N° 38006, modifying the application terms of the standards.

On September 5, 2005, the Vice-Minister of Energy issued a communication to EDC whereby it expresses that the Ministry of Energy and Oil is considering the extension of the application of Stage I of the Supply Service Quality Standards; i.e. the adequation phase of companies' processes and systems.

The National Electric System Management Center (CNGSE) was officially created by the National Government through Decree N° 5026 of the President of the Bolivarian Republic of Venezuela, published in Official Gazette N° 38576 on December 1, 2006. The CNGSE's main functions are the control, supervision, and coordination of the integrated operation of Generation and Transmission resources of the National Electric System. CNGSE is a public entity under the personality of Company, with equity share of the Bolivarian Republic of Venezuela, through Menpet.

Despite of its creation through a presidential decree, the CNGSE has not started operations. In this regard, the LOSE sets forth that until the CNGSE starts operations, the control of the generation and transmission activities of the National Electric System will continue being exerted by Oficina de Operación de los Sistemas Eléctricos (OPSIS) within the terms established in the Interconnection Agreement entered into on December 1, 1988 between CVG Edelca, Cadafe, Enlven and EDC.

*(b) Rates*

On January 28, 1999, the National Government established the new list of rates for the electric sector companies, through a joint resolution between the Ministry of Production and Commerce and the Ministry of Energy and Oil. Under this resolution, rates are effective for four years with annual increases every January 1. Additionally, a Price Adjustment Factor (FAP) is set forth as well as a charge to transfer changes in prices of fuel and purchased energy (CACE). The application of the FAP published in the Official Gazette has the purpose of maintaining, in actual terms, the rate levels of each kind of service, except for the social residential rate. It is applied semi-annually and allows correcting prices considering the actual performance of macroeconomic variables in comparison to those for the calculation of rates. The charge for adjustment of fuel and energy (CACE) monthly applied, allows adjusting changes in prices of fuels and purchases of energy with respect to those determined for the calculation of rates.

On December 29, 2000, the Venezuelan Government issued Extraordinary Official Gazette N° 5512, whereby the values of macroeconomic variables considered for the calculation of the adjustments to the electric service rates were modified. This resolution established rates for the electric service companies for the years 2001 and 2002 and derogated Articles 10 to 21 of the Joint Resolution N° 177 and N° 016 published in Extraordinary Official Gazette N° 5296. Subsequently, as of June 30, 2001, the Company decided to modify the values of the parameters considered for the calculation of the adjustments of the electric service rates (FAP and CACE) through the approval of the Extraordinary Official Gazette N° 5540, thus derogating Extraordinary Official

Gazette N° 5512, and maintaining the values of maximum rates stipulated for the years 2001 and 2002.

On April 3, 2002, a joint resolution of Ministries of Energy and Oil and Production and Commerce was published in Official Gazette, establishing the maximum rates to be applied, as well as application conditions and adjustment methodology.

On February 6, 2003, the Venezuelan Government enacted Decree N° 2304 published in official Gazette N° 37626, whereby the prices of certain essential goods and services were frozen, including electric energy services. Subsequently on May 5, 2003, a joint resolution of Ministries of Energy and Mines and Production and Commerce was published in Official Gazette 37682, which temporarily suspends the increases in rates derived from the application of FAP. However, Article 2 of this Resolution sets forth that the Ministry of Energy and Oil may exceptionally approve the application of this factor.

On March 25, 2004, a joint resolution of the Ministry of Energy and Oil and the Ministry of Production and Commerce was issued and published in Official Gazette 37906, whereby the prices of methane gas in delivery centers and the rates for transport and distribution services were established. The adjustment in the price of methane gas corresponding to 2005 was 56.5%, representing an adjustment to the average price for the final user of the electric service of 5% for 2005 (except for customers subject to residential rates).

Menpet issued a Resolution on February 13, 2006, published in Official Gazette N° 38378, whereby the new methane gas prices were established. Subsequently, on February 23, 2006, a joint resolution between the Ministry of Energy and Oil and the Ministry of Light Industries and Commerce (formerly, the Ministry of Production and Commerce) was published in Official Gazette N° 38386, whereby new transport and distribution rates of the methane gas applicable on the first day of January every year were established. Both resolutions derogated Official Gazette N° 37906, dated March 25, 2004. In this regard, the final rate payable for the methane gas, plus the transport service rate, and distribution rate will be 48.29 Bs/m3 for the year 2006, which represent an approximate reduction of 18% with respect to the current rate of the immediate prior year.

## 5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents shown in the consolidated balance sheets are as follows:

	<u>2006</u>	<u>2005</u>
Cash and banks	65,323	59,487
Placements and short-term investments	436,831	379,917
	<u>502,154</u>	<u>439,404</u>

As of December 31, 2006 and 2005, placements in local currency are presented at weighted interest rates of 6.68% and 8.61%, respectively, and placements in foreign currency generate weighted interest rates of 5.20% and 4.02%, respectively. Both placements are due in less than three (3) months.

During September 2006, the Company paid all collaterals, the administrator agent of which was JP Morgan Chase Bank, and released restricted investments maintained in this institution (See Note 12 - (b) Debt – Long-term debt).

## 6. ACCOUNTS RECEIVABLE - NET

Accounts receivable shown in the consolidated balance sheets are as follows:

	<u>2006</u>	<u>2005</u>
Individual customers	173,777	192,989
Governmental entities	115,318	64,429
Related parties (Note 14)	12,911	5,160
Fondo de Previsión de los Trabajadores de C.A. La Electricidad de Caracas y sus Empresas Filiales, A.C.	8,972	11,187
Other	41,512	34,982
	<u>352,490</u>	<u>308,747</u>
Less:		
Allowance for doubtful accounts	(13,554)	(50,091)
Allowance for doubtful accounts for mortgage credit lines	(2,080)	-
	<u>336,856</u>	<u>258,656</u>

The average credit period granted to clients is 17 days.

Accounts receivable from Fondo de Previsión correspond to the current portion of personal credit lines to promote housing programs, net of the allowance for doubtful account (See 14 - Transactions and balances with stockholder, subsidiary and related parties).

Other accounts receivable are mainly represented by interest receivable, insurance claims and advances to suppliers, inherent to Company's normal operations.

During the year ended December 31, 2006, the Company's management decided to modify the allowance for doubtful accounts, thus fully provisioning all customers aged over 365 days, except for large clients and governmental entities, which will be evaluated individually. Likewise it decided to record an additional allowance to cover delinquent accounts in the social residential sector. The effect of this change in the calculation of the allowance for doubtful accounts in the consolidated statements of income was Bs. 12,422.

As of December 31, 2006, the Company wrote off Bs. 61,924 to the allowance for doubtful accounts corresponding to accounts receivable considered uncollectible.

Accounts receivable from governmental entities do not bear interests and present the following aging as of December 31:

	<u>2006</u>	<u>2005</u>
Year of origin:		
2006	85,340	-
2005	45,543	115,530
2004	39,124	50,421
2003 and prior years	8,889	14,465

	<u>2006</u>	<u>2005</u>
Total accounts receivable from governmental entities	178,896	180,416
Less: Current value adjustment	(23,383)	(24,603)
Less: Current portion	(115,318)	(64,429)
Long-term portion (Note 10)	<u>40,195</u>	<u>91,384</u>

Management considers that all balances receivable from governmental entities will be fully recovered since they are guaranteed by the Venezuelan Government.

## 7. INVENTORIES - NET

Inventories shown in the consolidated balance sheets are as follows:

	<u>2006</u>	<u>2005</u>
Materials and supplies	47,188	56,900
Spare parts	60,404	47,214
Goods in transit	<u>4,303</u>	<u>1,945</u>
	111,895	106,059
Less – Allowance for inventory obsolescence	<u>(9,456)</u>	<u>(8,141)</u>
	<u>102,439</u>	<u>97,918</u>

## 8. PROPERTY, PLANT AND EQUIPMENT - NET

Property, plant and equipment shown in the consolidated balance sheets are as follows:

	<u>Property, plant and equipment</u>	<u>Lands</u>	<u>Spare parts</u>	<u>Construc- tions in progress</u>	<u>Asset retire- ment obligation</u>	<u>Total</u>
<b>COST:</b>						
As of December 31, 2005	15,897,684	146,967	61,935	354,785	4,350	16,465,721
Additions	5,929	-	18,618	223,871	-	248,418
Disposals	(45,088)	-	-	-	-	(45,088)
Transfers	<u>340,487</u>	-	-	<u>(349,956)</u>	-	<u>(9,469)</u>
As of December 31, 2006	<u>16,199,012</u>	<u>146,967</u>	<u>80,553</u>	<u>228,700</u>	<u>4,350</u>	<u>16,659,582</u>
<b>ACCUMULATED DEPRECIATION:</b>						
As of December 31, 2005	(11,009,005)	-	-	-	(1,887)	(11,010,892)
Charges	(517,497)	-	-	-	(189)	(517,686)
Disposals	<u>33,090</u>	-	-	-	-	<u>33,090</u>
As of December 31, 2006	<u>(11,493,412)</u>	-	-	-	<u>(2,076)</u>	<u>(11,495,488)</u>
Total as of December 31, 2006	<u>4,705,600</u>	<u>146,967</u>	<u>80,553</u>	<u>228,700</u>	<u>2,274</u>	<u>5,164,094</u>
Total as of December 31, 2005	<u>4,888,679</u>	<u>146,967</u>	<u>61,935</u>	<u>354,785</u>	<u>2,463</u>	<u>5,454,829</u>

During the years ended December 31, 2006 and 2005, the Company capitalized interests for Bs. 4,806 and Bs. 5,927, respectively, as additional cost to constructions in process, corresponding to the portion of interest rate that exceed the inflation rate applied to disbursements related to investment projects.

The net effect of reclassifying to this caption spare parts and permanent maintenance equipment, which can be used over one year, was Bs. 46,329 and Bs. 61,935 as of December 31, 2006 and 2005, respectively, thus complying with IAS 16.

The Company maintains insurance policies to cover potential risks to which property, plant and equipment are exposed, as well as potential claims that may arise in the course of its activities. Management believes that such policies sufficiently cover the risks to which they are exposed.

## 9. INVESTMENTS

Investments shown in the consolidated balance sheets are as follows:

	<b>Equity</b>		
	<b>%</b>	<b>2006</b>	<b>2005</b>
Investments recorded under the equity method:			
Energía y Servicios Enercenter, C.A. (net of provision for Bs. 1,601)	50	— — —	1,256 — 1,256
Other investments recorded at cost:			
C.V.V. Caja Venezolana de Valores, S.A.	16	1,536	1,536
<b>Sistema Electrónico de Transacciones, C.A. (SET)</b> (net of provision for Bs. 914)	10	-	1,119
Opinión Yaracuyana, C.A.	5	38	38
		<u>1,574</u>	<u>2,693</u>
Financial investments:			
Terminales Maracaibo, C.A.	-	23,169	10,535
		<u>23,169</u>	<u>10,535</u>
		<u>24,743</u>	<u>14,484</u>

By virtue of the agreement entered into between the stockholders to liquidate energy generation operations of Enercenter, the Company decided to record a provision for the amount of investment in that company as of December 31, 2006 (See Note 14 – Transactions and balances with stockholder, subsidiary and related companies).

During the year ended December 31, 2006, the consolidated subsidiary Genevapca subscribed and paid 50,000,000 new preferred shares of Terminales Maracaibo, C.A., representing an investment of Bs. 12,634 (Bs. 10,000 expressed in millions of bolivars in historical bolivars). As of December 31, 2005, 36,775,000 new preferred shares had been subscribed and paid for Bs. 10,535 (7,355 expresses in million of historical bolivars). Such shares have a par value of Bs. 200 each, with no voting right and guarantee an annual, preferred, fixed and cumulative dividend equivalent to 8% of their face value. Such shares were recorded in conformity with International Accounting Standard N°32 (IAS-32) “Financial Instruments - Disclosure and Presentation.” Such investment shall be fully refunded by Terminales Maracaibo, C.A., within a term of 5 years. These shares are not redeemable in advance (see Note 19 – Tax Regime).

## 10. LONG-TERM ACCOUNTS RECEIVABLE

Balances shown in the consolidated balance sheets as long-term accounts receivable are as follows:

	<b>2006</b>	<b>2005</b>
Accounts receivable from governmental entities (Note 6)	40,195	91,384
Fondo de Previsión de los Trabajadores de C.A. La Electricidad de Caracas y sus Empresas Filiales, A.C. (Fondo de Previsión)	21,865	31,085
Accounts receivable from employees	6,120	2,705
Accounts receivable from share subscription trust	2,957	82
Other	3,783	2,973
	<u>74,920</u>	<u>128,229</u>

Long-term accounts receivable related to Fondo de Previsión correspond to resources delivered by EDC destined to the granting of loans for mortgage credits to employees rendering services to EDC. Fondo de Previsión will be liable to grant loan documents, deliver resources to employees, and manage contracts until full payment. EDC recovers these resources as workers/employees pay their loans to Fondo de Previsión. As of December 31, 2006 and 2005, interest rates applicable to loans granted during these years were 10.10% and 11.22%, respectively, which correspond to the liability interest rate of time deposits at 90 days published by the Central Bank of Venezuela.

Following the policy of conservatively evaluating its accounts receivable, Management decided to record a provision to cover certain delinquent loans managed by Fondo de Previsión (See Note 6 – Accounts receivable - net).

During the periods ended December 31, 2006 and 2005, the Company has generated financial interests with Fondo de Previsión for Bs. 4,353 and Bs. 1,709, respectively.

## 11. OTHER ASSETS AND DEFERRED CHARGES

Other assets and deferred charges shown in the consolidated balance sheets are as follows:

	<u>Investment property</u>	<u>Software</u>	<u>Works of art and others</u>	<u>Pre- operating and start-up expenses</u>	<u>Total</u>
<b>COST:</b>					
As of December 31, 2005	121,819	251,722	3,267	23,913	400,721
Disposals	(4,985)	-	(30)	-	(5,015)
Transfers	-	9,470	-	-	9,470
As of December 31, 2006	<u>116,834</u>	<u>261,192</u>	<u>3,237</u>	<u>23,913</u>	<u>405,176</u>
<b>ACCUMULATED AMORTIZATION:</b>					
As of December 31, 2005	(8,738)	(235,109)	-	(21,259)	(265,106)
Charges for the year	(951)	(10,385)	-	(2,654)	(13,990)
Disposals	136	-	-	-	136
As of December 31, 2006	<u>(9,553)</u>	<u>(245,494)</u>	<u>-</u>	<u>(23,913)</u>	<u>(278,960)</u>
Total as of December 31, 2006	<u>107,281</u>	<u>15,698</u>	<u>3,237</u>	<u>-</u>	<u>126,216</u>
Total as of December 31, 2005	<u>113,081</u>	<u>16,613</u>	<u>3,267</u>	<u>2,654</u>	<u>135,615</u>

Investment property is mainly comprised of residential buildings, offices and other property owned by the Company. To date, 66.90% of idle assets correspond to lands, and 33.10% of real estate to be used in the future is under operating leases.

Computer software will be fully amortized by December 31, 2009. Estimated amortization expense through 2009 is as follows:

	<u>Amount</u>
Years:	
2007	10,362
2008	3,439
2009	1,897
	<u>15,698</u>

## 12. DEBT

### (a) Short-term debt

Short-term debt balances shown in the consolidated financial statements are as follows:

<u>2006</u>	<u>2005</u>
-------------	-------------

Letters of credit and commercial papers	95,497	23,316
Current portion of long-term debt	14,526	220,007
	<u>110,023</u>	<u>243,323</u>

As of December 31, 2006 and 2005, the Company does not have loans with local commercial banks. In addition, the Company has issued commercial papers in local currency with yields between 6.25% and 6.50% as of December 31, 2006, and 10.50% as of December 31, 2005. Letters of credit in foreign currency present market interest rate between 3.97% and 9.28% as of December 31, 2006, and between 4.90% and 9.75% as of December 31, 2005.

(b) **Long-term debt**

Long-term debt balances shown in the consolidated balance sheets are as follows:

	<u>Interest rate</u>	<u>Due</u>	<u>2006</u>	<u>2005</u>
Bearer bonds	10.25%	2014	684,535	800,673
Eximbank - Chase Manhattan Bank - OAM13	Libor + 0.20%	2011	25,428	36,353
Eximbank - Chase Manhattan Bank - Purchases	3.97% to 5.91%	2005 through 2008	9,455	27,681
Syndicated loan - Banco de Venezuela, S.A.	91% of TAM	2007	-	214,850
Chase Manhattan Bank - Collateral Secured Series	Libor	2006	-	122,674
Unsecured bonds and obligations	92% of TAM	2006	-	2,485
			<u>719,418</u>	<u>1,204,716</u>
Less - current portion			(14,526)	(220,007)
Less - deferred financial costs			<u>(18,391)</u>	<u>(22,785)</u>
Long-term debt			<u>686,501</u>	<u>961,924</u>

On October 28, 2004, EDC Finance B.V. issued Bearer Bonds in the international market, amounting to Bs. 559,000 (expressed in millions of historical bolivars) (U.S.\$ 260 million) maturing in 10 years, bearing an interest rate of 10.25% semiannually payable. Such bonds are totally or partially redeemable since October 2009 and total redeemable in the event of certain changes in the tax regulations of Venezuela and/or the Netherlands. These bonds are guaranteed by EDC and were used for the payment of other debts. At that date, EDC Finance B.V. used proceeds from the bonds issuance for the acquisition of the 100% of a loan granted by Hollandische Bank-Unie N.V., a wholly-owned subsidiary of ABN AMRO, to EDC for Bs. 559,000 (expressed in millions of historical bolivars) (U.S.\$ 260.0 million) with maturity in 10 years at an interest rate of 10.30% semiannually payable. As part of this transaction, EDC settled a loan granted in June 2004, by ABN AMRO for Bs. 96,000 (expressed in millions of historical bolivars) (U.S.\$ 50.0 million) which had an original maturity of three (3) years at a Libor rate plus 7%.

The Company maintains two lines of credit with Eximbank, detailed as follows:

- Line of credit granted in September 1999, for Bs. 13,583 (expressed in millions of historical bolivars) (\$ 21.6 million) at a term of 10 years, for the acquisition of a Siemens-Westinghouse W-501D5 turbine component installed in the generator complex Oscar Augusto Machado (located in Miranda State). As of December 31, 2006 and 2005, the balance of this line amounts to Bs. 20,765 (expressed in millions of historical bolivars)

(U.S.\$ 9.6 million) and Bs. 25,380 (expressed in millions of historical bolivars) (U.S.\$ 11.8 million), respectively.

- Line of credit granted in September 1999, for Bs. 22,528 (expressed in millions of historical bolivars) (U.S.\$ 35.9 million) amortizable over 5-7 years. These funds have been used for the acquisition of goods and services coming from the United States of America. As of December 31, 2006 and 2005, the balance of this line of credit amounts to Bs. 7,721 (expressed in millions of historical bolivars) (U.S.\$ 3.6 million) and Bs. 19,325 (expressed in millions of historical bolivars) (U.S.\$ 9 million), respectively.

In both cases the administrating agent of these credit facilities is JP Morgan Chase Bank.

In May 2006, the Company settled in advance the syndicated loan contracted during May 2004, and Banco de Venezuela, S.A. acted as the main agent. Such loan was contracted for Bs. 200,000 (expressed in millions of historical bolivars) which was structured in two portions. Portion A covered the full loan for Bs. 200,000 (expressed in million of historical bolivars) due in 3 years (May 2007) and Portion B covered the borrower's option for Bs. 80,000 (expressed in million of historical bolivars) or a lower amount in multiples of five million available at portion A's due date, which can be renewed by the Company for two (2) additional years since original maturity. The interest rate is 91% of the Market Asset Rate (TAM).

In July 2006, EDC settled the loan obtained in May 2006, at an interest rate of 10.25%, for Bs. 60,000 (expressed in millions of historical bolivars) with the local banks.

In September 2006, the Company settled the balance of bearer unsecured bonds and obligations for Bs. 439 (expressed in millions of historical bolivars) corresponding to Emision 03 – I and Bs. 1,296 (expressed in millions of historical bolivars) corresponding to Emision 03 – II, which were authorized by the CNV in August 2003 for Bs. 35,000 (expressed in millions of historical bolivars) and Bs. 15,000 (expressed in millions of historical bolivars), respectively.

In November 1991, the Company issued a series of collateralized bonds amounting to Bs. 85,647 (expressed in millions of historical bolivars) (U.S.\$ 39.8 million) maturing on September 30, 2006. This obligation was fully settled at its maturity date. Such series was guaranteed by a U.S. Treasury zero coupon bond, maturing in September 30, 2006. As of September 30, 2006 and 2005, the value of this bond is Bs. 89,704 (expressed in millions of historical bolivars) (U.S.\$ 41.7 million) and Bs. 86,034 (expressed in millions of historical bolivars) (U.S.\$ 40 million), respectively. This obligation was fully settled at its maturity date.

On December 22, 1999, EDC entered into a loan agreement with Credit Suisse First Boston (CSFB) in the amount of Bs. 16,119 (expressed in millions of historical bolivars) (U.S.\$ 25 million) which was paid at its maturity date, January 14, 2005. Interests were quarterly paid in US dollars at a fixed rate of 11.50% per annum calculated over a U.S.\$ 25 million basis.

In March 2005, the Company settled in advance total Notes issued in September 2000 amounting to € 200,000,000, the original due date of which was March 23, 2005. By settling these Notes, EDC rescinded the purchase agreement entered into in August 9, 2004, which established a commitment by CSFB to purchase new Notes for Bs. 352,600 (expressed in millions of historical bolivars) (U.S.\$ 164 million) to be issued in March 2005, maturing in 2013, at a fixed interest rate of 11.50% semiannually payable. As a result of this settlement, the restrictions on advances of funds related to the advance sale agreement were released, the value of which amounted to Bs. 297,889 (expressed in millions of historical bolivars) (€ 100.0 million). To the date of settlement of the Notes and by virtue of the termination of the aforementioned purchase agreement, the Company paid additional charges for Bs. 34,585 (expressed in millions of historical bolivars) which are recorded under other income, net in the consolidated statement of income as of December 31, 2005, and incurred a net loss of Bs. 6,707 (expressed in millions of historical bolivars) due to the settlement of the swaps and forwards instruments related to the financing,

which are recorded under comprehensive financing income (cost) in the consolidated statement of income.

During August 2005, the Company settled in advance the total amount of the syndicated loan entered into on December 2001 for Bs. 41,750 (expressed in millions of historical bolivars) the original maturity date of which was December 6, 2006. For this loan, Banco Provincial acted as Main Agent.

For certain loans, the Company is subject to restrictive financial covenants in connection to the decree of dividends, among other, since indebtedness capacity ratios and interest hedges are included. As of December 31, 2006, the Company complies with prevailing financial covenants.

The Foreign Exchange Administration Commission (CADIVI) has granted EDC the foreign currency required for the amortization of capital and interests of the foreign currency debt at their respective due dates (see Note 23 – Assets and liabilities denominated in foreign currency).

The total amount of principal payments for the following four (4) years since December 31, 2006 is as follows (expressed in millions of historical bolivars):

<b>Years:</b>	<u><b>Amount</b></u>
2007	11,862
2008	5,088
2009	4,614
Until 2014	<u>565,922</u>
	<u><u>587,486</u></u>

### **13. ACCOUNTS PAYABLE**

Accounts payable shown in the consolidated balance sheets are as follows:

	<u><b>2006</b></u>	<u><b>2005</b></u>
Trade	254,895	259,747
Related parties (Note 14)	<u>30,711</u>	<u>65,194</u>
	<u><u>285,606</u></u>	<u><u>324,941</u></u>

The average period of credit granted by the suppliers of goods and services is 45 days.

### **14. TRANSACTIONS AND BALANCES WITH STOCKHOLDER, AFFILIATE AND RELATED COMPANIES**

The most significant transactions carried out between the Company, its stockholder, affiliate and related companies are mainly for short financing.

EDC's employees have the opportunity to join "Fondo de Previsión" by giving contributions to a maximum of 10% of each employee's salary; EDC's contribution is equivalent to 100% of employee's contribution. Under Fondo de Previsión, EDC extends personal lines of credit to its employees for housing program (See Note 10 - Long-term accounts receivable).

As of December 31, 2006 and 2005, the Company has recorded expenses related to the Fondo de Previsión for Bs. 15,106 and Bs. 12,438, respectively.

On November 30, 2006, Enerxis, a wholly-owned subsidiary of EDC, signed a memorandum of understanding with the other stockholder engaged in the investment maintained in Energía y Servicios Enercenter, C.A., (Enercenter) to liquidate the energy generation business. This memorandum establishes

negotiations for the settlement of debts. Management has evaluated the impact of this settlement, and has reversed the provision recorded in prior periods to cover the loss risk on accounts receivable presented in the consolidated balance sheets. In accordance with this memorandum of understanding, this account receivable from Enercenter will be recovered through asset and cash transfer.

As of December 31, 2006, the Company terminated the fund administration agreement maintained with Fondo de Previsión de los Trabajadores de C.A. La Electricidad de Caracas y sus Empresas Filiales, A.C.; consequently, settling the most part of the balance owed at that date.

As a result of the operations mentioned above and other less significant transactions carried out between the Company, its stockholder, affiliate and related companies, accounts receivable and payable to stockholder, affiliate and related companies were originated as of December 31:

	<u>2006</u>	<u>2005</u>
Accounts receivable from subsidiary and related companies:		
Energía y Servicios Enercenter, C.A.	12,838	5,153
Other	73	7
	<u>12,911</u>	<u>5,160</u>
	<u>2006</u>	<u>2005</u>
Accounts payable to stockholder and related parties:		
AES Corporation	16,435	16,447
Caja de Ahorros de los Trabajadores de C.A. La Electricidad de Caracas y sus Empresas Filiales, A.C.	-	-
Fondo de Previsión de los Trabajadores de C.A. La Electricidad de Caracas y sus Empresas Filiales, A.C.	5,287	4,575
AES Columbia Power LLC	-	-
Other	5,114	41,322
	2,140	2,504
	1,735	346
	<u>30,711</u>	<u>65,194</u>

## 15. OTHER CURRENT LIABILITIES

Other current liabilities shown in the consolidated balance sheets are as follows:

	<u>2006</u>	<u>2005</u>
Income taxes payable	46,044	18,500
Freights payable	35,386	31,860
Labor liabilities	32,930	26,790
Dividends payable	29,004	27,589
Interests payable	18,112	24,272
Other accruals	94,581	18,759
	<u>256,057</u>	<u>147,770</u>

Other accruals include Bs. 64,322, corresponding to labor contingencies (See Note 26 - (c) Commitments and contingencies – Litigations, claims, and provisions for contingencies).

## 16. LABOR LIABILITIES

Labor liabilities shown in the consolidated balance sheets are as follows:

	<u>2006</u>	<u>2005</u>
Accrual for severance benefits	43,789	39,364
Pension funds and other post-retirement benefits, net	<u>69,307</u>	<u>114,460</u>
	<u>113,096</u>	<u>153,824</u>

(a) ***Accrual for severance benefits***

Under the current Labor Law, employees are entitled to earn a severance indemnity equal to a (5) five-day salary per month, up to a total of sixty (60) days per year of service. Such indemnities are earned once an employee has completed (3) three months of continuous service. From the second year of service, the employees earn an additional two (2) days of salary for each year of service (or fraction of a year greater than six months) cumulative up to a maximum of 30 days of salary. Severance benefits must be funded and deposited monthly in either an individual trust or a severance fund or be accrued in the employer's accounting books, as requested in writing by each employee.

In case of unjustified or involuntary termination, employees are entitled to an additional indemnity of a one-month salary per year of service up to a maximum of 150 days of the current salary. Furthermore, the Law established the payment of an additional severance benefit of up to a maximum of 90 days of current salary based on length of employment. The Company recognizes the costs of this additional indemnity when liable to prove that a: i) the labor relationship is to be terminated in accordance with a formal plan, without the possibility of dropping thereof, or ii) the provision of termination benefits as a result of the offer made to encourage employees to voluntarily resign. As of December 31, 2006 and 2005, the Company does not have plans that justify the recording of liabilities for this concept.

In addition, the LOT establishes that the Company must distribute annual profit-sharing to its employees for a maximum amount equivalent to a 120-day salary.

The employees' vacation benefit is recognized when caused.

(b) ***Pension plan and other post-retirement benefits***

The Company maintains a noncontributory pension plan for its employees. The benefits to be paid under the plan are based on years of service rendered and the average salary over the previous thirty months.

Pension plan and other postretirement benefit costs during the years ended December 31, is as follows:

<u>2006</u>	<u>Pension plan</u>	<u>Other post-retirement benefits</u>	<u>Total</u>
Service cost	3,844	582	4,426
Interest cost	22,837	8,058	30,895
Other	(18,001)	9,020	(8,981)
	<u>8,680</u>	<u>17,660</u>	<u>26,340</u>
<u>2005</u>	<u>Pension plan</u>	<u>Other post-retirement benefits</u>	<u>Total</u>
Service cost	2,210	485	2,695

Interest cost	4,130	1,822	5,952
Other	<u>8,770</u>	<u>3,494</u>	<u>12,264</u>
	<u>15,110</u>	<u>5,801</u>	<u>20,911</u>

As of December 31, accrued obligations for pension plan and other postretirement benefits are as follows:

<u>2006</u>	<u>Pension plan</u>	<u>Other post-retirement benefits</u>	<u>Total</u>
Projected benefit obligation	20,454	88,525	108,979
Unrecognized benefits	462	(40,134)	(39,672)
	<u>20,916</u>	<u>48,391</u>	<u>69,307</u>

<u>2005</u>	<u>Pension plan</u>	<u>Other post-retirement benefits</u>	<u>Total</u>
Projected benefit obligation	88,250	48,634	136,884
Unrecognized benefits	(10,195)	(12,229)	(22,424)
	<u>78,055</u>	<u>36,405</u>	<u>114,460</u>

As of December 31, changes in net liabilities recorded in the consolidated balance sheets are shown as follows:

<u>2006</u>	<u>Pension plan</u>	<u>Other post-retirement benefits</u>	<u>Total</u>
Liability at the beginning of year	78,055	36,404	114,459
Expense for the year	8,680	17,660	26,340
Trust fund	(65,819)	-	(65,819)
Payments	-	(5,673)	(5,673)
Liability at the end of year	<u>20,916</u>	<u>48,391</u>	<u>69,307</u>

<u>2005</u>	<u>Pension plan</u>	<u>Other post-retirement benefits</u>	<u>Total</u>
Liability at the beginning of year	126,758	34,878	161,636
Expense for the year	15,110	5,801	20,911
Trust fund	(47,267)	-	(47,267)
Payments	(16,546)	(4,274)	(20,820)
Liability at the end of year	<u>78,055</u>	<u>36,405</u>	<u>114,460</u>

As of December 31, 2006 and 2005, the actual rate used to calculate the obligation for the projected benefit was 7% and 5%, respectively. Likewise, as of December 31, 2006, the salary increase rate assumed by the Company was 2% at the actual rate. For the year ended December 31, 2005, the salary increase rate assumed by the Company was 3% for the first 9 years and 2.25% for the following 10 years, and 75% of the inflation rate for the following years.

For its postretirement benefit plan, the Company assumes a medical or hospital service inflation actual rate between 7% and 10% at actual rate, as of December 31, 2006 and 2005, respectively.

As of December 31, 2006, the Company made a contribution to the trust fund of Bs. 65,820. As of December 31, 2005, the Company incorporated a trust fund of Bs. 47,267 million, which generates interests at the average liability rate of the six (6) main local commercial and universal banks.

During the year ended December 31, 2006, the Company recognized within the actuarial plan the Hospitalization, Surgery and Maternity (HCM) as a special benefit granted to its retired employees, thus generating an increase in expenses by Bs. 15,161.

## 17. OTHER LIABILITIES

Balances shown in the consolidated balance sheets as other liabilities are as follows:

	<u>2006</u>	<u>2005</u>
Provision for contingencies	62,574	57,883
Long-term remunerations to employees	22,991	34,274
Subscribers' deposits	21,972	15,269
Asset retirement obligation	7,972	6,941
Other	19,607	22,519
	<u>135,116</u>	<u>136,886</u>

The Company maintains a provision for tax contingencies deemed adequate to cover certain differences in the interpretations given to the current tax legislation in Venezuela. However, in the event of future audits by the Tax Administration for non-prescribed years, other tax liabilities may originate, the amount of which, if any, cannot be quantified now in an objective manner. Management estimates that the liabilities generated for this concept would not have a significant effect on the Company's future consolidated results.

AES maintains a long-term remuneration plan for its employees, which is mainly based on share options, performance bonus and AES restricted shares and can be exerted once employees have the years of service established under such plan.

Subscribers' deposits mainly consist of initial deposits paid by customers once the energy service is contracted.

The asset retirement obligation of Genevapca is represented by the costs associated to the decommissioning, conditioning and move of assets (see Note 8 – Property, Plant and Equipment).

## 18. REMUNERATIONS TO THE BOARD OF DIRECTORS AND ADMINISTRATORS

### (a) *Board of Directors*

Clause N° 30 of the Company's bylaws establishes that the members of the Board of Directors will receive an attendance fee established by the General Stockholder Meeting. The total amount paid to the members of the Board of Directors for this concept during the years 2006 and 2005 was Bs. 551 and Bs. 504, respectively.

### (b) *Salaries*

Total salary and other benefits to the executive personnel (administrators) paid during the years 2006 and 2005 was Bs. 11,417 and Bs. 7,096, respectively.

(c) *Severance benefits*

Total amount for severance benefits paid during the years 2006 and 2005 to the Company's executive personnel (administrators) was Bs. 2,195 and Bs. 2,019, respectively.

**19. TAX REGIME**

(a) *Income taxes*

The provision for income taxes is calculated based on an income that differs from the book income, since pursuant to Venezuelan tax regulations there are items that are not taxable or deductible in a permanent or temporary manner.

Due to the different interpretation that may be given to the current tax legislation in Venezuela and the results of future audits by the Tax Administration for the periods subject to review, other tax liabilities may arise, the amount of which cannot be quantified now in an objective manner. Management estimates that the possibility that significant liabilities may arise for this concept is remote.

As of December 31, the income tax provision is detailed as follows:

	<u>2006</u>	<u>2005</u>
Current	102,544	82,083
Deferred	<u>(692)</u>	<u>5,374</u>
	<u>101,852</u>	<u>87,457</u>

The main difference between the income tax provision applicable pursuant to the Income Tax Law and the income tax provision recorded in the consolidated financial statements for the years ended December 31, is as follows:

	<u>2006</u>	<u>2005</u>
Income before income taxes, minority interest and equity in affiliate	412,156	333,270
Tax rate	<u>34%</u>	<u>34%</u>
Provision for income taxes	140,133	113,312
Tax adjustment for inflation	(79,679)	(105,082)
Book adjustment for inflation	93,819	109,030
Utilization of investment tax credits	(43,433)	(21,691)
Net non-taxable income from nondeductible expenses	(9,871)	(8,112)
Other	883	-
Provision for income taxes	<u>101,852</u>	<u>87,457</u>
Effective tax rate	<u>25%</u>	<u>26%</u>

The current Venezuelan tax legislation considers the annual calculation of a regular adjustment for inflation of its nonmonetary items, which is included in the reconciliation of the net taxable income as taxable or deductible item, as appropriate. With respect to property, plant and equipment and other similar assets, this regular adjustment for inflation is either depreciated or amortized over the remaining useful tax life of the respective assets. For inventories, this adjustment is considered in the cost of sale of products upon consumption or sale. The total regular adjustment for the year is determined through the algebraic sum of the various adjustments for inflation of each nonmonetary item.

In conformity with such legislation, taxpayers that carry out transactions with foreign related parties must determine their income from exports, and costs for goods and services from foreign related parties, in accordance with certain methods set forth in such legislation. The Company

conducted the transfer pricing study required to document such foreign transactions, and it did not reflect important differences in regard to the amounts included for determining the net taxable income for the years ended December 31, 2006 and 2005.

Likewise, in conformity with such legislation, the Company can carry forward operating tax losses, other than losses from the tax adjustment for inflation for up to three (3) years subsequent to the period in which they were incurred. The deductible tax effect that is not offset with the adjustment for inflation can be carried forward up to the following year after it is incurred. As of December 31, 2006, the Company and subsidiaries maintain operating tax loss carryforwards, as follows:

<u>Year of origin</u>	<u>Amount in Bs.</u>	<u>Carried forward until</u>
2006	44	2009
2006	3,711	2007
	<u>3,755</u>	

In conformity with such legislation, the Company can carry forward investment tax credits in property and equipment for up to three (3) years subsequent to the period in which they were incurred. As of December 31, 2006, the Company and its subsidiaries do not maintain investment tax credit carryforwards.

Additionally, the aforementioned legislation sets forth, among others, Tax on Dividends, net income obtained from foreign source under the Worldwide Income System, and those obtained from investments or participation under the International Tax Transparency System.

(b) *Deferred income taxes*

During the year ended December 31, 2005, the Company changed the recording method of the deferred income tax for the purpose of recognizing the Statement of Accounting Principles N° 3 “Accounting for Income Taxes.”

The breakdown of the effect of items considered for the determination of the deferred income tax as of December 31 is as follows:

	<u>2006</u>		<u>2005</u>	
	<u>Current</u>	<u>Noncurrent</u>	<u>Current</u>	<u>Noncurrent</u>
<b>Deferred income tax liability:</b>				
Deferred charges	(1,571)	(5,193)	(1,571)	(6,284)
<b>Deferred income tax asset:</b>				
Allowance for doubtful accounts	5,572	-	17,030	-
Discount in accounts receivable from governmental entities	-	7,950	-	8,232
Difference from inventory inflation adjustment	-	40,792	-	13,749
Provision for pension funds	6,484	17,068	7,081	31,836
Difference in property, plant and equipment	-	478,219	-	462,161
Provisions and accruals	18,034	-	19,240	-
Tax loss carryforwards and investment tax credits	-	-	404	-
Business assets tax	56	-	166	-
	<u>28,575</u>	<u>538,836</u>	<u>42,350</u>	<u>509,694</u>
Less – Valuation allowance	-	(478,219)	-	(462,161)

28,575      60,617      42,350      47,533

(c) ***Business assets tax***

On August 17, 2004, the Law derogating the Business Assets Tax Law was published. This Law entered into effect the first day of the first month following its publication, and fiscal periods in course ended with the effectiveness of such Law on September 1, 2004. The benefit of carrying forward any business asset tax credit shall continue in effect until completion of the terms established by this Law.

As of December 31, 2006, the Company and its subsidiaries maintain business assets tax credit for Bs. 56, which can be carried forward until the year 2007.

(d) ***Investments tax credits – Law for Reactivation of the Venezuelan Merchant Marine***

Pursuant to Article 5 of the Law for Reactivation of the Venezuelan Merchant Marine, a 75% discount over the amount of new investments in the merchant marine and dockyards sector is granted, including the acquisition of shares in companies that own the enrichments described in this Law. As indicated in Note 8 – Investments, during the year ended December 31, 2006, the consolidated subsidiary Genevapca subscribed and paid 50,000,000 new preferred shares of Compañía Terminales Maracaibo, C.A., representing an investment of Bs. 10,000 (expressed in million of historical bolivars). Likewise, during the year ended December 31, 2005, 36,775,000 new preferred shares had been subscribed and paid for Bs. 7,355 (expressed in million of historical bolivars).

Consequently, Genevapca acquired the right to an investment tax credit of Bs. 7,500 and Bs. 5,516 (expressed in million of historical bolivars) which was fully deducted as of December 31, 2006 and 2005, respectively.

(e) ***Tax regime of Dutch companies***

The subsidiary EDC Finance B.V. and its Subsidiary are companies incorporated in the Netherlands and subjected to the tax regime of such country. This tax regime establishes that the corporate income tax is applicable to domiciled and nondomiciled companies, and sets forth an income tax rate of 29.6% for the years 2006 and 2005, which will be reduced to 27.4% in 2007 and 26.95% in 2008. In addition, such tax regime establishes that the annual income tax return must be filed six months after the fiscal year-end, unless the Company requests an additional extension of nine more months.

During the year ended December 31, 2006, subsidiaries incurred income tax expense amounting to Bs. 140, 628.

**20. STOCKHOLDERS' EQUITY**

(a) ***Capital stock and related matters***

As of December 31, 2006 and 2005, the Company's nominal capital stock is composed of 3,292,214,078 and 3,142,732,741 subscribed and fully paid common shares of Bs. 100 each.

At a General Ordinary Stockholders' Meeting of EDC held on March 30, 2006, the Board of Directors was authorized to promote the public offer share subscription program and the share plan for the Company's employees. Such programs were implemented in August and September 2006. Consequently, 149,481,337 new shares were subscribed, thus increasing the capital stock by Bs. 19,371 and paid-in surplus by Bs. 76,594.

At an Extraordinary General Stockholders' Meeting of EDC held on November 22, 2005, it was decided to redeem 33,525,937 treasury shares held in the Company's portfolio, which were subject to the special regime established in Articles N° 55 and 67 of the Capital Market Law. This generated a decrease in the registered capital stock of EDC in the amount from Bs. 388,954 to Bs. 384,849.

At an Extraordinary General Stockholders' Meetings of EDC and its subsidiaries C.A. Luz Eléctrica de Venezuela (Calev) and C.A. Electricidad de Guarenas y Guatire (Eleggua) on September 13, 2004, September 7, 2004 and September 6, 2004, respectively, an absorption merger of such subsidiaries was approved by EDC. The equity interest of minority stockholders of the merged subsidiaries was paid during the first quarter of 2005, by granting EDC's shares, equivalent to the net book value of the equity that such stockholders had in the merged subsidiaries Calev and Eleggua. As a consequence of such merger, the Company issued 256,403 new shares, thus increasing the capital stock by Bs. 43 and paid-in surplus by Bs. 167.

At a General Ordinary Stockholders' Meeting held on March 20, 2002, it was approved to maintain the authorized capital of Bs. 598,800 (expressed in millions of historical bolivars) to comply with Article 71 of the Capital Market Law.

(b) ***Paid-in surplus***

The paid-in surplus represents additional contributions paid by Stockholders in the subscription of capital stock increases, which result from the excess of the sale price of shares over their nominal value.

(c) ***Merger surplus***

The merger surplus represents the result of the merger of Corporación EDC, C.A. and EDC conducted in July 2003, where the assets and liabilities of CEDC were recorded at their carrying amounts in the accounts of EDC and the net assets were classified as a separate component of stockholders' equity.

(d) ***Dividends***

The Commercial Code, the Capital Market Law, and the CNV regulations contain provisions ruling dividend distributions. The Commercial Code sets forth that only dividends for liquid and collected earnings may be paid to stockholders. The Capital Market Law sets forth that companies shall annually distribute not less than 50% of the net annual income to their shareholders after having deducted the income tax provision and legal reserve. Likewise, the Capital Market Law provides that at least 25% of such 50% shall be paid as cash dividends. However, if the Company presents and accumulated deficit, earnings shall be destined to offset such deficit.

In addition, net income is calculated on an unconsolidated basis and excluding the equity interest in subsidiaries according to the standards provided by the CNV, and this shall be used as the basis for dividend distribution.

The Capital Market Law establishes that dividends shall be declared by the Stockholders' Meeting, which will determine the amount, manner and date of payment. Additionally, companies subjected to the control of the CNV must establish in their bylaws a dividend distribution policy.

Balances shown in the consolidated statements of changes in stockholders' equity as dividends declared are as follows:

<u>Date of declaration</u>	<u>Date</u>	<u>Bs. per share</u>	<u>Bolivars</u>
December 31, 2006:			
Extraordinary cash dividend	03/30/2006	80,00	355,400
			<u>355,400</u>
December 31, 2005:			
Extraordinary cash dividend	03/04/2005	68,41	340,824
			<u>340,824</u>

During the year ended December 31, 2006, EDC generated a net income for dividend distribution effect, in accordance with the standards provided by the CNV, as follows:

Restructured net income	311,920
Equity in subsidiaries and affiliated companies	<u>(66,855)</u>
Available surplus for dividends pursuant to CNV	<u>245,065</u>

(e) ***Legal reserve***

The Commercial Code sets forth a provision of 5% of companies' net income for establishing the legal reserve, until it reaches at least 10% of capital stock. This reserve shall not be distributed as dividends. The Company considers the net income in constant bolivars to determine the basis for the calculation of the provision corresponding to such reserve.

(f) ***Treasury shares***

The balance presented in the consolidated financial statements as of December 31, 2004, as treasury stock corresponds to EDC's shares acquired by the Company in the different employees' stock plans during 2004 and 2003. As of December 31, 2005, such shares were redeemed.

(g) ***American Depositary Shares (ADS)***

On November 30, 1998, the U.S. Securities Exchange Commission authorized the American Depositary Shares (ADS) program, Level 1, for the EDC Group. ADSs are traded in the "over-the-counter" market under the ticket symbol "ELDAY," and each ADS represents 50 ordinary shares of EDC. The Bank of New York acts as depositary bank, while Banco de Venezuela, Banco Universal S.A. and Banco Venezolano de Crédito S.A., Banco Universal, act as local custodians. As of December 31, 2006, the outstanding number of ADS's is 56,012,137.

(h) ***Introduction in the European capital market***

On July 13, 2006, the Company recorded shares under the modality of ADSs in Latibex, the most important Latin-American securities market, which operates in the Madrid's Stock Exchange, Spain.

## 21. SHARE SUBSCRIPTION PROGRAMS

At an Ordinary General Stockholders' Meeting of EDC held on March 30, 2006, the Board of Directors was authorized to promote the Company's share subscription programs. In this regard, on May 17, 2006, the Board of Directors approved the implementation of two share placement programs, namely (a) public exchange offer, and (b) employees' shares. Such programs are detailed below.

(a) **Exchange offer**

The Company activated a public exchange offer during July and August 2006, prior approval of the CNV, whereby 143,636,637 new shares were subscribed. This program was targeted to the general public (individuals and legal entities over 18 years of age).

(b) **Employees' shares plan**

This plan was targeted to the Company's employees and was implemented under the following conditions:

<u>Share nominal value</u>	<u>Maximum purchase number by employee</u>	<u>Initial payment</u>	<u>Financing period</u>
Bs. 503.43 each	2,500 common shares	20% of the purchase	5 years

The remaining 80% was paid by the EDC over a term of five (5) years, at an interest rate equivalent to the average yield of the commercial papers issued by the Company, which is quarterly reviewed.

Shares were deposited in a trust fund to the name of each employee and dividends generated thereof will be applied to debt servicing (See Note 10 – Long-term accounts receivable). Likewise, employees may release their shares at any time, prior payment of the debt balance. 2,340 employees participated in this plan, by subscribing total 5,844,700 shares registered with the National Securities pursuant to Resolution N° 108-2006 of the CNV.

**22. COMPREHENSIVE FINANCIAL INCOME (COST) - NET**

Balances shown in the consolidated statements of income as comprehensive financial income (cost) are as follows:

	<u>2006</u>	<u>2005</u>
Financial interests and expenses	(138,959)	(227,069)
Interests earned	48,786	58,886
Financial interests and expenses, net	(90,173)	(168,183)
Exchange difference, net	(184)	(87,803)
Monetary result for the period (Note 23)	118,789	116,260
	<u>28,432</u>	<u>(139,726)</u>

**23. ADDITIONAL INFORMATION TO THE CONSOLIDATED STATEMENTS OF INCOME**

The monetary result for the years ended December 31 is as follows:

	<u>2006</u>	<u>2005</u>
Monetary position at the beginning of year	(940,104)	(1,222,811)
Increase for the year	2,243,870	2,510,355
Decrease for the year	(2,002,315)	(2,343,908)
Estimated monetary position at the end of year	(698,549)	(1,056,364)
Less – actual monetary position at the end of year	(579,760)	(940,104)
	<u>118,789</u>	<u>116,260</u>

## 24. CONTROL ON FOREIGN INVESTMENTS (SIEX)

The Company is an 82.15% owned subsidiary of foreign investors.

The current legal system on foreign investments contemplates, among others, the following:

- a. Foreign investors have the same rights and obligations as national investors.
- b. Profits earned by foreign investors may be remitted abroad without any limitations.
- c. All contracts calling for the importation of technology and the use and development of patents and trademarks are to be registered with the Superintendence of Foreign Investments (SIEX) within sixty (60) days upon signature of the contracts.

## 25. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCY

Since 2003, the Venezuelan Government and the Central Bank of Venezuela have entered into several Exchange Agreements that rule the Foreign Currency Management Regime and establish the exchange rate applicable to transactions set forth in such agreements. From that date, the Foreign Exchange Administration Commission (CADIVI) is in charge of coordinating, administrating, controlling and establishing the requirements, procedures and restrictions that the execution of said agreement would require.

CADIVI has issued certain rules related to the registrations, guidelines, requisites and conditions related to the regime of management of foreign currencies. The Company has taken all the necessary measures to obtain the foreign currencies required for the payment of its foreign currency liabilities.

The acquisition of foreign currencies necessary for foreign currency transactions carried out by the Company in the normal course of operations will be dependent upon: (1) the approval of all the registrations requested by the related institutions; (2) the availability of foreign currencies to be established in the application of the standards referred to above; and (3) the actions to be performed by the Company to obtain either the required foreign currencies not requested with the related institutions, or those requests rejected by such institutions.

On February 6, 2004, the National Government and the Central Bank of Venezuela amended the Exchange Agreement N° 2 dated February 5, 2003 through which the exchange rates were modified to Bs. 1,915.20 per U.S. dollar for purchases and Bs. 1,920.00 per U.S. dollar for sales.

On March 2, 2005, the National Government and the Central Bank of Venezuela amended the Exchange Agreement N° 2 dated February 5, 2004, through which the exchange rates are modified to Bs. 2,144.60 per US dollar for purchases and Bs. 2,150 per dollar for sales. In addition, such Agreement provides for the liquidation at the exchange rates provided by the former agreement for some purchases and sales of foreign currencies pending to be liquidated and for those in transit made by exchange operators.

Assets and liabilities denominated in foreign currencies as of December 31, 2006 and 2005, are recorded in bolivars at the official exchange rate of Bs. 2,150 per U.S.\$ 1 as follows:

	<u>2006</u>	<u>2005</u>
	<u>Millions of U.S.\$</u>	
ASSETS:		
Cash and cash equivalents	90	43
Short-term cash investments	-	40
Accounts receivable	5	9
	<u>95</u>	<u>92</u>
Total assets	<u>95</u>	<u>92</u>

LIABILITIES:		
Short-term debt	7	4
Accounts payable	15	14
Other current liabilities	15	9
Long-term debt	268	320
	<hr/>	<hr/>
Total liabilities	305	347
	<hr/>	<hr/>
LIABILITY POSITION, NET	(210)	(255)
	<hr/> <hr/>	<hr/> <hr/>

## 26. COMMITMENTS AND CONTINGENCIES

As of December 31, 2006 and 2005, the Company has the following commitments and contingencies:

### (a) *Energy and steam contracts*

In December 1993, a former subsidiary of PDVSA, granted the subsidiary Genevapca a contract to design, build and operate an energy and steam generation plant to serve Cardon and Amuay refineries. The plant started operations in September 1995 and it is located at Cardon Refinery, Paraguana Peninsula, Falcon State, and has three turbines with an installed capacity of 109 MW each. Pursuant to the contract, two of these turbines must be continuously operating and producing approximately 800 GWh of energy per year. As of December 31, 2006, the carrying amount of such plant was Bs. 430,224.

This contract establishes, among other, the following: PDVSA must purchase a minimum amount of energy and steam per year at a payable price in US dollars and annually established based on the price specified in the contract, adjusted by the U.S. Gross Domestic Product. Gas, fuel and water are supplied by PDVSA. Genevapca may produce and deliver to third parties energy produced in excess under certain conditions. Actually, this plant is connected to two small customers in the area and also to Cadafe's transmission lines. Genevapca might be subject to penalties if certain operating criteria are not satisfied.

Genevapca has been supplying energy to Cadafe since the year 2000, mainly due to the increase in the region's demand and certain operating problems experienced by Cadafe in their adjacent plants. Sale of energy to Cadafe was established through the agreement entered into by Genevapca, Cadafe, PDVSA and the Governor's Office of Falcon State. This agreement sets forth, among others, that prices are established in US dollars, but payable in bolivars, and that PDVSA undertakes to supply fuel required to comply with this agreement.

As of December 31, 2006, minimum future payments related to the remuneration specified in this agreements amount to Bs. 116,387 annually.

### (b) *Operating leases*

The Company leases equipment under operating leases for periods of one year or less. Lease agreements generally include automatic extension clauses for equal terms, unless written termination notice is provided. None of the Company's operating leases are redeemable in terms of one year or less. Rental expense for operating leases amounted to Bs. 4,722 and Bs. 9,946 for the years ended December 31, 2006 and 2005, respectively. None of these amounts relates to contingent rentals or sublets.

### (c) *Litigations, claims and provisions for contingencies*

The Company maintains different contingencies for which the corresponding provisions have been set aside in accordance with Statement of Accounting Principles N° 8 (DPC-8) "Contingencies."

The most significant cases include labor litigations and cases specifically related to a claim filed by some employees and former employees, demanding that the Company's contributions to the Savings Fund be recognized as part of their salaries for purposes of calculating the labor indemnities obligation. In this regard, on October 26, 1999, the Ninth Court of First Instance of the Judicial Circuit of the Metropolitan Area of Caracas ruled a decision favorable to EDC, and on March 22, 2000, the Fourth Superior Labor Court of the Metropolitan Area of Caracas ratified the First Instance's decision and declared that the Savings Fund should not be included for salary determination purposes. Notwithstanding, on May 3, 2001, the Social Room of the Supreme Court ruled a decision whereby it declared the annulment of the decision appealed by the employees and returned the case to the Superior Court to rule a new decision. After having filed several appeals, on July 16, 2004, the Second Transitory Superior Court in Labor Matters ruled a decision, whereby it recognized the inclusion of the Savings Fund's special contribution for salary determination purposes. Then, the Company filed an appeal before the Annulment Room of the Supreme Court of the Bolivarian Republic of Venezuela. On December 12, 2006, the Superior Court ruled decision N° 2029, whereby the appeal filed by some of the Company's employees and former employees was partially admitted, thus confirming the inclusion of the Savings Fund's special contribution for salary determination purposes. Likewise, this decision established the designation of an accounting expert to quantify such contribution. As of December 31, 2006, the Company's management, together with its legal counsels, has estimated a probable amount payable of Bs. 60,755, which was recorded with charge to income for the year 2006. In addition, the Company has determined an additional more likely than not reasonable risk of Bs. 24,504, which was not recorded in accordance with the provisions of DPC-8.

On February 6, 2007, the Company paid to its active noncompliant employees Bs. 37,854, corresponding to the concepts established in the legal decision; thus complying with the provision established thereby regarding such employees. The payment corresponding to plaintiffs, as well as to noncompliant employees adhering to the claim shall only be made in conformity with the same court decision, once the Court has the results of the additional evidence ordered by Court.

On October 26, 2006, the Constitutional Room of the Supreme Court of Justice admitted the appeal filed in June 2000 against the purchase of EDC shares by Inversora DS 2000, C.A. Upon admission, and for subsequent processing, the Constitutional Room agreed to summon different public and private companies including, among others, Inversora DS 2000, C.A., the shares' acquirer, and EDC.

As of April 30, 2007, the Company maintains other legal contingencies related to civil, commercial, administrative and labor issues, which may be probable demands, amounting to Bs. 19,573, for which a provision of Bs. 9,786 has been recorded. Furthermore, the Company maintains other contingencies classified as reasonably probable and remote, being the most important related to an administrative proceeding filed by the Foreign Exchange Study Unit of the Ministry of Finances (currently People's Power Ministry of Finances) against Genevapca and EDC, whereby it orders to refund U.S.\$ 6.3 million and U.S.\$ 0.1 million, respectively, as per notification N° UNEC - 0- 475/98 dated April 20, 1998. The companies have filed the corresponding proceedings and are waiting final decision. According to the Company and its legal advisors there are high possibilities of obtaining a favorable decision annulling the administrative proceeding.

## **27. CONTROL AND REVIEW OF MONEY-LAUNDERING OPERATIONS**

The "Standards for the Prevention, Control and Review of Money-Laundering Activities Applicable to the Venezuelan Capital Market" were published in Official Gazette 38354 of the Bolivarian Republic of Venezuela, dated January 10, 2006. This Resolution came into effect May 11, 2006 and it derogated Resolution N° 510-97 dated December 12, 1997, published in Official Gazette N° 36411, dated March 11, 1998.

The purpose of this Resolution is to establish the minimum permanent and continuous Policies, Standards, and Procedures to be followed by the subjects bound to comply with these norms in order to prevent them from being used as instruments for money-laundering activities specified under the Law against Organized Crime (Locdo) and the Law Against Drug Trafficking and Consumption (Losep); and allows CNV to control, inspect, surveil and supervise the carrying out of such activities in the Venezuelan capital market.

EDC and its subsidiaries obtain the cash flows required for the performance of their business operations mainly from own sources (See Note 1 - Organization). Cash flows from financing activities are obtained from financial institutions subjected to the General Law of Banks and Other Financial Institutions and funds from issuance of commercial papers and unsecured bonds, in accordance with the Capital Market Law.

## **28. CORPORATE GOVERNANCE**

CNV promotes the voluntary application of good governance principles, on the basis of the benefits granted to companies within the terms of competition and access to financing through the capital market.

EDC's Management has included within its organization and operation scheme a set of structures, norms and procedures aimed at guaranteeing transparency and efficiency of its governance. During the year 2001, an External Directors' Committee was incorporated into the Company's bylaws, including individuals economically independent from EDC, who represent a third of the Board of Directors, the main function of which is to evaluate and approve transactions carried out between the Company and its majority stockholder, thus guaranteeing their transparency and protecting the interests of minority stockholders. In this regard, the Company has included within its organizational structure other committees with significant control tasks, such as:

- Stockholder's Meeting
- Board of Directors
- External Directors Committee
- Audit Committee
- Social Energy Committee
- Consulting Committee
- Management Committee

These also include the Internal Auditor, the Compliance Supervisor, and the Investors' Relationship Unit.

In addition, EDC has adopted internal compliance standards and programs for its employees, executives, directors, and subsidiaries, as well as for contractors, including the Code of Business Conduct and Ethics and the Corporate Compliance Manual, the implementation of which demands a higher conduct than that required by Law.

## **29. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS**

In April 30, 2007 and December 31, 2006, the Company became aware of certain potential accounting issues related to the recognition and measurement of its accounts receivable from governmental entities, and the recording of an asset retirement obligation in one of its subsidiaries. As a consequence of the application of International Accounting Standards N°39 (IAS-39) "Financial Instruments – Recognition and Measurement" for the accounts receivable from governmental entities and International Accounting Standards N°16 (IAS-16) "Property, Plant & Equipment" and International Accounting Standards N°37

(IAS-37) "Provisions, Contingent Liabilities and Contingent Assets" for the obligation established in the Energy and Steam Contract signed by Genevapca and PDVSA, the Company restated its previously issued financial statements for the years ended December 31, 2006 and 2005.

Set forth below is a comparison of the previously reported and restated consolidated balance sheet and consolidated income statement items affected by such restatement:

**2006**

	<b>Previously Reported</b>	<b>Restated</b>
	<hr/>	<hr/>
Property, plant and equipment	5,161,820	5,164,094
Other long-term liabilities	127,145	135,116
Net income	311,561	310,342
Undistributed earnings	374,817	369,120

**2005**

	<b>Previously Reported</b>	<b>Restated</b>
	<hr/>	<hr/>
Property, plant and equipment	5,452,366	5,454,829
Other long-term liabilities	129,946	136,886
Net income	244,067	244,217
Undistributed earnings	418,657	414,180

**2004**

	<b>Previously Reported</b>	<b>Restated</b>
	<hr/>	<hr/>
Undistributed earnings	534,569	510,787

**30. SUBSEQUENT EVENTS**

*(a) January 8, 2007's Presidential Decrees*

The President of the Bolivarian Republic of Venezuela announced through local mass media, among others, the nationalization of the telecommunication, electricity, and oil sectors, which were previously privatized, for considering them strategic sectors.

*(b) Enabling Law*

On February 1<sup>o</sup>, 2007, the National Assembly passed a Law enabling the President of the Republic to issue legislative decrees on certain specific matters for an 18-month period since the publication of said Law in the Official Gazette of the Bolivarian Republic of Venezuela. The purpose of this Law is ruling on different matters related to the Transformation of Government Entities, Popular Participation, as well as Economic, Social, Financial, Tax and Energy matters.

(c) ***Decision N° 2029***

On February 6, 2007, the Company paid its active employees Bs. 26,392 corresponding to Decision N° 2029 (See Note 26 – Commitments and contingencies) thus complying with the Supreme Court ruling in this respect.

(d) ***Memorandum of understanding with PDVSA***

On February 8, 2007, the Company's main stockholder signed a memorandum of understanding with PDVSA, which sets forth the negotiation basis for the sale of its equity share in EDC.

## ANNEX A

### PRINCIPAL DIFFERENCES BETWEEN U.S. GAAP AND VENEZUELAN GAAP

Venezuelan GAAP is based on approved principles published by the Venezuelan Federation of Colleges of Public Accountants. In addition, listed companies in Venezuela must follow the rules and regulations of the CNV. Beginning in 1997, International Accounting Standards ("IAS") are considered an integral part of Venezuelan GAAP when Venezuelan GAAP does not include a standard that covers the specific situation. If an issue is not covered by Venezuelan GAAP or IAS, Mexican GAAP must be applied. In the absence of authoritative literature under Mexican GAAP, U.S. GAAP is followed.

The principal differences between Venezuelan GAAP and U.S. GAAP as they relate to EDC's reported results in 2007, 2006 and 2005 involve the following issues:

- functional currency and reporting currency,
- capitalized interest cost for the construction of new fixed assets,
- accounting for costs and expenses of companies in pre-operating stages,
- accounting for severance indemnities, pension and post-retirement benefits,
- negative goodwill,
- minimum dividends,
- share exchanges, and
- transactions between entities under common control.

#### Functional Currency and Reporting Currency

Under Venezuelan GAAP, financial statements are adjusted for the effect of changes in the purchasing power of the bolivar during each period and presented in constant bolívares, the reporting currency.

Under U.S. GAAP, a definition of the functional currency is required, which may differ from the reporting currency, in accordance with Statement of Financial Accounting Standards ("SFAS") N° 52, "Foreign Currency Translation" ("SFAS 52").

#### Capitalized Interest Cost for the Construction of New Fixed Assets

In accordance with Venezuelan GAAP, interest incurred in connection with the construction of major capital projects is included in the cost of such assets to the extent that it exceeds inflation. For financing denominated in U.S. dollars, this generally results in no interest being capitalized, since the rate of inflation in recent years has exceeded the nominal interest rate on such debt. The amount of interest capitalized must be reduced by the related gain on monetary position, regardless of the currency in which the financing is denominated.

Under U.S. GAAP, the amount capitalized is calculated by applying the composite weighted average interest rates on outstanding borrowings to the construction work in process balances during each applicable period. Other costs associated with borrowing, such as foreign currency transaction gains or losses would be excluded from capitalization. Therefore, both the foreign exchange loss and the monetary gain would be excluded from the amount subject to capitalization.

## **Accounting for Costs and Expenses of Companies in Pre-operating Stages**

In accordance with Venezuelan GAAP, pre-operating and start-up costs may be capitalized as a deferred asset and amortized from the beginning of operations over a period of time estimated to generate the income necessary to recover such expenses (for a period of 5 years).

Under U.S. GAAP, pre-operating costs are expensed as incurred.

## **Accounting for Severance Indemnities, Pension and Post-retirement Benefits**

EDC has adopted revised International Accounting Standard N° 19 ("IAS 19"), "Employee Benefits." As it is applied to EDC, the revised standard is substantially consistent with SFAS N° 87, "Employers' Accounting for Pensions" ("SFAS 87"), and SFAS N° 106, "Accounting for Postretirement Benefits other than Pensions" ("SFAS 106"). However, under IAS 19, the transition obligation can either be recognized immediately or amortized for a period of up to five years from the date of adoption in the consolidated statements of income. Under U.S. GAAP, the transition obligation is amortized over the remaining service life of employees.

Additionally, the accounting for curtailments, or events that significantly reduce the expected years of future service of present employees or eliminate for a significant number of employees the accrual of defined benefits, is different. Under SFAS N° 88, "Special termination benefits" ("SFAS 88"), a curtailment gain or loss is measured as the resulting change in the projected benefit obligation plus any unrecognized prior service cost, which includes the cost of retroactive plan amendments and any remaining unrecognized net obligation existing at the date of initial application of SFAS 87. Curtailment losses are recognized in earnings when it is probable that a curtailment will occur and the effects described are reasonably estimable, whereas curtailment gains are recognized in earnings when the related employees terminate or the plan suspension or amendment is adopted. Under IAS 19, curtailments are calculated in a similar manner, except that curtailment gains or losses also include unrecognized actuarial gains and losses. Likewise, curtailment gains and losses are recognized when an entity (1) is committed to make a material reduction in the number of employees covered by a plan or (2) amends the terms of a defined benefit plan such that a material element of future service by current employees will no longer qualify for benefits, or will only qualify for reduced benefits.

## **Negative Goodwill**

In business combinations in which the sum of the amounts assigned to assets acquired and liabilities assumed exceeds the cost of the acquired entity, Venezuelan GAAP requires that excess ("negative goodwill") to be recorded as a reduction of stockholders' equity. Negative goodwill is then accreted to income for a period of up to 20 years. In subsequent sale transactions of subsidiaries with negative goodwill, the unaccreted balance of negative goodwill is recorded as a gain on disposal in the period of sale.

Under U.S. GAAP, negative goodwill should be allocated as a *pro rata* reduction of the amounts that otherwise would have been assigned to all of the acquired assets except (a) financial assets other than investments accounted for by the equity method, (b) assets to be disposed of by sale, (c) deferred tax assets, (d) prepaid assets relating to pension or other postretirement benefit plans, and (e) any other current assets. If any excess remains after reducing to zero the amounts that otherwise would have been assigned to those assets, that remaining excess should be recognized as an extraordinary gain as described in paragraph 11 of APB Opinion N° 30, Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions.

## **Minimum Dividends**

As required by the Venezuelan Capital Market Law, companies must annually distribute to their shareholders not less than 50% of the net annual income as determined in accordance with Venezuelan GAAP. Likewise, the Capital Market Law provides that at least 25% of such 50% must be paid as cash dividends. Under Venezuelan GAAP, these dividends are recorded in the period in which they are declared.

Under U.S. GAAP, because the payment of the 50% dividend from each year's income is a legal requirement in Venezuela, the dividends would be recorded in the period in which they had been earned.

## **Share Exchanges**

Under Venezuelan GAAP, an exchange of shares between a company and its shareholders is generally considered to be a contribution or distribution of shareholders' equity, regardless of whether the transaction involves employee shareholders. Any shares issued by a company to shareholders in excess of the shares received as part of a capital contribution are therefore accounted for as a stock dividend with a corresponding charge to retained earnings, as in substance, the incremental shares represent a distribution of equity.

Under U.S. GAAP, under certain circumstances, the issuance of shares to shareholders should be considered a compensation expense to the extent the shareholders are also employees of a company. In that case, the fair value of such shares is recorded as compensation expense instead of a stock dividend.

## **Transactions Between Entities under Common Control**

Under Venezuelan GAAP, when accounting for a transfer of assets or exchange of shares between entities under common control in a transaction other than an acquisition of all or part of the noncontrolling equity interests in a subsidiary, the entity that receives the net assets or the equity interests recognizes them at their acquisition cost at the date of transfer.

Under U.S. GAAP, the assets and liabilities or equity interests transferred are initially recognized at their carrying amounts in the accounts of the transferring entity at the date of transfer.

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**U.S.\$650,000,000**



**C.A. LA ELECTRICIDAD DE CARACAS**

(a corporation (*compañía anónima*) organized under the laws of the Bolivarian Republic of Venezuela)

**8.50% Senior Notes due 2018**

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**OFFERING CIRCULAR**

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**ABN AMRO**

**March 31, 2008**

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