

EDP ENERGIAS DE PORTUGAL SA

Form 6-K

November 08, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO
RULE 13a-16 OR 15d-16 UNDER THE SECURITIES
EXCHANGE ACT OF 1934

For the Month of November 2004

EDP- Energias de Portugal, S.A.

Praça Marquês de Pombal, 12

1250-162 Lisbon, Portugal

(Address of principal executive offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

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Form 20-F Form 40-F

(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes No

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PROSPECTUS SUPPLEMENT

(To the prospectus dated October 29, 2004)

Offering of 656,537,715 Ordinary Shares

including ordinary shares in the form of American Depositary Shares

EDP ENERGIAS DE PORTUGAL, S.A.

We are offering new ordinary shares, which we refer to as offered shares, to holders of our ordinary shares, nominal value 1 per share. We have also made arrangements with Citibank, N.A., the depository for our American Depositary Shares, or ADSs, to make available to holders of our ADSs, pursuant to the grant of the ADS rights described below, new ADSs, which we refer to as offered ADSs. Each ADS represents ten ordinary shares. Holders of shares or ADSs of record on the relevant record date will receive subscription rights in proportion to their existing holding of ordinary shares or ADSs, as the case may be (in the case of ordinary shares, the share rights, and in the case of ADSs, the ADS rights, and together, the rights).

Holders of rights will be entitled to subscribe for the offered ADSs or offered shares, as the case may be. Each right includes an oversubscription right, referred to as an oversubscription right, to subscribe for an additional number of any offered shares or offered ADSs, as the case may be, that are not subscribed for pursuant to the initial exercise of rights, subject to certain limitations as further described herein. See The Rights Offering. The oversubscription right is not separable from the share right or the ADS right, as the case may be.

The underwriters, as identified in the section entitled Underwriting, have severally agreed, subject to certain conditions, to procure subscribers, or otherwise themselves to subscribe, for any remaining offered shares that are not subscribed for pursuant to the exercise of the rights, including the oversubscription rights (the remaining offered shares).

If you own ADSs:

Holders of our ADSs will receive one ADS right for each ADS that they own on the ADS record date.

Holders of ADS rights will be entitled to subscribe at the ADS subscription price for a number of ADSs determined by multiplying the number of ADS rights they own by the factor 0.22.

The ADSs began trading cum-rights on the New York Stock Exchange, or NYSE, following our board meeting on November 4, 2004.

The ADSs are expected to begin trading ex-rights on the NYSE at 9.30 a.m. (New York City time) on November 9, 2004.

The ADS record date for the purpose of determining entitlement to ADS rights is expected to be the close of business on November 12, 2004.

The ADS subscription period will be from 9.00 a.m. (New York City time) on November 13, 2004 to 3.00 p.m. (New York City time) on November 23, 2004.

The ADS subscription price is U.S.\$23.70 per offered ADS subscribed. The ADS subscription price is the U.S. dollar equivalent of the share subscription price, using an exchange rate of 1.2883 per U.S. dollar, multiplied by ten to reflect that each ADS represents ten ordinary shares. A subscriber of the offered ADSs must tender U.S.\$24.89 per offered ADS subscribed, which represents 105% of the ADS subscription price, upon the exercise of each ADS right. This is to increase the likelihood that the ADS rights agent will have sufficient funds to pay the ADS subscription price in light of possible U.S. dollar to euro exchange rate fluctuations.

ADS rights expire at 3.00 p.m. (New York City time) on November 23, 2004.

Outstanding ADSs are traded on the NYSE under the symbol EDP.

If you own ordinary shares:

Holders of our ordinary shares will receive one share right for each ordinary share that they own on the share record date.

Holders of share rights will be entitled to subscribe at the share subscription price for a number of offered shares determined by multiplying the number of share rights they own by the factor 0.22.

The ordinary shares commenced trading cum-rights on the Official Market of the Euronext Lisbon Stock Exchange, or Euronext Lisbon, following our board meeting on November 4, 2004.

The share record date for the purpose of determining entitlement to share rights is 4.30 p.m. (Lisbon time) on November 8, 2004.

The ordinary shares will commence trading ex-rights on Euronext Lisbon at 8.30 a.m. (Lisbon time) on November 9, 2004.

The ordinary share subscription period will be from 8.30 a.m. (Lisbon time) on November 12, 2004 to 3.00 p.m. (Lisbon time) on November 25, 2004.

The share subscription price is 1.84 per offered share subscribed, which was the equivalent of U.S.\$2.37 on November 4, 2004.

Share rights expire at 3.00 p.m. (Lisbon time) on November 25, 2004.

Listing and Trading:

Outstanding ordinary shares are traded on Euronext Lisbon under the symbol EDP.

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The ADS rights are non-transferable. **ADS rights that are not exercised by the end of the ADS subscription period will expire valueless without any compensation.**

Subject to compliance with relevant securities laws, the share rights are freely transferable. The share rights are expected to trade on Euronext Lisbon under the symbol EDPDS from 8.30 a.m. (Lisbon time) on November 12, 2004 until 4.30 p.m. (Lisbon time) on November 19, 2004.

The exercise of ADS rights will be irrevocable upon exercise and may not be canceled or modified after such exercise. The exercise of share rights will become irrevocable and may not be canceled or modified after the close of business on November 22, 2004. Any rights unexercised by the end of the ADS subscription period or the share subscription period, as applicable, will expire valueless without any compensation.

Our gross proceeds from the rights offering will be approximately 1.20 billion, which was the equivalent of U.S.\$1.55 billion on November 4, 2004. We estimate that our expenses in connection with the rights offering will be approximately 44 million, which was the equivalent of U.S.\$57 million on November 4, 2004, including commitment fees and selling and management commissions totalling 41 million, which was the equivalent of U.S.\$53 on November 4, 2004. As a result, the net proceeds to us will be approximately 1.16 billion, which was the equivalent of U.S.\$1.49 billion on November 4, 2004. See Underwriting for more information on the commitment fees and selling, management and discretionary commissions.

We expect the offered ADSs, which will be fully fungible and rank equally in all respects with the outstanding ADSs, to be issued by Citibank, N.A., the depository for the ADSs, on or around December 7, 2004, but no assurance can be given that such issuance and delivery will not be delayed. We expect to issue the offered shares on or around December 2, 2004 and to have them admitted to listing and trading on Euronext Lisbon on or around December 7, 2004, but no assurance can be given that such issuance or admission will not be delayed.

See Risk Factors beginning on page S-12 to read about factors you should consider before subscribing for any offered ADSs or offered shares.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

Caixa Banco de Investimento, S.A.
BCP Investimento Banco Comercial

Joint Global Coordinators

Goldman, Sachs & Co.
Morgan Stanley

Português de Investimento, S.A.

UBS Limited

BCP Investimento Banco Comercial

Rights Offering Coordinators

Caixa Banco de Investimento, S.A.

Português de Investimento, S.A.

November 8, 2004

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ABOUT THIS PROSPECTUS SUPPLEMENT

Before you invest in any securities offered by this prospectus supplement, you should read the attached base prospectus, which, together with this prospectus supplement, we refer to as the prospectus, and the related exhibits filed with the SEC, together with the additional information described under the headings *Where You Can Find More Information about EDP*. The base prospectus is on file with the SEC and may cover a variety of offerings that EDP may undertake. For information regarding the rights offering in particular, please see the prospectus supplement.

As used in this prospectus, unless the context otherwise requires, the terms EDP, S.A., EDP, we, us and our refer to EDP Energias de Portugal, S.A. (formerly known as EDP Electricidade de Portugal, S.A) and, as applicable, its consolidated subsidiaries. Unless we specify otherwise or the context otherwise requires, references to U.S.\$, \$, and U.S. dollars are to United States dollars and references to €, euro or EUR are to euro, the single European currency established pursuant to the European Economic and Monetary Union.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. We may from time to time make forward-looking statements in our reports to the SEC on Form 20-F and Form 6-K, in our annual reports to shareholders, in offering circulars and prospectuses, in press releases and other written materials, and in oral statements made by our officers, directors or employees to analysts, institutional investors, representatives of the media and others.

These forward-looking statements, including, among others, those relating to our future business prospects, revenues and income, wherever they may occur in this prospectus, the documents incorporated by reference in this prospectus and the exhibits to this prospectus, are necessarily estimates reflecting the best judgment of our senior management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. As a consequence, you should consider these forward-looking statements in light of various important factors, including those set forth in this prospectus. Important factors that could cause actual results to differ materially from estimates or projections contained in the forward-looking statements include, without limitation:

the effect of, and changes in, regulation and government policy, including, in particular, Portuguese government and municipal concessions and environmental regulations;

the effect of, and changes in, macroeconomic, social and political conditions in countries in which we operate;

the effects of competition, including competition that may arise in connection with the development of an Iberian electricity market;

our ability to reduce costs;

hydrological conditions and the variability of fuel costs;

anticipated trends in our business, including trends in demand for electricity;

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our success in developing our telecommunications business;

our success in new businesses, such as gas;

future capital expenditures and investments;

the timely development and acceptance of our new services;

the effect of technological changes in electricity, telecommunications and information technology; and

our success at managing the risks of the foregoing.

Forward-looking statements speak only as of the date they are made. We do not undertake to update such statements in light of new information or future developments.

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PRESENTATION OF FINANCIAL INFORMATION

Unless we indicate otherwise, we have prepared the financial information contained in the prospectus in accordance with generally accepted accounting principles in Portugal, or Portuguese GAAP, which differs in significant respects from generally accepted accounting principles in the United States, or U.S. GAAP. We describe these differences in Operating and Financial Review and Prospects Portuguese GAAP Compared with U.S. GAAP and in note 39 to our audited consolidated financial statements and note 37 to our interim consolidated financial statements. Unless we specify otherwise, references in the prospectus to our audited consolidated financial statements are to our audited consolidated financial statements as of December 31, 2003 and 2002 and for each of the three years in the three-year period ended December 31, 2003 and the notes thereto, which are incorporated in the prospectus by reference to our Annual Report on Form 20-F for the year ended December 31, 2003 (the 2003 20-F), and references in the prospectus to our interim consolidated financial statements are to our unaudited consolidated financial statements as of and for the six-month periods ended June 30, 2003 and 2004, respectively, and the notes thereto, which are incorporated in the prospectus by reference to our Report on Form 6-K furnished to the SEC on October 21, 2004.

Beginning in 2002 (for fiscal year 2001 and thereafter), we published our consolidated financial statements in euros. Unless we indicate otherwise, we have translated amounts stated in U.S. dollars from euros at an assumed rate solely for convenience. By including these currency translations in the prospectus, we are not representing that the euro amounts actually represent the U.S. dollar amounts shown or could be converted into U.S. dollars at the rate indicated. Unless we indicate otherwise, we have translated the U.S. dollar amounts from euros at the noon buying rate in The City of New York for cable transfers in foreign currencies as announced by the Federal Reserve Bank of New York for customs purposes (the Noon Buying Rate) on June 24, 2004 of U.S.\$1.217 per 1.00. That rate may differ from the actual rates used in the preparation of our audited consolidated financial statements and U.S. dollar amounts used in the prospectus may differ from the actual U.S. dollar amounts that were translated into euros in the preparation of our audited consolidated financial statements.

In addition, for convenience only and except where we specify otherwise, we have translated certain reais figures into euro at the fixed rate of exchange between the real and euro of 3.776 reais = 1.00. The rate of exchange between reais and euros represents the euro equivalent of the U.S. dollar/real fixed rate of exchange, calculated by translating reais into U.S. dollars using the Noon Buying Rate on June 24, 2004 of 3.103 reais = U.S.\$1.00 and then translating U.S. dollars into euros using the rate of exchange between U.S. dollars and euros of U.S.\$1.217 = 1.00, which was the applicable Noon Buying Rate on June 24, 2004. By including convenience currency translations in the prospectus, we are not representing that the reais amounts actually represent the euro amounts shown or could be converted into euros at the rates indicated.

Prior to January 1, 2001, our reporting currency was Portuguese escudos. For convenience and to facilitate a comparison, all escudo-denominated financial data for periods prior to January 1, 2001 included in the prospectus have been restated from escudos to euros at the fixed rate of exchange as of January 1, 1999 of PTE 200.482 = 1.00. Where escudo-denominated amounts for periods prior to January 1, 2001 have been rounded, the restated euro amounts have been calculated by converting the rounded escudo-denominated amounts into euros. The comparative balances for prior years now reported in euros depict the same trends as would have been presented had we continued to report such amounts in Portuguese escudos. Other financial data for periods prior to January 1, 1999 may not be comparable to that of other companies reporting in euros if those companies had restated from a reporting currency other than Portuguese escudos.

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SUMMARY

This summary highlights selected information contained elsewhere in the prospectus. It is not complete and may not contain all of the information that is important to you. To understand the rights offering, you should read the detailed information included in the prospectus fully, including the audited consolidated financial statements and the interim consolidated financial statements, the discussion under Risk Factors, and any documents incorporated by reference in the prospectus.

RECENT EVENTS

Our operating margin in the first three quarters of 2004 increased by 35.0% to 786.1 million compared to the same period in 2003, while revenues increased 2.4% to 5,312.1 million. This increase primarily resulted from:

strong sales growth in our electricity markets, with electricity consumption increasing 5.1% in Portugal, 4.2% in Spain and 5.3% in our Brazilian concession areas in the first nine months of 2004 compared to the same period in 2003;

cost controls and improvements in efficiency, with personnel costs decreasing 4.3% as a result of our HR Restructuring Program;

The entry of TER's first unit into industrial service, which contributed 1.9 TWh of electricity emission;

tariff revisions in Brazil, which were partially offset by provisional retroactive changes in tariffs granted to Bandeirante (as further described below); and

the contribution of Naturcorp to our results in the first nine months of 2004, following the acquisition of a 56.8% stake in that company by Hidrocantábrico in July 2003.

In October 2004, the Brazilian electricity regulator decided to amend the average electricity tariff increase granted to Bandeirante in connection with the October 23, 2003 tariff review from 18.08% to 10.51%. The retroactive impact of this revision was already fully provisioned in our first three quarters of 2004, with 22 million booked as operating provisions and the remaining 6 million as a non-operating provision.

Our net interest and related income/expenses decreased by 6.3% in the first three quarters of 2004 to 268.9 million compared to the same period in 2003, primarily as a result of an 8.3% decrease in financial interest charges following a reduction in our financial debt. Our other non-operating income/expenses were adversely impacted by retroactive changes in tariffs granted to Bandeirante, as described above, and Escelsa, resulting in expenses of 16.1 million, and by costs relating to negotiated dismissals and early retirement age anticipations, which resulted in 22.4 million in expenses.

Our net profit increased by 36.1% to 350.6 million in the first nine months of 2004 compared to the same period in 2003, with our generation business and Brazilian operations being the primary contributors to this improvement.

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Our capital expenditure for the first three quarters of 2004 totalled 706.9 million, a 34% increase compared to the same period in 2003. The expenditures principally reflect EDP Produção's investment in the second 400 MW group at its TER CCGT facility, investment by Erenova in new wind farms, investment by Hidroantábriico at the Albacete wind farm, increased investment by EDPD to improve service quality and increased investments at the Peixe Angical hydro power plant in Brazil, partially offset by decreased investment by ONI following completion of major investments for network expansion. Our cash flow generation after capital

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expenditures at our core businesses, EDP Produção and EDPD, accounted for 646.2 million of our total cash flow in the first three quarters of 2004, which amounted to 586.4 million, and enabled us to reduce our gross financial debt by 64.7 million, from 7,492.7 million as of December 31, 2003 to 7,428.0 million as of September 30, 2004.

On October 20, 2004, Hidrocontábrico announced that it had reached an agreement with Grupo Corporativo Ono for the sale of its total shareholding position of 34.96% in Retecal, having enacted the corresponding sale and purchase notarial deed on that day. The cash proceeds from this sale will amount to 57.5 million, while the book value of the shareholding position is 32.8 million.

On October 15, 2004, the Portuguese electricity regulator, the Entidade Reguladora dos Serviços Energéticos, referred to as ERSE, released its proposal on the parameters, tariffs and prices of electricity and other services for 2005. ERSE has proposed that in 2005 the tariffs for sale to final customers in Portugal (mainland) will be increased by 2.1% in nominal terms compared to 2004. The Tariff Regulation enacted by ERSE provides that the Tariff Council of ERSE, a consulting body on tariffs and regulation, must issue its (non-binding) opinion on this proposal by November 15, 2004. Subsequently, ERSE, considering the opinion expressed by the Tariff Council, will approve the final parameters, tariffs and prices, which should be published by December 15, 2004. The tariff set for 2005 or any new regulations promulgated may adversely affect our business, results of operations and financial condition.

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BUSINESS

We are the largest producer and distributor of electricity in Portugal and will become the third largest utility operator in the Iberian market following our announced acquisition of a further 56.2% stake in Hidrocontábrico, which will bring our total interest in it to 95.7%. Hidrocontábrico operates electricity generation plants and distributes and supplies electricity and gas, mainly in the Asturias and Basque regions in Spain. We intend to use the proceeds of this offering to finance this acquisition. For further information on the acquisition, see [Use of Proceeds](#) and [Information on the Company Overview Electricity](#).

In 2003, we accounted for approximately 82% of the installed generation capacity in the Portuguese Public Electricity System, or PES, and 99% of the distribution in the PES. REN, in which we hold a 30% equity interest, accounted for 100% of the transmission in the PES. Hidrocontábrico, Spain's fourth largest utility operator, accounted for 4.7% of Spanish mainland generation capacity, or 5.5% excluding special regime facilities (which are generally cogeneration and renewable energy facilities), and 6.5% of the Spanish liberalized electricity supply market.

We are also in the process of consolidating our position in the Portuguese and Spanish gas markets. In Portugal, we entered into an agreement in March 2004 pursuant to which, subject to the satisfaction of certain conditions, we intend to translate our existing 14.27% investment in GALP for a directly held 51% controlling stake in GDP, the gas distributing company of GALP and the largest in Portugal. We have also entered into agreements giving us the option to acquire stakes in two of the main Portuguese regional gas distribution companies, Portgás and Setgás. For further information on these transactions, see [Information on Our Company Strategy Developing an Iberian Gas Business](#). In Spain, our current interest in the gas sector consists of our 39.5% holding in Hidrocontábrico, which controls Naturcorp, with more than 500,000 customers and approximately 10% of Spain's regulated revenues for gas distribution, or 8% of gas distributed in Spain in terms of GWh. Following the acquisition of the additional 56.2% stake in Hidrocontábrico, we will be the second largest gas operator in Spain.

Our 2003 operating revenues amounted to 6,977.5 million (U.S.\$8,491.6 million), approximately 90% of which represented electricity sales, yielding operating income of 905.7 million (U.S.\$1,102.3 million). As of December 31, 2003, our total assets were 18,650.7 million (U.S.\$22,697.9 million), and shareholders' equity was 5,298.0 million (U.S.\$6,447.7 million).

In Portugal, we generate power for consumption in both the Public Electricity System and the Independent Electricity System. In 2003, our generation facilities in Portugal had a total installed capacity of 7,939 MW. In the transmission function, REN operates the national grid for transmission of electricity throughout mainland Portugal on an exclusive basis pursuant to Portuguese law. REN also manages the system dispatch and the interconnections with Spain. EDPD, our distribution company, carries out Portugal's local electricity distribution almost exclusively. EDPD provided approximately 5.8 million customers with 38,916 GWh of electricity in 2003. In Spain, Hidrocontábrico had a total installed capacity in 2003 of 2,820 MW and distributed a total of 8,659 GWh through its own network to more than 561,000 customers.

We expect regional electricity markets to consolidate in Europe as an initial step toward an integrated and liberalized electricity market within the European Union. For geographical and regulatory reasons, we anticipate that the Iberian electricity market will become our core market for our main electricity business following the implementation of MIBEL, which is expected to be operational by June 30, 2005. Further to this strategic focus, in 2001 and 2002, we expanded our energy operations in Spain with the acquisition of a 39.5% interest in Hidrocontábrico. The increase of our stake in Hidrocontábrico to 95.7% will result in the full integration of Hidrocontábrico's operations within ours, which should allow us to enhance management flexibility, realize further synergies from the combination of our operations and improve business performance, thereby reinforcing our position as a leading Iberian energy company in advance of the opening of MIBEL. For more information on MIBEL, see [Information on the Company The Iberian Electricity Market](#).

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You should read the following summary consolidated financial data in conjunction with Operating and Financial Review and Prospects below and our audited consolidated financial statements, interim consolidated financial statements and other financial data found elsewhere in this prospectus or incorporated by reference herein.

The summary financial data below has been extracted from our audited consolidated financial statements as of and for each of the three years ended December 31, 2003 and the notes thereto, as well as from our unaudited interim consolidated financial statements as of and for the six-month periods ended June 30, 2003 and 2004 and the notes thereto. These consolidated financial statements have been prepared in accordance with Portuguese GAAP, which differs in certain significant respects from U.S. GAAP. See Operating and Financial Review and Prospects Portuguese GAAP compared with U.S. GAAP and note 39 to our audited consolidated financial statements and note 37 to our interim consolidated financial statements for a discussion of the principal differences between Portuguese GAAP and U.S. GAAP with respect to our consolidated financial statements.

	Year ended			Six months ended	
	December 31,			June 30,	
	2001	2002	2003	2003	2004
	(millions of EUR, except per ordinary share and per ADS data)				
	(audited)			(unaudited)	
Statement of income:					
Amounts in accordance with Portuguese GAAP					
Electricity sales	5,201	5,876	6,296	3,116	3,138
Other sales ⁽¹⁾	98	112	160	31	127
Services ⁽²⁾	351	398	521	199	267
Total revenues	5,650	6,387	6,978	3,346	3,532
Raw materials and consumables	3,080	3,687	3,921	1,841	1,920
Personnel costs	592	625	647	345	325
Depreciation and amortization	665	740	846	408	389
Supplies and services	651	675	633	310	302
Own work capitalized ⁽³⁾	(233)	(242)	(236)	(117)	(104)
Concession and power-generation rental costs ⁽⁴⁾	149	158	176	88	95
Hydrological correction ⁽⁵⁾	0	0	0	0	0
Other operating expenses, net	73	95	86	63	54
Total operating costs and expenses	4,977	5,738	6,072	2,939	2,980
Operating margin	674	649	906	407	552
Net interest expense ⁽⁶⁾	205	223	359	183	181
Other non-operating income (expenses), net	126	(139)	(14)	59	(20)
Income before income taxes	594	287	532	284	350
Provision for income taxes (net of deferred taxes)	(203)	(172)	(196)	(111)	(103)
Minority interest	60	220	44	9	28
Net income	451	335	381	182	275
Net income from operations per ordinary share ⁽⁷⁾	0.22	0.22	0.30	0.14	0.18
Net income from operations per ADS	2.25	2.16	3.02	1.36	1.84
Basic and diluted net income per ordinary share ⁽⁷⁾	0.15	0.11	0.13	0.06	0.09
Basic and diluted net income per ADS ⁽⁷⁾	1.50	1.12	1.27	0.61	0.92
Dividends per ordinary share ⁽⁸⁾	0.11	0.09	0.09		
Dividends per ADS ⁽⁸⁾	1.13	0.90	0.90		

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	Year ended			Six months ended	
	December 31,			June 30,	
	2001	2002	2003	2003	2004
	(millions of EUR, except per ordinary share and per ADS data)			(unaudited)	
Cash flow data:					
Amounts in accordance with Portuguese GAAP					
Net cash from operating activities	1,221	898	1,774	791	852
Net cash used in investing activities	1,243	1,141	529	270	504
Net cash used in (from) financing activities	96	297	(1,119)	(512)	(486)
Balance sheet data (at period end):					
Amounts in accordance with Portuguese GAAP					
Cash and cash equivalents	34	214	287	143	204
Other current assets	1,496	1,863	1,919	1,866	1,860
Total current assets	1,530	2,077	2,207	2,009	2,064
Fixed assets, net ⁽⁹⁾	9,844	11,204	11,652	11,210	11,706
Other assets	4,860	4,844	4,792	4,852	5,020
Total assets	16,233	18,125	18,651	18,071	18,790
Short-term debt and current portion of long-term debt	1,744	1,887	1,579	1,789	1,649
Other current liabilities	1,286	1,631	1,711	3,041	1,896
Total current liabilities	3,030	3,518	3,290	4,830	3,545
Long-term debt, less current portion	4,055	6,107	5,914	6,214	5,811
Hydro account ⁽¹¹⁾	388	324	0	0	0
Other long-term liabilities	2,423	2,616	3,525	1,174	3,461
Total liabilities	9,896	12,566	12,729	12,218	12,817
Minority interest	241	65	236	57	234
Hydro account ⁽¹¹⁾	0	0	388	383	375
Shareholders' equity	6,097	5,494	5,298	5,413	5,364
Amounts in accordance with U.S. GAAP⁽¹⁰⁾					
Fixed assets, net ⁽⁹⁾	5,929	6,602	7,172		7,324
Total assets	15,455	16,922	17,730		18,118
Total current liabilities	3,052	2,551	3,280		3,416
Total long-term liabilities	7,721	10,420	10,892		10,731
Total liabilities	10,773	12,970	14,172		14,147
Shareholders' equity	4,441	3,886	3,497		3,739
Operating Data:					
Installed Capacity (MW)					
Portugal	7,610	7,654	7,939	7,661	7,971
Spain	2,262	2,671	2,820	2,736	2,816
Electricity Distributed (GWh)					
Portugal	36,025	36,931	38,916	19,372	20,138
Spain	7,919	8,375	8,659	4,227	4,525
Number of Electricity Distribution Customers (#)					
Portugal	5,541,418	5,665,056	5,768,287	5,731,006	5,819,635
Spain	536,746	549,091	561,208	556,062	567,412

(1) Consists of sales of steam, ash, information technology products and sundry materials.

(2) Consists of electricity-related services, services to information technology systems, telecommunications, engineering, laboratory services, training, medical assistance, consulting, multi-utility services and other services.

(3) Our consolidated income statements present expenses in accordance with their nature rather than their function. Therefore, costs incurred by us for self-constructed assets are capitalized as part of fixed assets and included as a reduction of total expenses under "Own work capitalized" when the related costs have been included in the relevant expense items.

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- (4) Substantially all of these amounts relate to rent expenses paid to municipalities for the right to distribute electricity in the relevant municipal areas.
- (5) As required by government regulation, we record charges and credits to operating income, depending on hydrological conditions in a given year, to smooth the effect on our earnings and customer prices that result from changes in hydrological conditions. The difference between the economic costs of generating electricity and the economic reference costs based on an average hydrological year are included in this item. The imputed interest on the accumulated balance of the hydro account and other adjustments are included in Other non-operating expenses (income). In 2003 and for the following years, net gains and losses arising from the hydrological account are being charged to other non-operating income (expenses). In this respect, in 2003 we booked a 19.4 million income item, or US\$ 23.6 million, under this profit and loss account caption. Additionally, in 2001 we recorded a 47.5 million income item. We did not record such an item in 2002.
- (6) Includes interest and related expenses and interest and related income.
- (7) Basic and diluted earnings per ordinary share are based on our historical average number of ordinary shares outstanding after giving effect to a 5 for 1 stock split and our average number of ordinary shares outstanding after giving effect to the 5 for 1 stock split plus the effect of the exercise of employee stock options, respectively. Basic and diluted earnings per ADS are based upon basic and diluted earnings per ordinary share multiplied by 10 as each ADS is equivalent to 10 ordinary shares on a post-split basis.
- (8) Based on 3,000,000,000 ordinary shares issued and outstanding.
- (9) Substantially all of these assets are subject to reversion to the Republic or the municipalities.
- (10) U.S. GAAP amounts for 2001 are not comparable to 2002 and 2003 due to the implementation of SFAS 142.
- (11) Commencing with 2003, the hydrological correction account is no longer presented in our consolidated balance sheet as a liability.

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THE OFFERING

Holders of ADSs

ADS rights offering

Holders of our ADSs will receive one ADS right for each ADS they hold on the ADS record date. Holders of ADS rights will be entitled to subscribe at the ADS subscription price for a number of ADSs determined by multiplying the number of ADS rights they own by the factor 0.22. Fractions of ADSs will not be issued and any fractions arising through the exercise of ADS rights will be rounded down to the nearest whole ADS. Subscriptions will be accepted for a whole number of offered ADSs only, although holders of ADSs may exercise all or only part of their ADS rights.

To the extent you are a registered holder of ADSs on the ADS record date, we have arranged for our ADS depository, Citibank, N.A., which is acting as ADS rights agent in connection with the rights offering, to send you an ADS rights certificate showing the number of offered ADSs you are entitled to subscribe for.

ADS rights agent

Citibank, N.A.

Oversubscription rights

ADS rights include oversubscription rights entitling holders of ADSs on the ADS record date to subscribe, at the ADS subscription price, for an additional number of offered ADSs, in the event that any offered shares (including offered ADSs) are not subscribed for pursuant to the initial exercise of rights.

In the event that the rights offering is oversubscribed pursuant to the exercise of oversubscription rights, the further offered ADSs available will be allocated to holders of ADS rights who have exercised their oversubscription rights. Such allocation will be prorated among oversubscribing ADS rights holders in proportion to their initial exercise of ADS rights in the event that the number of ADSs subscribed for pursuant to the exercise of oversubscription rights is greater than the number of offered shares, if any, (divided by ten) that the depository is entitled to pursuant to the exercise of the oversubscription rights associated with the ordinary shares underlying the ADSs, and subject to any maximum limit specified by each oversubscribing holder. The oversubscription right is not separable from the ADS right.

Applications for offered ADSs pursuant to the exercise of oversubscription rights must be made together with subscriptions for offered ADSs pursuant to the initial exercise of ADS rights.

Underwriting

The underwriters have severally agreed, subject to certain conditions, to procure subscribers, or otherwise themselves to subscribe, for any remaining offered shares. See Underwriting.

Cum-rights date

The ADSs began trading with ADS rights on the NYSE following our board meeting on November 4, 2004.

Ex-rights date

The ex-rights date for the ADSs is expected to be November 9, 2004. The ADSs are expected to commence trading on the NYSE without any rights on and after that date.

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ADS record date	The ADS record date for the purpose of determining entitlement to ADS rights is expected to be the close of business on November 12, 2004. The ADS rights will be credited to the book-entry system of DTC for further credit to the accounts of persons who held ADSs on the record date and registered holders will be sent their ADS rights certificates via first class mail as promptly as practicable thereafter.
ADS subscription period	From 9.00 a.m. (New York City time) on November 13, 2004 to 3.00 p.m. (New York City time) on November 23, 2004.
ADS subscription price	The ADS subscription price is U.S.\$23.70 per offered ADS subscribed. The ADS subscription price is the U.S. dollar equivalent of the share subscription price, using an exchange rate of U.S.\$1.2883 per Euro, multiplied by ten to reflect that each ADS represents ten ordinary shares. A subscriber of the offered ADSs must tender U.S.\$24.89 per offered ADS subscribed, which represents 105% of the ADS subscription price, upon the exercise of each ADS right. This is to increase the likelihood that the ADS rights agent will have sufficient funds to pay the ADS subscription price in light of possible U.S. dollar to euro exchange rate fluctuations.
Transfer of ADS rights	The ADS rights are non-transferable. ADS rights that are not exercised by the end of the ADS subscription period will expire valueless without any compensation.
Exercise of ADS rights	Each holder or beneficial owner of ADS rights may exercise all or only part of its ADS rights, and may elect to exercise its oversubscription rights. Subscriptions must be received prior to 3.00 p.m. (New York City time) on November 23, 2004 by the ADS Rights Agent.
<p>Each beneficial owner of ADS rights who wishes to exercise its ADS rights should consult with the financial intermediary through which it holds its ADSs and ADS rights as to the manner, timing and form of exercise documentation, method of payment of the ADS subscription price and other related matters required to effect such exercise. The financial intermediary with whom the subscription is made may require any person exercising rights to pay or block the ADS subscription price for the offered ADSs being subscribed for in a deposit account as a condition to accepting the relevant subscription.</p>	
<p>We provide further details on how to exercise rights under The Rights Offering.</p>	
ADS rights exercise irrevocable	Any exercise of ADS rights will be irrevocable upon exercise and may not be canceled or modified after such exercise.
Unexercised ADS rights	ADS rights that are not exercised prior to the end of the ADS subscription period will expire valueless without any compensation.
Delivery of offered ADSs	We expect to have issued all the offered shares underlying the offered ADSs by December 2, 2004. Following the registration of the resulting share capital increase with the Portuguese Commercial

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Registry in Lisbon, the issued ordinary shares will be delivered to subscribers by credit of such ordinary shares to each offered share subscriber's individual book-entry securities account and, following the admission of the offered shares to listing and trading on Euronext Lisbon, the offered ADSs will be sent to each offered ADS subscriber (by credit to its book-entry account at the financial intermediary through which it holds the ADSs or in the form of an ADS certificate by first class mail if it is a holder registered directly with the depository). This admission to listing and trading and the issuance of the offered ADSs is expected to take place on December 7, 2004. However, we can give no assurance that such admission to listing and trading or issuance and delivery will not be delayed.

Holders of Ordinary Shares

Share rights offering

Holders of our ordinary shares will receive one share right for each ordinary share that they own on the record date. Holders of share rights will be entitled to subscribe at the share subscription price for a number of offered shares determined by multiplying the number of share rights they own by the factor 0.22. Fractions of offered shares will not be issued and any fractions arising through the exercise of share rights will be rounded down to the nearest whole offered share. Subscriptions will be accepted for a whole number of offered shares only, although holders of ordinary shares may exercise all or only part of their share rights.

Rights offering coordinators

BCP Investimento Banco Comercial Português de Investimento, S.A. and Caixa Banco de Investimento, S.A.

Oversubscription rights

Share rights include oversubscription rights entitling holders of record on the record date to subscribe, at the share subscription price, for an additional number of offered shares, in the event that they are not subscribed for pursuant to the initial exercise of rights.

In the event that the rights offering is oversubscribed pursuant to the exercise of oversubscription rights, the further offered shares available will be allocated to holders of share rights who have exercised their oversubscription rights. Such allocation will be prorated among oversubscribing share rights holders in proportion to their initial exercise of share rights in the event that the number of shares subscribed for pursuant to the exercise of oversubscription rights is greater than the number of offered shares not initially subscribed for pursuant to the exercise of rights, if any, and subject to any maximum limit specified by each oversubscribing holder. The oversubscription right is not separable from the share right.

Cum-rights date

The ordinary shares commenced trading with share rights on Euronext Lisbon following our board meeting on November 4, 2004.

Share record date

The share record date for the purpose of determining entitlement to share rights will be 4.30 p.m. (Lisbon time) on November 8, 2004, which is the last day that the ordinary shares will trade with share

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rights on Euronext Lisbon. At the start of business on November 12, 2004, the share rights will be credited through the book-entry system of the *Central de Valores Mobiliários*, or CVM, the Portuguese book-entry system, to the accounts of persons who held ordinary shares on the record date.

Ex-rights date	The ex-rights date for the ordinary shares is November 9, 2004. The ordinary shares will commence trading on Euronext Lisbon without any rights on and after that date.
Share subscription period	From 8.30 a.m. (Lisbon time) on November 12, 2004 to 3.00 p.m. (Lisbon time) on November 25, 2004.
Share subscription price	1.84 per offered share, which was the equivalent of U.S.\$2.37 on November 4, 2004.
Transfer of share rights	Subject to compliance with relevant securities laws, the share rights are freely transferable and are expected to trade on Euronext Lisbon under the symbol EDPDS from 8.30 a.m. (Lisbon time) on November 12, 2004 to 4.30 p.m. (Lisbon time) on November 19, 2004.
Exercise of share rights	Each holder of share rights may exercise all or only part of its share rights, and may elect to exercise its oversubscription rights. Each holder of share rights can subscribe for offered shares pursuant to the exercise of share rights and oversubscription rights by delivering a duly executed subscription form to an authorized financial intermediary or by any other means approved by such authorized financial intermediary with whom the subscription is made. Subscription forms will be available during the subscription period at any of the branches of the rights offering coordinators in Portugal. Subscriptions must be received prior to 3.00 p.m. on November 25, 2004.
<p>Each holder of share rights who wishes to exercise its share rights should consult with the financial intermediary through which it holds its ordinary shares and share rights as to the manner, timing and form of exercise documentation, method of payment of the share subscription price and other related matters required to effect such exercise. The authorized financial intermediary through whom the subscription is made may require any person exercising share rights to pay or block the share subscription price for the offered shares being subscribed for in a deposit account as a condition to accepting the relevant subscription.</p>	
<p>We provide further details on how to exercise rights under The Rights Offering.</p>	
Share rights exercise irrevocable	Any exercise of share rights will become irrevocable and may not be canceled or modified after the close of business on November 22, 2004.
Unexercised share rights	Share rights that are not exercised prior to the end of the share subscription period will expire valueless without any compensation.
Delivery of offered shares	Upon due exercise of any share rights and payment of the share subscription price, the authorized financial intermediary with whom

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the subscription was made will register with the CVM such holder's name or such holder's nominee's name and the amount of the exercised share rights.

We expect to issue the offered shares by December 2, 2004. Following the registration of the resulting share capital increase with the Portuguese Commercial Registry in Lisbon, the issued offered shares will be delivered to subscribers by credit of such offered shares to each subscriber's individual book-entry securities account. This is expected to take place on or around December 7, 2004. We expect that the offered shares will be admitted to listing and trading on Euronext on December 7, 2004. However, we can give no assurance that such issuance and delivery or admission to listing and trading will not be delayed.

For additional information regarding the rights offering, see [The Rights Offering](#).

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RISK FACTORS

In addition to the other information included and incorporated by reference in this prospectus, you should carefully consider the following factors. There may be additional risks that we do not currently know of or that we currently deem immaterial based on information currently available to us. Our business, financial condition or results of operations could be materially adversely affected by any of these risks, resulting in a decline in the trading price of our ordinary shares or ADSs.

RISKS RELATED TO OUR CORE ELECTRICITY BUSINESS

The competition we face in the generation and supply of electricity is increasing, which may affect our electricity sales and operating margins.

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

In Portugal, while we currently face limited competition from independent power producers in generation, we expect that this competition will increase as the industry further liberalizes. Portuguese law requires that contracts for the construction of future power plants in Portugal in the Binding Sector be awarded through competitive tender processes, in which we expect to participate. In a competitive tender process, we may lose opportunities to generate electricity in the Binding Sector in Portugal. For further information on the Binding Sector and the structure of the Portuguese electricity market, see Information on the Company Portugal Electricity System Overview.

In addition, the Portuguese government has implemented selected measures to encourage the development of various forms of electricity production, including auto production (entities generating electricity for their own use that may sell surplus electricity to the national transmission grid), cogeneration, small hydroelectric production (under 10 MVA installed capacity) and production using renewable sources. As an incentive from the Portuguese government, the electricity generated by these producers has been granted priority of sale in the Binding Sector. In 2003, the installed capacity of these producers was 1,885 MW, which represents 17% of the total installed capacity in Portugal. Through its subsidiaries, EDP participates in this generation area with an installed capacity of 272 MW.

The Portuguese regulatory structure now allows for competition in the supply of electricity, which could adversely affect our sales of electricity. In particular, as more electricity consumers elect to participate in the market-based Non-Binding Sector in Portugal, more electricity will be sold in the competitive markets, where prices may be lower than existing tariffs. The effects of this increased competition have not yet been fully determined, as full liberalization in the supply of electricity was only achieved on August 18, 2004.

Despite the complete liberalization of the Spanish generation and wholesale market since January 1, 2003, the majority of consumers have not changed their electricity supplier. Until now, this liberalization has mainly produced effects among medium- and high-voltage consumers. Although fixed rate tariffs are expected to predominate, at least in the short and medium term, among Spanish electricity consumers, especially low voltage consumers, there could be a more pronounced move to contractually-agreed prices in the future and these prices could be lower than regulated tariffs.

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In the context of liberalization of the electricity market within the European Union, since the end of 2001, the Portuguese and Spanish governments have entered into several agreements for the creation of an Iberian electricity market, referred to as MIBEL, the main principles of which are free competition, transparency, objectiveness and efficiency. The stated intent of MIBEL is to guarantee Portuguese and Spanish consumers access to electricity distribution and to create interconnections with third countries on equal conditions applicable to Portugal and Spain. In addition, it is intended that the production of electricity by producers in Portugal and

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Spain be subject to similar regulation, thereby allowing producers in one country to execute bilateral agreements for electricity distribution to consumers in the other country and facilitating the creation of an Iberian common electricity pool.

The scope of increased competition and any adverse effects on our operating results and market share resulting from the full liberalization of the European electricity markets, and in particular the Portuguese and Spanish electricity markets, combined with the opening of MIBEL (which is expected to occur by June 30, 2005), will depend on a variety of factors that cannot be assessed with precision and that are beyond our control. Accordingly, we cannot anticipate the risks and advantages that may arise from this market liberalization. When further implemented, the organizational model and resulting competition may materially and adversely affect our business, results of operations and financial condition.

Our core electricity operating results are affected by laws and regulations, including regulations regarding the prices we may charge for electricity.

As an electricity public service, we operate in a highly regulated environment. An independent regulator appointed by the Portuguese government, the *Entidade Reguladora dos Serviços Energéticos*, referred to as ERSE, or the regulator, regulates the electricity industry through, among other things, a tariff code that defines the prices we may charge for electricity services in the Binding Sector. In attempting to achieve an appropriate balance between, on the one hand, the interests of electricity customers in affordable electricity and, on the other hand, our need and the needs of other participants in the electricity sector to generate adequate profit, the regulator may take actions that adversely impact our profitability.

The final tariff collected by EDP Distribuição, or EDPD, our distribution company in Portugal, is calculated on the basis of a unitary tariff by level of electricity tension defined by ERSE, subject to a yearly adjustment on the basis of the Portuguese consumer price index, or CPI, less an efficiency factor. During the current regulatory period (2002-2004), the efficiency factor has increased from 5% (applicable during the 1999-2001 regulatory period) to approximately 7%. In addition, on the basis of this formula, net tariffs charged by EDPD have decreased in 2004 compared to 2003, which could adversely affect our profitability in 2004. In light of the expected implementation of the agreements creating MIBEL, we estimate that a new regulatory period will be established with a duration of only one year. The tariff set for that period or any new regulations promulgated in that period may adversely affect our business, results of operations and financial condition.

The current and future legislation contemplating the early termination of the PPAs could eventually adversely affect our revenues.

Following the Resolution of the Council of Ministers no. 63/2003 of April 28, 2003 relating to the promotion of liberalization of the electricity and gas markets in furtherance of the organizational structure of MIBEL, the Portuguese government enacted Decree law no. 185/2003 of August 20, 2003, which contemplates the eventual early termination of existing power purchase agreements, or PPAs, in accordance with conditions to be set out in a separate decree law, which will be approved by the Portuguese government pursuant to the legislative authorization granted by the Portuguese parliament under Law no. 52/2004 of October 29, 2004. Decree law no. 185/2003 of August 20, 2003 provides for the creation of compensation measures ensuring electricity generating companies an economic benefit equivalent to that of the PPAs, and the EU Commission announced on September 20, 2004 that the stranded cost compensation mechanism notified by the Portuguese government is not contrary to the state aid rules of the European Union. However, the amount of, and the criteria for determining, the compensation have not yet been defined and our generation revenues could otherwise be adversely affected if our generation sales are not made on terms substantially similar to those previously made to REN, the sole transmitter of electricity in Portugal. In addition, our operating margins may be adversely affected by new costs that are currently compensated through PPAs.

If our concessions from the Portuguese government and municipalities were terminated, we could lose control over our fixed assets.

Most of our revenues currently come from the generation and distribution of electricity. We conduct these activities pursuant to concessions and licenses granted by the Portuguese government and various municipalities.

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These concessions and licenses are granted for fixed periods ranging in most cases from 20 to 75 years, but are subject to early termination under specified circumstances. The expiration or termination of concessions or licenses would have an adverse effect on our operating revenues. Upon expiration of licenses or termination of concessions, the fixed assets associated with licenses or concessions will, in general, revert to the Portuguese government or a municipality, as appropriate. Although specified compensatory amounts would be paid to us with respect to these assets in these circumstances, the loss of these assets may adversely affect our operations.

Our operational cash flow is affected by variable hydrological conditions.

Hydroelectric plants, which are powered by water, account for approximately 54% of our generation capacity in mainland Portugal. Our hydroelectric generation in Portugal is dependent on the amount and location of rainfall and river flows from Spain, all of which vary widely from year to year. Consequently, there is a high degree of variation in levels of hydroelectric production.

In years of less favorable hydrological conditions, we generate less hydroelectricity and must rely more heavily on thermal production to meet demand for electricity. Thermal generation, which is fired by coal, fuel oil, natural gas or a combination of fuels, is more expensive in terms of variable costs than hydroelectric generation. Our total variable production costs and costs of purchased electricity in a very dry year can vary from those in a very wet year by approximately 200 million. These increased costs in a dry year could have an adverse impact on our operational cash flow but not our results of operations, due to the effects of the hydrological correction account, which is a legally mandated mechanism that adjusts for variation in hydrological conditions across different years. For further information on the hydrological correction account, see Operating and Financial Review and Prospects Critical Accounting Policies Revenue Recognition Hydrological Account.

Our electricity business is subject to numerous environmental regulations that could affect our results of operations and financial condition.

Our electricity business is subject to extensive environmental regulations. These include regulations under Portuguese law, laws adopted to implement EU regulations and directives and international agreements on the environment. Environmental regulations affecting our business primarily relate to air emissions, water pollution, waste disposal and electromagnetic fields. The principal waste products of fossil-fueled electricity generation are sulfur dioxide, or SO₂, nitrogen oxides, or NO_x, carbon dioxide, or CO₂, and particulate matters such as dust and ash. A primary focus of environmental regulation applicable to our business is to reduce these emissions.

We incur significant costs to comply with environmental regulations requiring us to implement preventive or remediation measures. For example, we expect to make approximately 40 million of capital expenditures in 2004 to comply with applicable environmental laws and regulations to minimize the impact of our operations on the environment. Environmental regulatory measures may take such forms as emission limits, taxes or required remediation measures, and may influence our policies in ways that affect our business decisions and strategy, such as by discouraging our use of certain fuels.

Under the EU Directive relating to the emission of pollutants from Large Combustion Plants, Portuguese environmental authorities are currently creating a plan, called the National Emissions Reduction Plan, to reduce SO₂ and NO_x emissions. This plan is expected to be formally approved at the end of 2004. Additionally, with regard to CO₂ emissions, new proposals defining greenhouse gas emission reduction measures were put forward for public comment in 2003, and are expected to be implemented in Portugal later this year. Although we expect to be in timely compliance with these new requirements, such requirements could necessitate additional licenses or the acquisition of emission rights and result in higher electricity costs.

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We also have an interest in a nuclear power plant through Hidroeléctrica del Cantábrico, S.A., or Hidrocantábrico, which holds a 15.5% interest in the Trillo nuclear power plant in Spain. Nuclear operations use and generate radioactive and hazardous substances that have the potential to seriously impact human health and the environment.

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There are particular risks associated with the operation of nuclear power stations, including accidents, the breakdown or failure of equipment or processes or human performance, including safety controls, and other catastrophic events that could result in the dispersal of radioactive material over large areas, thereby causing injury or loss of life and extensive property or environmental damage. Liabilities we may incur in connection with these risks could significantly reduce our revenues and increase our expenses and result in negative publicity and reputational damage. In addition, insurance proceeds may not be adequate to cover all liabilities incurred, lost revenue or increased expenses.

For further information on environmental matters, see [Information on the Company Environmental Matters](#) below.

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RISKS RELATED TO OUR OTHER BUSINESSES

Our involvement in international activities subjects us to particular risks that could affect our profitability.

Our investments in Brazil and in other countries present a different or greater risk profile than that of our electricity business in Portugal and Spain. Risks associated with our investments outside of Portugal and Spain include, but are not limited to:

economic volatility;

exchange rate fluctuations and exchange controls;

strong inflationary pressures;

government involvement in the domestic economy;

political uncertainty; and

unanticipated changes in regulatory or legal regimes.

We cannot assure you that we will successfully manage our operations in Brazil and other international operations.

Exchange rate instability and, in particular, fluctuations in the value of the Brazilian real against the value of the U.S. dollar (depreciation of 52% during 2002 and appreciation of 18% during 2003) may result in uncertainty in the Brazilian economy, which may affect the results of our Brazilian operations. In addition, we are exposed to translation risk when the accounts of our Brazilian businesses, denominated in Brazilian reais, are translated into our consolidated accounts, denominated in euro. We cannot predict movements in Brazil's currency, and, since long-term Brazilian currency hedges are not available, a major devaluation of the real might adversely affect our results of operations and financial condition.

Regulatory, hydrological and infrastructure conditions in Brazil may adversely affect our Brazilian operations.

We hold interests in Brazilian distribution companies and have invested in Brazilian generation projects. In the past, our distribution activities and generation projects in Brazil have been adversely affected by regulatory, hydrological and infrastructure conditions in Brazil. These conditions could have a similar adverse effect on our Brazilian generation and distribution operations in the future.

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

The Brazilian electricity rationing program started in June 2001 and ended in February 2002 had an adverse effect on electricity consumption and on consumption habits in affected areas. Current consumption levels have not yet recovered to pre-rationing levels. This lower consumption has affected, and is expected to continue to affect, the demand for electricity supply with our distribution companies in Brazil. Consequently, in 2002 and 2003, our Brazilian operations could only dispose of surplus electricity at depressed prices.

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In 2004, laws regarding the so-called New Model for the Brazilian electric utility sector were approved. As the regulations for the New Model have not yet been implemented, there is a risk that the new regulations may not be favorable for us. In addition, the New Model contemplates significant control by the Brazilian government, creating uncertainty regarding competition and further investments in the private sector.

Tariffs of distribution companies in Brazil currently consist of two components: non-manageable costs and manageable costs. The main purpose of this split is the maintenance of an adjusted tariff for inflation and the sharing of efficiency gains with consumers. The aim of distribution tariffs is to pass non-manageable costs through and to index manageable costs to inflation. Although it is expected that the New Model will maintain the pass-through of non-manageable costs, there might be delays in readjustment of the tariffs in the event of large macro-economic fluctuations (e.g., inflation and exchange rates). We cannot assure you that regulations implementing the New Model will fully mitigate the risk of delayed tariff adjustments.

We face various risks in our telecommunications business, including increasing competition from various types of service providers.

The telecommunications sector is highly competitive within Portugal and Spain and across the EU, and we expect competition to remain vigorous and even increase in the future.

In the fixed line telephone area, we compete for market share primarily with Portugal Telecom, or PT, which historically held a monopoly on fixed line services in Portugal and continues to hold a dominant position in this market. We also face competition from other fixed line operators in Portugal.

Our fixed line telephone business also faces strong indirect competition from cellular telephone service providers, particularly those in the voice segment. Mobile subscriptions have already overtaken the number of fixed line connections in Portugal and we expect this growth to continue.

We also face significant competition from numerous existing operators in the Internet and data services areas, both of which we have targeted, and we expect that new competitors will emerge as these markets continue to evolve.

We face managerial, commercial, technological and regulatory risks, as well as other risks, related to our telecommunications activity. Our ability to develop and successfully achieve profitability in this area may be affected if we are not able to manage these risks and this business efficiently in a competitive market. In 2003, our telecommunications activity generated a loss before taxes of 148.7 million.

We face new risks and uncertainties related to our activities in the gas sector.

We intend to develop an Iberian gas business as complimentary to and strategically aligned with our electricity business, as described in more detail in Strategy Iberian Energy Developing an Iberian Gas Business. The development of a significant position in the Portuguese gas sector depends on the closing of the acquisition provided for in the agreement we entered in March 2004 to purchase, together with Eni and REN, the entire share capital of GDP, the largest gas distribution company in Portugal. The completion of the acquisition is subject, among other conditions, to approval of the relevant competition authorities, which has been requested and in connection with which the EU Commission has

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decided to initiate proceedings under article 6.1(c) of Commercial Regulation (EC) no. 139/2004 of January 20, 2004 on the control of concentrations between undertakings. We may also face difficulties integrating this business with our current activities and the development of the business will expose us to new risks, including governmental and environmental industry regulation and economic risks relating to the fluctuations in the price of energy, currencies and time-lags between purchase and sale prices. We cannot assure you that we will successfully manage the development of our gas business, and a failure to do so could have an adverse effect on our business, results of operations or financial condition.

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OTHER RISKS

The value of our ordinary shares and/or ADSs may be adversely affected by future sales of substantial amounts of ordinary shares by the Portuguese government or the perception that such sales could occur.

According to Decree law no. 218-A/2004 of October 25, 2004, known as the Reprivatization Decree Law, the Portuguese government may, after a period of 180 days following the verification of the results of the rights offering, sell all or a portion of its shareholding in us. Sales of substantial amounts of our ordinary shares by the Portuguese government, or the perception that such sales could occur, could adversely affect the market prices of our ordinary shares and ADSs and could adversely affect our ability to raise capital through subsequent offerings of equity.

Restrictions on the exercise of voting rights, as well as special rights granted to the Portuguese government, may impede an unauthorized change in control and may limit our shareholders' ability to influence company policy.

Under our articles of association, no holder of ordinary shares, except the Portuguese Republic and equivalent entities, may exercise voting rights that represent more than 5% of our voting share capital. In addition, specific notification requirements are triggered under our articles of association when shareholders purchase 5% of our ordinary shares and under the Portuguese Securities Code when purchases or sales of our ordinary shares cause shareholders to own or cease to own specified percentages of our voting rights.

Pursuant to article 10 of the Reprivatization Decree Law, special rights granted to the Portuguese government by Decree law no. 141/2000 of July 15, 2000 are to be maintained for so long as the Portuguese government is an EDP shareholder. These rights provide that, without the favorable vote of the government, no resolution can be adopted at our general meeting of shareholders relating to:

amendments to our by-laws, including share capital increases, mergers, spin-offs or winding-up;

authorization for us to enter into group/partnership or subordination agreements; or

waivers of, or limitations on, our shareholders' rights of first refusal to subscribe to share capital increases.

The Portuguese government may also appoint one member of our board of directors whenever the government votes against the list of directors presented for election at our general meeting of shareholders.

RISKS RELATED TO THE RIGHTS OFFERING

The market prices for our ADSs and ordinary shares may fluctuate and may decline below the ADS subscription price and the share subscription price, and we cannot assure you that the listing and admission to trading of the offered shares on Euronext Lisbon, and thus the offered shares becoming fungible with our existing shares, as well as the issuance of the offered ADSs, will occur when we expect.

We cannot assure you that the public trading market prices of our ADSs and ordinary shares will not decline below the ADS subscription price and the share subscription price. Should that occur after you exercise your rights, you will suffer an immediate unrealized loss as a result. Moreover, we cannot assure you that, following the exercise of rights, you will be able to sell your offered ADSs or offered shares at a price equal to or greater than the ADS subscription price or the share subscription price, as applicable. Until the offered shares are admitted to listing and trading on Euronext Lisbon, they will not be fungible with our existing ordinary shares currently traded on Euronext Lisbon. The admission to listing and trading on Euronext Lisbon depends on the registration of our share capital increase with the commercial registry following settlement of the offering (including settlement of any offered shares delivered pursuant to exercise of oversubscription rights). Similarly, until the ordinary shares underlying the offered ADSs are admitted to listing and trading on Euronext Lisbon, you will not be issued any offered ADSs for which you subscribed. We cannot assure you that the registration of the share capital increase with the commercial registry and the admission of the offered shares to listing and trading on Euronext Lisbon will take place when anticipated. See [The Rights Offering](#) for further information on the expected dates of these events.

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Rights that are not exercised prior to the end of the ADS subscription period or the share subscription period, as applicable, will expire valueless without any compensation, and if you do not exercise your rights, you will suffer significant dilution of your percentage ownership of our shares and shares in the form of ADSs.

The ADS subscription period begins at 9.00 a.m. (New York City time) November 13, 2004 and expires at 3.00 p.m. (New York City time) on November 23, 2004. The share subscription period begins at 8.30 a.m. (Lisbon time) on November 12, 2004 and expires at 3.00 p.m. (Lisbon time) on November 25, 2004. Any rights unexercised at the end of the subscription period will expire valueless without any compensation. The ADS rights are not transferable and, accordingly, the only way to realize their value is to exercise them and purchase new ADSs.

The underwriters, as identified in the section entitled "Underwriting," have severally agreed, subject to certain conditions, to procure subscribers, or otherwise themselves to subscribe, for any remaining offered shares. To the extent that you do not exercise your rights, your proportionate ownership and voting interest in EDP will, accordingly, be reduced, and the percentage that your current holdings of shares or shares in the form of ADSs represent of our increased share capital after completion of the rights offering will be disproportionately reduced. See "Dilution." Even if you elect to sell your unexercised share rights, the consideration you receive for them may not be sufficient to fully compensate you for the dilution of your percentage ownership of our shares that may be caused as a result of the rights offering.

Holders of ADSs are subject to exchange rate risk.

In the event that the U.S. dollar to euro exchange rate declines, holders subscribing for offered ADSs may be required to pay more than U.S.\$23.70 per offered ADS for which they have subscribed.

The ADS subscription price is U.S.\$23.70 per offered ADS subscribed. The ADS subscription price is the U.S. dollar equivalent of the share subscription price, using an exchange rate of U.S.\$1.2883 per Euro, multiplied by ten to reflect that each ADS represents ten ordinary shares. A subscriber of the offered ADSs must tender U.S.\$24.89 per offered ADS subscribed, which represents 105% of the ADS subscription price, upon the exercise of each ADS right. This is to increase the likelihood that the ADS rights agent will have sufficient funds to pay the ADS subscription price in light of possible U.S. dollar to euro exchange rate fluctuations. The ADS rights agent expects to make the conversion from U.S. dollars into euros on November 24, 2004 at a market-based rate to pay the share subscription price for the offered shares underlying the offered ADSs subscribed for (excluding any offered ADSs subscribed for pursuant to the exercise of oversubscription rights), and, if necessary, to make an additional conversion at a market-based rate on a subsequent date to purchase any offered ADSs subscribed for pursuant to the exercise of oversubscription rights. If there is any excess in U.S. dollars as a result of such conversion or conversions, the ADS rights agent will refund the excess U.S. dollar subscription price to the subscribing ADS holder without interest. However, if there is a deficiency as a result of such conversion or conversions, the ADS rights agent will not issue and deliver the offered ADSs to such subscribing ADS holder until it has received payment of the deficiency.

An active trading market may not develop for the share rights and, if a market does develop, the share rights may be subject to greater volatility than our ADSs and ordinary shares.

A trading period has been set for the share rights from November 12, 2004 to November 19, 2004. We cannot assure you that an active trading market in the share rights traded on Euronext Lisbon will develop during the trading period or that any over-the-counter trading market in the rights will develop. Even if active markets develop, the trading price of the rights may be volatile.

In the event that there are remaining offered shares and the underwriting agreement is terminated, holders who have exercised their rights would effectively be unable to subscribe for the offered ADSs or

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offered shares, as the case may be, as the share capital increase relating to the offering will become invalid if the offering is not fully subscribed and the rights offering will be terminated.

As is market practice for offerings of this type, the underwriting agreement is subject to the fulfillment of certain conditions, and may be terminated upon the occurrence of certain events, including certain events of force majeure, the termination of our agreements to acquire Hidroantábrico and the breach of representations and warranties by us under the underwriting agreement. Should the underwriting agreement be terminated, if there are any remaining offered shares, holders who have exercised their rights would effectively be unable to subscribe for the offered ADSs or offered shares, as the case may be, as the share capital increase will not be effective unless the offering is fully subscribed.

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USE OF PROCEEDS

The net proceeds to us from the rights offering, after deduction of commissions and estimated expenses, are estimated to be 1.16 billion, which was the equivalent of U.S.\$1.49 billion on November 4, 2004. We plan to use the net proceeds to finance the acquisition of an additional 56.2% stake in Hidroantabrico, which will increase our current holdings in that company from 39.5% to 95.7% of its outstanding share capital. See Information on the Company Overview Electricity for further details on this acquisition.

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Table of Contents**CAPITALIZATION AND INDEBTEDNESS**

The table below sets forth our capitalization and indebtedness as of September 30, 2004. You should read this table in conjunction with the audited consolidated financial statements and interim consolidated financial statements.

	As of September 30, 2004 <u>(thousands of EUR)</u>	Adjustments to reflect the rights offering <u>(thousands of EUR)</u>	As adjusted for the rights offering <u>(thousands of EUR)</u>
Short-term debt and current portion of medium- and long-term debt	1,597,439		1,597,439
Medium- and long-term debt:	5,830,581		5,830,581
Bank loans	2,216,772		2,216,772
Bonds	3,513,809		3,513,809
Commercial paper	100,000		100,000
Total debt	7,428,020		7,428,020
Shareholders equity:			
Authorized and issued share capital (nominal value of shares)	3,000,000	656,538	3,656,538
Treasury stock	(37,182)		(37,182)
Reserves and retained earnings	2,157,058	551,491	2,708,550
Consolidated net profit	350,612		350,612
Total shareholders equity	5,470,488	1,208,029	6,678,517
Total capitalization	12,898,508	1,208,029	14,106,537

(1) The issued share capital is fully paid.

(2) As at September 30, 2004, no undertaking within the EDP Group, either individually or collectively, had any guarantees or other contingent liabilities outside the EDP Group, which were material in the context of the EDP Group.

(3) As at September 30, 2004, our indebtedness was unsecured, except for EUR 5.7 million of our total medium- and long-term debt, which was guaranteed.

(4) There has been no material change to the consolidated capitalization and indebtedness, contingent liabilities or guarantees of EDP since September 30, 2004.

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DILUTION

In the event that existing ADS holders or shareholders elect not to exercise their rights, such ADS holders or shareholders will experience substantial dilution of their ownership interest because other ADS holders or shareholders may subscribe for additional offered shares or offered ADSs pursuant to the exercise of their rights and because the underwriters have agreed, subject to certain conditions, to procure subscribers, or otherwise themselves to subscribe, for any remaining offered shares. See **Underwriting**. Existing ADS holders or shareholders that do not exercise their rights in the rights offering will be diluted such that a shareholder holding 1.00% of our outstanding ordinary share capital prior to the rights offering will have its shareholding reduced to approximately 0.82% of our outstanding ordinary share capital following the issuance of 656,537,715 offered shares (including offered ADSs) in the rights offering. See **Risk Factors Risks Relating to the Rights Offering**. If you do not exercise all of your rights, you will suffer significant dilution of your percentage ownership of our ordinary shares.

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Table of Contents**INFORMATION ON THE COMPANY****OVERVIEW****Electricity**

Historically, electricity has been our core business. We underwent a restructuring in 1994, at which time we formed subsidiaries to operate in the areas of electricity generation, transmission and distribution. Following the government's purchase from us of a 70% interest in REN in 2000, our two principal electricity subsidiaries were our electrical generation company, CPPE, and our distribution company, EDPD, which was formed in early 2000 by the merger of our four wholly-owned distribution companies. These two wholly-owned subsidiaries, together with REN, carried out electricity generation, transmission and distribution activities in Portugal. On March 29, 2001, we announced the creation of EDP Gestão de Produção de Energia S.A., or EDP Produção, a subsidiary that began operations in July 2001 and now holds most of our Portuguese energy production-related units as part of measures we are implementing to enhance our organizational efficiency.

We are the largest producer and distributor of electricity in Portugal and will become the third largest utility operator in the Iberian market following our announced acquisition of a further 56.2% stake in Hidroantábriico, which is described in further detail below. Hidroantábriico operates electricity generation plants and distributes and supplies electricity and gas, mainly in the Asturias and Basque regions in Spain. We intend to use the proceeds of this offering to finance this acquisition. For further information on the acquisition, see "Use of Proceeds" and "Information on the Company Overview Electricity."

In 2003, we accounted for approximately 82% of the installed generation capacity in the Portuguese Public Electricity System, or PES, and 99% of the distribution in the PES. REN, in which we hold a 30% equity interest, accounted for 100% of the transmission in the PES. Hidroantábriico, Spain's fourth largest utility operator, accounted for 4.7% of Spanish mainland generation capacity, or 5.5% excluding special regime facilities (which are generally cogeneration and renewable energy facilities), and 6.5% of the Spanish liberalized electricity supply market.

Our 2003 operating revenues amounted to 6,977.5 million (U.S.\$8,491.6 million), approximately 90% of which represented electricity sales, yielding operating income of 905.7 million (U.S.\$1,102.3 million). As of December 31, 2003, our total assets were 18,650.7 million (U.S.\$22,697.9 million), and shareholders' equity was 5,298.0 million (U.S.\$6,447.7 million).

The following table shows our revenues by activity and geography:

	Year ended December 31,			June 30,
	2001	2002	2003	2004
		(audited)		(unaudited)
	(millions of EUR)			
Energy ⁽¹⁾				

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Portugal	4,599	5,001	5,038	2,483
Spain	0	324	675	379
Brazil	691	669	1,008	513
Telecommunications				
Portugal	126	187	161	78
Spain	62	134	170	88
Information Technology	189	224	186	91
Adjustments ⁽²⁾	(16)	(151)	(261)	(100)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	5,650	6,387	6,978	3,532

(1) Consists of electricity in Portugal and Brazil and electricity and gas in Spain.

(2) Revenue figures for each year have been adjusted to include revenues from services and to exclude intercompany transactions.

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In Portugal, we generate power for consumption in both the PES and the Independent Electricity System. In 2003, our generation facilities in Portugal had a total installed capacity of 7,939 MW. In the transmission function, REN operates the national grid for transmission of electricity throughout mainland Portugal on an exclusive basis pursuant to Portuguese law. REN also manages the system dispatch and the interconnections with Spain. EDPD, our distribution company, carries out Portugal's local electricity distribution almost exclusively. EDPD provided approximately 5.8 million customers with 38,916 GWh of electricity in 2003. In Spain, Hidroantábrico had a total installed capacity in 2003 of 2,820 MW, distributed a total of 8,659 GWh through its own network to more than 561,000 customers and invoiced 4,712 GWh of electricity supply.

We expect regional electricity markets to consolidate in Europe as an initial step toward an integrated and liberalized electricity market within the European Union. For geographical and regulatory reasons, we anticipate that the Iberian electricity market will become our core market for our main electricity business following the opening of MIBEL, which is expected to occur by June 30, 2005. Further to this strategic focus, in 2001 and 2002, we expanded our energy operations in Spain with the acquisition of a 39.5% interest in Hidroantábrico. The increase of our stake in Hidroantábrico to 95.7% will result in the full integration of Hidroantábrico's operations within ours, which should allow us to enhance management flexibility, realize further synergies from the combination of our operations and improve business performance, thereby reinforcing our position as a leading Iberian energy company in advance of the opening of MIBEL.

Acquiring an Increased Stake in Hidroantábrico

We intend to use the proceeds of this offering to finance the acquisition of an additional 56.2% stake in Hidroantábrico, thereby bringing our total interest in it to 95.7%. Under agreements executed on July 29, 2004, we have agreed to acquire:

a 34.6% interest in Hidroantábrico from Energie-Baden-Württemberg AG, or EnBW, for consideration of 649 million in the form of cash;

a 17.5% interest in Hidroantábrico from Cajastur Caja de Ahorros de Asturias, or Cajastur, for consideration of 453 million in the form of EDP shares; and

a 4.1% interest in Hidroantábrico from Cáser Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A., or Cáser, for consideration of 93 million in the form of cash.

The number of EDP shares to be delivered to Cajastur will be based on the volume-weighted average price of EDP's shares during the six months prior to July 28, 2004 (2.2862 per share), adjusted for the dilution effect resulting from the rights offering. On the basis of this same price determination, we have agreed to acquire the EDP shares to be delivered to Cajastur from the Portuguese Republic. Cajastur and Cáser will retain interests aggregating to a 3.1% stake in Hidroantábrico and, pursuant to a new shareholders' agreement entered into on July 29, 2004 that will be effective upon completion of the acquisition, will have certain veto rights, especially in relation to certain matters relating to regional concerns, which will preserve Hidroantábrico's links with the region of Asturias. In addition, Cajastur will have a long-term put option entitling it to sell its interest in Hidroantábrico to us at a price indexed to the value of our ordinary shares. Completion of the acquisition of the additional stake in Hidroantábrico depends on completion of the rights offering, such that if the rights offering is terminated, we will not acquire this additional stake.

Gas

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We also have investments, notably in gas utilities, which we regard as complementary to our core electricity business.

Since July 2000, we have held a 14.27% ownership interest in GALP Energia SGPS, S.A. or GALP, a holding company with interests in GDP Gás de Portugal, SGPS, S.A., or GDP, Transgás Sociedade Portuguesa de Gás Natural, S.A., or Transgás, companies that transport and supply natural gas throughout Portugal, and Petróleos de Portugal Petrogal, S.A., a company involved in oil refining and distribution and the production of petroleum products.

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In April 2003, the Portuguese government announced recommendations concerning the reorganization of the Portuguese energy sector, in the context of which we may become a major participant in the Iberian combined gas and electricity sector. This announcement included recommendations that Portuguese gas and electricity activities be combined and developed by us in order to strengthen our position in the competitive Iberian market. In connection with the Portuguese energy sector reorganization, in March 2004 we entered into an agreement to purchase, together with Eni, S.p.A., or Eni, and REN, the entire share capital of GDP. The agreement is subject to specified conditions, including the approval of the relevant competition authorities. In addition, in November 2003, we entered into agreements giving us an option to purchase interests in Portgás Sociedade de Distribuição de Gás, S.A., or Portgás, and Setgás Sociedade de Produção e Distribuição de Gás, S.A., or Setgás, two of the major regional gas distribution companies in Portugal. On September 20, 2004, the Portuguese Competition Authority declared its non-opposition to the Portgás transaction, which is a condition to completion of the transaction should the option be exercised. For more information on these transactions, please see Strategy Iberian Energy Developing an Iberian gas business.

Our interests in the gas sector in Spain are held through Hidrocantábrico, which is the controlling shareholder in Naturcorp, the leading gas company in the Basque region of Spain. For more information on our participation in the Spanish gas sector, please see Spain-History and Overview.

Telecommunications

In 2000, taking into consideration our existing resources and expertise, we decided to pursue telecommunications activities.

Currently, ONI, SGPS, S.A., or ONI, our 56%-owned subsidiary and the holding company for our telecommunications businesses has the overall responsibility for strategic and financial matters relating to our telecommunications business segments. Pursuant to a recent reorganization, ONI's businesses are currently focused on two main areas: wireline Portugal and wireline Spain, which areas are discussed in further detail in Telecommunications below.

Information Technology

We pursue the information technology business through our wholly owned subsidiary EDINFOR, which holds a 57.77% interest in ACE Holding SGPS, S.A., or ACE. ACE owns 100% of CASE Conceção e Arquitectura de Soluções Informáticas Estruturadas, S.A., or CASE. CASE provides consulting and information systems services to us and to third parties. On September 30, we announced our intention to enter into exclusive negotiations with LogicaCMG a view to entering into a strategic partnership involving the sale of 60% of EDINFOR's share capital. See Strategy Information Technology below for more information on these negotiations.

Table of Contents**Group capital expenditures and investments**

The following table sets forth our capital expenditures and investments for the years 2001 through 2003 and the first half of 2004, divided into operating investment and financial investment. Operating investment generally refers to the development and acquisition of fixed assets and financial investment generally refers to the acquisition of equity interests in companies.

	Year ended December 31,			Six months ended
	2001	2002	2003	June 30, 2004
		(audited)		(unaudited)
	(thousands of EUR)			
OPERATING INVESTMENT:				
Energy:				
Portugal:				
Generation:				
Thermal/Hydro	109,646	204,979	213,851	91,939
Renewable: wind	6,574	11,397	38,533	31,410
Renewable: biomass ⁽¹⁾	0	35,205	922	28
Cogeneration	13,142	9,618	33	22
Engineering and Operations and Maintenance ⁽²⁾	2,371	15,264	7,809	1,368
Total Generation	131,733	276,463	261,148	124,767
Distribution: ⁽³⁾				
Investment, net of subsidies	181,938	241,551	263,056	117,929
IT Systems (transfer from EDINFOR to EDPD)	0	80,547	11,974	0
Subsidies in kind (assets)	69,533	54,095	61,039	31,083
Subsidies in cash	78,490	56,853	59,714	34,619
Total Distribution	329,961	433,046	395,783	183,630
Supply ⁽⁴⁾	980	8,337	6,218	1,629
Total technical costs	462,674	717,846	663,148	310,026
Financial costs capitalized	15,867	15,361	24,005	11,404
Total Portugal	478,541	733,208	687,153	321,429
Spain:				
Hidrocontábrico ⁽⁵⁾	0	84,775	70,528	53,780
Total Spain	0	84,775	70,528	53,780
Total Energy Portugal and Spain	478,541	817,983	757,681	375,209
Brazil:				
Generation	40,836	55,600	58,676	85,931
Distribution:				
Bandeirante	47,226	25,413	39,392	12,462
Escelsa	0	16,208	18,639	7,305
Enersul	0	25,152	16,184	7,862
EDP Brazil	1,608	261	415	402

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Total Brazil	89,670	122,634	133,306	113,962
Telecommunications⁽⁶⁾ and Information Technology:				
Telecommunications	239,019	311,962	28,564	13,541
Information Technology	70,977	41,833	58,784	7,344
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Telecommunications and Information Technology	309,996	353,795	87,348	20,884
Other:				
Other Operating Investment ⁽⁷⁾	29,530	45,362	24,939	5,029
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL OPERATING INVESTMENT	907,737	1,339,773	1,003,274	515,084

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	Year ended December 31,			Six months ended
	2001	2002	2003	June 30, 2004
		(audited)		(unaudited)
	(thousands of EUR)			
FINANCIAL INVESTMENT:				
Energy:				
Portugal:				
Acquisition of additional 10% shareholding in Turbogás	0	20,986	0	0
Spain:				
Acquisition of Naturcorp by Hidrocantábrico ⁽⁸⁾	0	0	100,235	0
Acquisition of Hidrocantábrico by EDP ⁽⁹⁾	262,388	520,591	0	
Brazil:				
Acquisition of share capital of IVEN (Escelsa/Enersul)	209,011	0	0	0
Total Energy	471,399	541,577	100,235	0
Telecommunications:				
Acquisition of Comunitel by ONI	69,554	0	0	3,649
Total Telecommunications	69,554	0	0	3,649
Other:				
Subscription to BCP rights issue and capital increase	0	30,636	40,599	0
Acquisition of Escelsa notes ⁽¹⁰⁾	0	379,964	0	
Other financial investments	12,328	15,718	40,926	5,709
Total Other	12,328	426,318	81,525	5,709
TOTAL FINANCIAL INVESTMENT	553,281	967,896	181,760	9,358
TOTAL CAPITAL EXPENDITURES AND INVESTMENTS	1,461,018	2,307,669	1,185,034	524,442

(1) Renewable biomass investment in 2002 includes 35.2 million relating to an internal transfer of the Mortágua biomass power plant, from EDP, S.A. to EDP Produção Bioelétrica. As such, this did not affect our cash flow in 2002.

(2) In 2001, expenditures in engineering and operations and maintenance (or O&M) include the expenditures made by Tergen, HidrOeM and EDP Produção, which companies were created in 2001.

(3) Distribution includes capital expenditures of EDPD.

(4) Supply comprises the capital expenditures of EDP Energia, our company operating in the liberalized market.

(5) Investment represents 40% of Hidrocantábrico's operational investments, as we proportionally consolidate our 39.5% interest in Hidrocantábrico at the 40% level.

(6) Investments for telecommunications include primarily infrastructure.

(7) Other Operating Investment includes investments by the EDP Group in installations and equipment at the holding company level, investments by our real estate companies and investments by our support services companies.

(8) Investment represents 40% of Hidrocantábrico's financial investments in the acquisition of Naturcorp, as we proportionally consolidate our 39.5% interest in Hidrocantábrico at the 40% level.

(9) Total investment in the acquisition of 39.5% of Hidrocantábrico (which we proportionally consolidate at the 40% level) amounts to 782.9 million, of which 262.4 million was invested in 2001.

(10) In 2002, we acquired certain notes issued by Escelsa. For more information on this transaction, please see Item 11. Quantitative and Qualitative Disclosures About Market Risk in our 2003 20-F.

Total capital expenditures and investments of 1,185.0 million in 2003 represented a 48.6% decrease from total capital expenditures and investments of 2,307.7 million in 2002. This decrease was primarily due to lower financial investments in 2003 compared to 2002. In 2002, we finalized the acquisition of our 39.5% stake in Hidrocantábrico in the amount of 782.9 million, of which 262.4 million was paid in 2001 and 520.6 million in 2002. In addition, in 2002 we also acquired part of Escelsa's notes issued in U.S. dollars for the total amount of 380 million.

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Having reduced the exchange rate risk relating to U.S. dollar debt of our Brazilian subsidiaries, we did not enter into any further debt acquisition programs in 2003. The decrease in total capital expenditures and investments from 2002 to 2003 was also due to a lower level of operational investments in 2003. In Portugal,

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we made lower operating investments in our distribution business in 2003, reflecting the internal transfer from EDINFOR to EDPD of a commercial and administrative information technology system in 2002, and overall investments in generation were lower as a result of the internal transfer in 2002, from EDP to EDP Produção Bioelétrica, of the investment made in 1999 related to the Mortágua biomass power plant, which does not represent a cash outflow, but was included in our 2002 capital expenditures and investments. Additionally, we had lower expenditures in telecommunications in 2003, as a result of the divestment of our UMTS business.

We expect total operational investments in 2004 to be approximately 1,200 million, concentrated mainly in generation and distribution.

The capital expenditures set forth above have not been adjusted to reflect the fact that certain expenditures represent transfers between businesses within the EDP Group of assets that had previously been accounted for by the transferors as their own capital expenditures. The capital expenditures above have also not been adjusted for divestments of certain financial investments. Adjusting for these transactions would result in the following:

	Year ended December 31,			June 30,
	2001	2002	2003	2004
		(audited)		(unaudited)
	(thousands of EUR)			
Total Capital Expenditures and Investments:	1,461,018	2,307,669	1,185,034	524,442
Internal Transfers:				
IT Systems (from EDINFOR to EDPD)		(80,547)	(11,974)	
Mortágua Biomass Power Plant (from EDP, S.A. to EDP Produção Bioelétrica)		(35,180)		
Divestments:				
ESSEL	(77,800)			
Redal		(26,905)		
Optep (Optimus)		(315,000)		
Iberdrola, S.A.			(400,102)	
Oni Way				(61,449)
Total Internal Transfers and Divestments	(77,800)	(457,632)	(412,076)	(61,449)
Adjusted Total Capital Expenditures and Investments	1,383,218	1,850,037	772,958	462,993

In recent years, a significant part of our capital expenditures on electricity projects in mainland Portugal has been in distribution. Since EDPD is required by law to connect all customers who wish to be supplied by the PES, a large part of capital expenditures is spent in connecting new customers, improving network efficiency and developing the network (installing new cables and lines) to accommodate the growth in consumption. In addition, we are required to meet government standards for meter control, which requires us to make further investments in new meters. Our investment in distribution in Portugal in 2003 totaled 395.8 million compared with 433.0 million in 2002 and 330.0 million in 2001, and mainly consisted of recurring capital expenditures necessary for the operation, improvement and expansion of our distribution network in Portugal, including expansion to accommodate growth in consumption and maintenance. In keeping with our strategic goal of reducing recurring capital expenditures in our core electricity business, capital expenditures in distribution declined between 1998 and 2000 due to lower costs in materials and services and a reduced allocation of these costs to capital expenditures. Between 2000 and 2003, EDPD's capital expenditures increased due to higher investments in the distribution network pursuant to our public commitment to improve the quality of service by reducing the equivalent interruption time in the distribution of electricity. In 2002, the increase in EDPD capital expenditures also reflects the internal transfer from EDINFOR to EDPD of 80.5 million worth of assets that relate to non-recurring investments made in a commercial and

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administrative information technology system based on the SAP platform. In 2003, EDPD capital expenditures also included 12.0 million related to the transfer of this information technology system. As such, this transfer did not affect our cash flow in 2002 and 2003.

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Under current regulations in Portugal, EDPD receives contributions directly from customers for a portion of its capital expenditures for new connections to the transmission and distribution networks. The total amount of contributions from customers in 2003 was approximately 121 million compared with approximately 111 million in 2002.

During 2003, we invested 261.1 million in generation in Portugal, compared with 276.5 million in 2002 and 131.7 million in 2001. The higher capital expenditures in 2003 and 2002 compared to 2001 were primarily a result of expenses incurred due to the start of construction of the first two 392 MW units of the TER CCGT plant and of the two 94 MW units of the Venda Nova hydroelectric plant. We expect a similar level of operational investment in generation in Portugal in 2004.

In Portugal, we expect to focus future distribution capital expenditures on connecting new clients and improving the quality of the electricity service through a more efficient network. We expect to concentrate future generation capital expenditures on the development of new hydroelectric projects and in the construction of the new TER CCGT power plant. Future capital expenditures in generation may also include special projects such as co-generation and wind power generation opportunities. While the actual amount of our future investments will depend on factors that cannot be currently foreseen, we expect to incur recurring capital expenditures of approximately 700 million annually until 2006 in the aggregate in our core electricity generation and distribution businesses in Portugal during this period.

In Spain, apart from the capital expenditure of 250.6 million (our proportional share of this expenditure being 100.2 million) for the acquisition of Hidroantábrico's 62% stake in Naturcorp, additional capital expenditures of 176.3 million were incurred (our proportional share of this expenditure being 70.5 million) during 2003 on generation, electricity distribution and on special regime generation projects. Hidroantábrico's 2003 operational investments decreased compared to 2002, due to lower investments in generation and electricity distribution activities. Investments in generation decreased due to the completion of the Castejón CCGT plant in September 2002. As for electricity distribution activity, fewer investments were made in expansion outside Asturias (northern region of Spain). Investment in special regime generation increased in 2003 with the construction of the P.E. del Cantábrico (65 MW), the P.E. Arlanzón (34 MW) and the P.E. Albacete (124 MW) wind farms.

In line with our strategic objectives of building our fixed line telecommunications and our international activities, we also may incur additional capital expenditures in connection with these activities and other strategic investments as well as non-recurring capital expenditures such as for information technology. With respect to investments in Brazil, we currently expect to fund any future capital expenditures with cash flow generated by local operations and or by reiss-denominated debt.

We made capital expenditures related to environmental matters in 2003 and 2002 of approximately 15 million. We expect these capital expenditures to amount to approximately 40 million in 2004, of which 20 million will be related to new investments in emissions abatement equipment in the Sines power plant, in order to adapt the facility to the new environmental regulations relating to SO₂ and NO_x emissions.

Over the next three years, we expect to incur capital expenditures of approximately 3.25 billion, more than 75% of which will be dedicated to the expansion of electricity generation facilities in Portugal and Spain, including renewable energy facilities, and the improvement of the quality of our electricity distribution network in Portugal.

We believe that cash generated from operations and existing credit facilities is sufficient to meet present working capital needs. We currently expect that our planned capital expenditures and investments will be financed from internally generated funds, existing credit facilities and customer contributions, which may be complemented with medium- or long term debt financing and equity financing as additional capital expenditure

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and financial investment requirements develop. To learn more about our sources of funds and how the availability of those sources could be affected, see [Operating and Financial Review and Prospects](#) [Liquidity and Capital Resources](#).

International Investments

Apart from Spain, we have made a number of international investments in the electricity and water sectors in Brazil, Cape Verde, Guatemala and Macau. In accordance with our strategy of shareholder value creation, we have divested in non-strategic holdings in Chile and Morocco. We have also reorganized our shareholding in CEM Companhia de Electricidade de Macau, or CEM. As a result, China Power International Holding, a Chinese electricity company, has acquired a 6% interest in CEM and our stake in CEM has decreased slightly, from 21.78% to 21.19%. For more information on CEM and this transaction, please see [Other Investments and International Activities](#) below.

STRATEGY

Our principal strategic objective is the creation of shareholder value through the achievement of sustained real earnings growth and our primary strategic focus is on consolidating and expanding our position in energy activities in the Iberian Peninsula. Accordingly, we have redefined our concept of our domestic market to include the Iberian Peninsula and are positioning ourselves for the Iberian electricity market that will develop in the future, particularly following the implementation of MIBEL, which is expected to begin operating by June 30, 2005. In this context, we acquired operating control of Hidroantábrico in 2001, the fourth largest electricity operator in Spain, which, in turn, acquired Naturcorp, the second largest gas operator in Spain, in 2003, and we plan to use the proceeds of this offering to increase our holdings in Hidroantábrico to 95.7%. See [Use of Proceeds](#) and [Information on the Company Overview](#) [Electricity](#).

While expanding into the Spanish gas and electricity sectors, we are also strengthening our core electricity and gas business in Portugal. During recent years, we have been making considerable efforts to optimize and restructure our Portuguese generation and distribution activities in preparation for the full liberalization of electricity supply in Portugal and the expected integration of the Portuguese and Spanish electricity markets. In connection with these efforts, we are taking steps to improve the quality of service through cost-conscious investment in technical and commercial infrastructure, particularly in the areas of electricity distribution and sales, and further restructure our human resources, primarily in our distribution business. In this regard, we have had and continue to have programs in place that are aimed at reducing our headcount and we intend to expand our sales and customer service human resource capabilities. We are also increasing our electricity generation capacity through modernization of existing facilities and selective development of new facilities, in each case mindful of environmental requirements and concerns.

Outside of our Iberian energy activities, we have also sought to focus on our core business through divestiture of non-strategic financial investments, as demonstrated by our sale in 2003 of our 3% stake in the Spanish electricity company Iberdrola, and to selectively pursue other business activities that are complementary to our energy activities. These other business activities include selectively pursuing international opportunities in electricity, developing our telecommunications business in Portugal and Spain, and restructuring our information technology business.

Iberian Energy

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Our primary strategic focus is the Iberian energy market, where we are consolidating our position as a leading energy company. We are the leading electricity company in Portugal. We also intend to develop activities in the Portuguese gas sector by translating our financial investment in GALP into a controlling stake in GDP. In Spain, we currently exercise operating control over Hidroantábrico. Hidroantábrico acquired a 62% stake of Naturcorp in March 2003 and currently has a 56.8% stake in Naturcorp after Gas Natural exchanged its 20.5% interest in Gas de Euskadi, a subsidiary of Naturcorp, for a direct interest in Naturcorp. Following completion of the rights offering and the application of its proceeds as described above in Use of Proceeds and Information on the Company Overview Electricity, our stake in Hidroantábrico will be 95.7%.

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In the Iberian energy market our strategic objectives are:

preserving the value of our business in the Portuguese energy sector in light of the liberalization of the Portuguese electricity market and the creation of an integrated Iberian market;

growing our electricity Iberian platform through Hidrocantábrico; and

developing an Iberian gas business by leveraging our existing assets.

Preserving the Value of our Business in the Portuguese Energy Sector

In the Portuguese energy sector, we face increasing competition arising from the liberalization of the electricity market in Portugal, in the Iberian Peninsula and throughout the European Union. On August 18, 2004, the electricity market in Portugal was fully liberalized and all customers, including all low-voltage customers, became free to choose their electricity supplier. Competition in electricity supply will also increase as the newly created Iberian electricity market comes into operation. Additionally, we face increasing pressure on the operating margins of our electricity distribution business in Portugal due to regulation of electricity tariffs in the PES.

In response to these challenges, we plan to:

continue efforts to enhance earnings and maintain our leading market share of generation and distribution in the liberalized and growing Portuguese electricity market, while also capitalizing on growth opportunities created by increasing liberalization within the EU, particularly in the Iberian electricity market; and

continue our program to increase the efficiency of our operations in the Portuguese energy sector, reduce related costs with the goal of achieving international best practice standards, and minimize the impact of tariff reductions in the current regulatory period on operating margins of our electricity distribution business.

In pursuing these objectives, we intend to:

pursue effective marketing to both new and existing customers, particularly those that benefit, or will benefit, from competitive alternatives in the Non-Binding Sector (where we are present through our subsidiary EDP Energia);

continue to provide high-quality and cost-effective services to the Binding Sector and the Non-Binding Sector;

further centralize our corporate structure, as we have done with the merger of our four distribution companies into EDPD and the centralization of most of our generation companies in EDP Produção;

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continue to centralize and improve the efficiency of our administrative activities, such as accounting, and procurement, with the aim of achieving cost savings in supplies of goods and services and personnel reduction, to which end we created EDP Valor, a company that integrates some of our service companies by consolidating resources and centralizing purchasing activities;

identify opportunities to achieve future reductions in overhead expenses through the continued implementation of the Efficiency Program started in the beginning of 2002, in connection with which we have agreed with the Portuguese electricity regulator on an appropriate tariff mechanism that can facilitate further efficiency improvements through personnel reduction at EDPD; and

continue to monitor the level of recurring capital expenditures in our Portuguese electricity business.

On October 26, 2004, we signed a call option agreement with International Power Plc, or IPR, and National Power International Holdings BV, or IPBV, for the purchase of a 20% shareholding and related shareholder loans in Turbogás-Produtora Energética, S.A., or Turbogás, and of a 26.667% shareholding and related shareholder loans in Portugen-Energia, S.A., or Portugen.

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The option is exercisable during a nine-month period commencing on the business day following the completion date of a sale and purchase agreement entered into by IPR, IPBV and RWE POWER AG, or RWE, in relation to the acquisition of a stake in Turbogás and Portugen, or during a term beginning on January 1, 2008 and ending on December 31, 2009. The option's reference price is 55,667,350.00, which was determined based on the value of this sale and purchase and is subject to a price adjustment mechanism in order to reflect changes in assets and liabilities, which adjustment may occur until the exercise date of the call option. As part of the agreement, we have waived our pre-emptive right to acquire a 75% stake in Turbogás. In accordance with a notice served to EDP on October 4, 2004, all the shareholdings in Turbogás and Portugen currently held by RWE will be transferred to IPBV in completion of the share purchase agreement entered into between those companies.

In addition, we have also reached an agreement with IPR and IPBV regarding our possible involvement in the management of Tapada do Outeiro's power output in the event that the current PPA of Tapada do Outeiro is terminated, with any such arrangement being subject to non-opposition by the relevant competition authority.

Both our purchase of the shareholdings in Turbogás and Portugen and the related shareholder loans and the possibility of our managing Tapada do Outeiro's electricity output are subject to certain required approvals for their completion.

Growing our Iberian Electricity Platform

In light of the intended integration of the Spanish and Portuguese electricity sectors, we have expanded the definition of our domestic market to embrace the entire Iberian Peninsula. We are the first Iberian company to have significant generation and distribution assets, as well as a meaningful customer base in both Portugal and Spain—two EU countries with among the highest electricity consumption growth rates in the European Union.

To grow our Iberian electricity platform, we intend to:

increase our stake in Hidrocantábrico through the acquisition of an additional 56.2% interest in that company, thereby bringing our total interest in it to 95.7%, with the aim of enhancing management flexibility and realizing further synergies between its operations and our existing ones;

position ourselves to benefit from the creation of an Iberian electricity market and pursue growth opportunities in Spain by leveraging on our investment in Hidrocantábrico;

grow our customer base by capitalizing on the fully liberalized electricity market in Spain;

take advantage of a combined electricity and gas service offering in Spain through the activities of both Hidrocantábrico and Naturcorp and in Portugal through the activities of EDP and GDP; and

increase generation capacity through the construction of a new CCGT power plant, the development of renewable energy generation projects, primarily through the construction or acquisition of new wind farms, and the increase of capacity in existing plants to cope with strong consumption growth.

Developing an Iberian Gas Business

We view the gas business as being highly complementary to electricity and of great strategic attractiveness. Both Portugal and Spain have gas and electricity consumption growth rates above the EU average. Each country requires new capacity to be gradually added and CCGT plants, fired by gas, are considered to be an advantageous option to meet the Iberian electricity system expansion requirements because of their lower investment costs required per MW, greater efficiency, lower operating and maintenance costs and lower emission levels compared to other thermal generation plants.

Since new gas-fired generation capacity is expected to be added to the Iberian electricity system, power generators, which are already among the largest gas consumers in the Iberian Peninsula, are and will continue to be the facilitators of the development and sustainability of the gas business in the Iberian Peninsula, although their competitive position will increasingly depend on gas prices and the flexibility of gas contracts. The natural

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gas market is characterized by the existence of long-term contracts. For electricity generators, long-term contracts in the natural gas market are usually indexed to the price of oil, are of a take-or-pay nature and restrict the final destination of contracted gas. Since gas represents a substantial portion of gas-fired power plants' total costs, access to flexible and competitive gas contracts is of paramount importance to increase the efficiency of CCGT power plants.

There are two main reasons for us to develop an integrated Iberian gas business:

to increase the competitiveness and efficiency of our gas-fired power plants. By being involved in both gas distribution and electricity generation we expect to be able to mitigate the risk presented by variable gas prices while increasing the flexibility of gas sourcing and placing; and

to capture synergies from distributing both gas and electricity to final consumers, leveraging on our existing electricity client base and on the sharing of infrastructure and system costs.

Although we already have a significant position in the gas sector in Spain, our having a significant position in the Portuguese gas sector depends on the closing of the acquisition provided for in the agreement we entered in March 2004 to purchase, together with Eni and REN, the entire share capital of GDP, which operates in the Portuguese gas sector and owns assets for the transport and distribution of gas. The completion of the agreement and related transactions is subject to specified conditions, including approval of the relevant competition authorities, which has been requested and in connection with which the EU Commission has decided to initiate proceedings under article 6.1(c) of Commercial Regulation (EC) no. 139/2004 of January 20, 2004 on the control of concentrations between undertakings. Pursuant to this agreement, initially we, Eni and REN will hold 33.34%, 33.33% and 33.33%, respectively, of GDP's share capital, although REN will only participate in GDP on a temporary basis. The agreement provides that the cost of the stake of each buyer will be 400 million. In connection with the purchase agreement, we also entered into a shareholders' agreement with Eni and REN that provides rules for the temporary governance of GDP (until the exit of REN) and the mechanism by which REN will exchange its stake in GDP for GDP's high pressure gas network assets. Following the exit of REN, we and Eni will own 51% and 49% of GDP, respectively. Accordingly, we also entered into a shareholders' agreement with Eni that will govern the management of GDP following the exit of REN and includes the terms of collaboration between Eni and us and the exit clauses in the case of a deadlock event that cannot be resolved. In the case of a deadlock, we will have a call option over Eni's stake in GDP. If we do not exercise this call option within the time specified in the agreement, Eni will have a call option over our stake in GDP. As we intend to leverage our stake in GALP to acquire our position in GDP and focus on the gas business rather than oil-related activities, we also agreed with Parpública Participações Públicas, S.G.P.S., S.A. (formally known as Partest), or Parpública, on a mechanism for us to exit the share capital of GALP. Pursuant to this agreement, Parpública has a call option to acquire our 14.27% stake in GALP for 456.7 million and we have a put option to sell our stake in GALP to Parpública on the same terms. Parpública's call option may be exercised from March 31, 2004 until one year after acquisition of the GDP shares by EDP, Eni and REN. Our put option may be exercised during the 3-month period after the expiration of the period for the exercise of Parpública's call option.

We have also entered into agreements to acquire stakes in two of the main Portuguese regional gas distribution companies: Portgás and Setgás. Portgás has the concession to distribute gas in the districts of Porto, Braga and Viana do Castelo. We have entered into a call option agreement with GALP, GDP and GDP Distribuição, SGPS, S.A. to acquire a 46.265% shareholding in Portgás. We may exercise this option for 18 months from November 2003 by paying 86,400,000, subject to adjustments for variations in share capital and shareholder loans. At the same time, we entered into a call option agreement with CGD to acquire all of the shares of NQF Projectos de Telecomunicações e Energia, S.A., or NQF, which owns 12.9% of Portgás and 10.1% of Setgás. Under the same agreement, we have granted to CGD a put option pursuant to which CGD may sell the NQF shares to us. The put option provides for a purchase price of 64,942,880.57 and was initially exercisable at any time between June 15, 2004 and September 15, 2004, although the exercise period was subsequently extended to November 30, 2004. Completion of the transaction involving Portgás is subject, among other things, to approval by the Portuguese Competition Authority, which was received on September 20, 2004, though as of the date of this prospectus supplement, none of the parties had exercised its option.

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Our current interest in the gas sector in Spain consists of our 39.5% holding in Hidrocantábrico, which controls Naturcorp, with more than 500,000 customers and approximately 10% of Spain's regulated revenues for gas distribution, or 8% of gas distributed in Spain in terms of GWh.

Following completion of the rights offering and application of its proceeds as described in Use of Proceeds and Information on the Company Overview Electricity, our stake in Hidrocantábrico will be 95.7%.

International Activities

Although our core business has historically been electricity in Portugal, it has evolved to include the Iberian energy market. However, international opportunities arise in the electricity business and related businesses through which we believe we can achieve attractive returns. In international investments, we have looked particularly toward Brazil, where we believe we can play an active role in managing the electricity operations in which we are involved and where potential returns may be attractive. During the first half of 2003, we reassessed our Brazil strategy and are undertaking the following initiatives with the goal of rationalizing our Brazilian operations by making them more self-sustaining and independently managed:

corporate restructuring: integration of all activities in Brazil under our subsidiary, EDP Brazil, which will consolidate not only financial results but also planning and strategic control;

capital restructuring: assessment of the capital structure of EDP Brazil and its subsidiaries;

corporate governance: harmonization and alignment of the corporate governance structures and procedures of EDP Brazil's subsidiaries, with a view toward improving the efficiency and transparency of governance and the decision-making process;

strategic positioning: introduction of the necessary adjustments to our existing investments with the aim at obtaining greater added value for shareholders and the establishment of strategic platforms for the development of future businesses; and

generation of synergies: ensuring that EDP Brazil is worth more than the sum of its parts, thus providing adequate remuneration of capital employed, through initiatives such as the re-launch of an efficiency program and analysis of the feasibility of shared services.

We regularly review our international investments and may change their focus over time consistent with our strategic objectives. In this regard, we continuously monitor our investment portfolio in order to capitalize on our ability to efficiently manage electricity operations through significant influence or control. For a more detailed discussion of our international activities, you should read Brazil and Other International Activities and Strategic Investments below.

Telecommunications

Our telecommunications activities are conducted through ONI, our telecommunications subsidiary comprised of various business units. ONI is a fixed line telecommunications operator primarily focused on corporate clients and provides voice and data services in Portugal and Spain.

We plan to build on our existing operations in order to achieve a competitive role in the corporate fixed line telecommunications sector in Portugal and Spain, which we regard as attractive markets of suitable size and high growth potential.

Although our plans and strategy continue to evolve and adapt to trends in the telecommunications sector, we currently anticipate emphasizing the following business areas:

fixed line operations, using ONI's fixed line voice and data operations as a platform; and

Internet access services, building on ONI's Internet service provider activities.

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For a more detailed discussion of our telecommunications activities, please see [Telecommunications](#) below.

Information Technology

We are involved in the information technology market mainly through EDINFOR. During the second half of 2003, and following a decision to allow participation of a strategic partner in EDINFOR's share capital, we have been implementing several initiatives that should facilitate the success of a future partnership. Such initiatives include concentrating on the improvement of the relationship with the EDP Group, the increase of sales outside the EDP Group and the winding up and/or merger of 17 companies within the EDINFOR group. In 2004, we hope to find a strategic partner for EDINFOR that will bring to EDINFOR technological expertise. To this end, on September 30, we announced our intention to enter into exclusive negotiations with LogicaCMG with a view to entering into a strategic partnership involving the sale of 60% of EDINFOR's share capital. We expect this transaction to involve the renegotiation of our existing contracts with EDINFOR in order to ensure that we have access at competitive prices to the best international practices in the field of information technology and to ensure that our core information technology systems continue to be run by EDINFOR, while benefitting from the worldwide positioning of LogicaCMG. With such a partnership in place, we expect to be better able to focus on our core business, while maintaining the availability and security of key systems, and enhancing EDINFOR's growth potential.

Development of Complementary Business Activities/Other Utilities

Consistent with our strategy, we are selectively evaluating opportunities that are complementary to our core businesses and that may enable us to achieve cost savings along the chain of activities from us to the consumer and that management expects can generate additional shareholder value.

For more information on our complementary business activities you should read [Subsidiaries, Affiliates and Associated Companies](#) below.

THE IBERIAN ELECTRICITY MARKET

In November 2001, the Portuguese and Spanish governments signed a Protocol for Cooperation between the Spanish and Portuguese governments for the creation of the Iberian Electricity Market, or the Protocol, in which they undertook to create an Iberian electricity market based on the principles of free and fair competition, transparency, objectivity and efficiency. In particular, the Protocol was intended to guarantee Portuguese and Spanish consumers better access to domestic and foreign electricity networks and give Iberian electricity operators the freedom to contract with consumers and to engage in distribution activities in a common Iberian electricity pool. After several delays in the process, the international agreement executed in January 2004 between the Portuguese and the Spanish governments provided for the beginning of MIBEL by April 20, 2004, although this did not occur. Pursuant to a new agreement (which has not yet been made public) signed by the Portuguese and Spanish governments at the Iberian Summit at Santiago de Compostela on October 1, 2004, it is expected that MIBEL will begin operating by June 30, 2005.

In 2003, total generation in Iberia amounted to approximately 227.4 TWh in the ordinary regime, of which EDP and Hidrocantábrico were responsible for approximately 41.8 TWh, which represents an 18% market share.

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PORTUGAL

Electricity System Overview

Portuguese Electricity System

Since 1997, Portugal has had an electricity market structured pursuant to the legislation enacted by the government that introduced the National Electricity System. The chart below illustrates the structure of the National Electricity System.

Note: Operations that are 100%-owned by us are highlighted in bold.

- (1) We own 10% of Tejo Energia and 20% of Turbogás.
- (2) Began operations in early 1998.
- (3) As of September 30, 2004, none existed.
- (4) At the end of January 2004, approximately 21,300 potential Qualifying Consumers, or Eligible Consumers, existed, of which 2,714 had become Qualifying Consumers and 2,028 were already in the Non-Binding Sector. Prior to February 2004, all consumers except low-voltage consumers were Eligible Consumers. Decree law no. 36/2004 of February 26, 2004 provided for the decrease of the eligibility threshold in mainland Portugal to include special low-voltage consumers, which are those with subscribed demands above 41.4 KW and voltage levels below 1kV. Decree law no. 192/2004 of August 17, 2004 subsequently provided for the full liberalization of the electricity market through the decrease of the eligibility threshold in mainland Portugal to include all low-voltage customers.

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The National Electricity System consists of the PES, or the Binding Sector, and the Independent Electricity System. The PES is responsible for ensuring the security of electricity supply within Portugal and is obligated to supply electricity to any consumer who requests it. Within the Independent Electricity System are the Non-Binding Sector and other independent producers (including auto producers). We and other generators can supply electricity to the Non-Binding Sector. The Non-Binding Sector is a market-based system that permits Qualifying Consumers to choose their electricity supplier. Over the past several years the minimum consumption level required to be a Qualifying Consumer has progressively declined and Decree law no. 192/2004 of August 17, 2004 provided for the full liberalization of the electricity market through the decrease of the eligibility threshold in mainland Portugal to include all low-voltage customers. For more information on the liberalization of electricity sales you should read Competition below.

In the context of the liberalization of the Portuguese electricity sector, the creation of MIBEL and the termination of PPAs, we expect the structure of the National Electricity System to be significantly altered in the near future. For further information on the termination of the PPAs, see Risk Factors Risks Related to Our Core Electricity Business The current and future legislation contemplating the early termination of the PPAs could eventually adversely affect our revenues.

The Public Electricity System or Binding Sector

The PES, or the Binding Sector, includes the binding generation in our generation company, CPPE, the transmission company, REN, in which we have a 30% stake, and our distribution company, EDPD. The PES also includes two independent power producers: Tejo Energia's plant at Pego, in which we have a 10% stake, and the Turbogás plant at Tapada do Outeiro, in which we have a 20% stake. All plants in the PES enter into PPAs with REN through which they commit to provide electricity exclusively to the PES through REN, acting as the single buyer in the Binding Sector and operator of the national transmission grid. For more information on REN's activities, you should read Transmission below.

Power plants in the Binding Sector are each subject to binding licenses issued by the *Direcção Geral de Geologia e Energia*, or DGGE, which has succeeded the *Direcção Geral de Energia*, or DGE, that are valid for a fixed term, ranging from a minimum of 15 years to a maximum of 75 years, but which would be revoked upon termination of the related PPAs with REN. These licenses, together with PPAs, require each power plant in the Binding Sector to generate electricity exclusively for the PES.

While REN's responsibilities relate primarily to the transmission of electricity and system dispatch, it is also responsible for working with DGGE to identify potential sites for the installation of new power plants and for the management of wholesale purchases of electricity and sales to distribution companies.

The Independent Electricity System

The Independent Electricity System consists of two parts the Non-Binding Sector and the other independent producers, including renewable source producers, which include small hydroelectric producers (under 10 MW installed capacity), and cogenerators.

The Non-Binding Sector

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At present, the only producers in the Non-Binding Sector are our three wholly-owned embedded hydroelectric generators, which are small hydroelectric plants with more than 10MW installed capacity that deliver all of the energy they produce directly to the distribution system, and CPPE's CCGT plant in Ribatejo. Although producers in the Non-Binding Sector are required to obtain licenses, they have no obligation to supply electricity to the PES. These entities are free to contract directly with Qualifying Consumers. In 2003, the total number of Eligible Consumers in Portugal represented approximately 45% of total demand in mainland Portugal in volume terms. During 2003, 1,430 Eligible Consumers exercised their right to become Qualifying Consumers, of which 1,054 entered into contracts with EDP Energia and 376 entered into contracts with producers in the Spanish market. Of the 1,919 existing Qualifying Consumers at the end of 2003, 1,404 are customers of EDP

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Energia, representing approximately 7% of the electricity sold by us and 3% of our revenues in 2003. As of December 31, 2003, approximately 21,300 Eligible Consumers existed and 1,919 of these had opted to become Qualifying Consumers. On August 18, 2004, the electricity market in Portugal was fully liberalized through the decrease of the eligibility threshold in mainland Portugal to include all low-voltage customers. We expect a limited impact on our revenues due to this final step in the progressive elimination of the eligibility threshold. Two of the three tariff components relating to distribution, representing approximately 90% of tariff revenue in 2003, are payable to EDPD by Eligible Consumers electing to become Qualifying Consumers. In addition, EDP Energia has the opportunity to gain Qualifying Consumers as its customers, in which case the third distribution tariff component would be payable to EDP Energia.

Producers in the Non-Binding Sector are able to use the national transmission grid and distribution system on an open-access basis to connect to Qualifying Consumers, which pay regulated transmission and distribution charges to REN for transmission and EDPD or other companies for distribution, respectively. Our hydroelectric plants in the Independent Electricity Systems deliver all of the electricity they produce directly to the distribution system without going through the national transmission grid. Contractual relationships between producers and consumers in the Non-Binding Sector are freely negotiable between the parties.

Other Independent Producers

The Portuguese government has implemented selected measures to encourage the development of various forms of electricity production, including auto producers (entities that generate electricity for their own use and may sell surplus electricity to REN), cogenerators, small hydroelectric producers and other producers using renewable sources. REN is currently required by law to purchase the excess electricity produced by these independent producers at a regulated price based on avoidable costs, defined as the costs REN avoids by receiving power from these producers rather than dispatching plants in the Binding Sector and/or investing in new plants to increase installed capacity, plus an environmental premium, referred to as the green tariff. For more information on our electricity sales, you should read Distribution below.

Size and Composition of Portugal's Electricity Market

During the period from 2001 through 2003, the total electricity supplied by EDPD (in both the Binding and Non-Binding Electricity Sectors) experienced an average growth rate of 3.9% per annum. In 2002, there was a reduction in the annual growth rate to 2.4% due to a slowdown in the economy. In 2003, the annual growth rate increased to 5.4%.

The primary factors that management believes have an impact on demand are the rate of GDP growth, electricity connections to new households and changes in electricity consumption per capita. We anticipate that the Portuguese economy will recover and that overall consumption in the National Electricity System will increase at an average of 3.7% per year in 2004, 2005 and 2006. Residential consumption is assumed to increase each year over the same period by an average of 4.5%, services by an average of 2.8%, and industrial by an average of 2.9%.

Peak demand as a percentage of the total installed capacity, which is the sum of the total installed capacity of the PES, and the total installed capacity of the Non-Binding System, has remained fairly constant in recent years, except in 2003 when it increased slightly due to an extremely cold winter and a decrease in installed capacity in the PES following the decommissioning of the Alto Mira power plant (132 MW). Our available capacity as a percentage of the total installed capacity has maintained a value of approximately 78% from 2001 through 2003. The ratio of peak demand to EDP's average available capacity indicates that EDP alone did not have sufficient available capacity to cover the total peak demand in 2001, 2002 and 2003. To address this, in early 2004, the first 392 MW unit of the TER CCGT plant began operation. The second unit has been in testing since September 30, 2004 and is expected to begin operation before the end of 2004. The third unit is expected to begin operation in 2006. We are also building new hydroelectric generation capacity.

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The following table sets forth the ratios of peak demand to installed capacity, EDP's available capacity to the installed capacity of the PES and the Non-Binding System and peak demand to EDP's available capacity for the periods indicated. Peak demand includes demand satisfied by generation from Other Independent Producers.

	As of December 31,					As of
	1999	2000	2001	2002	2003	June 30,
	2004					
	(in MW, except percentages)					
Installed capacity of the PES ⁽¹⁾	8,804	8,758	8,758	8,758	8,626	8,626
Installed capacity of the NBES ⁽²⁾	255	255	255	255	647	647
Total installed capacity (PES plus NBES)	9,059	9,013	9,013	9,013	9,273	9,273
Peak demand (PES plus NBES)	6,522	6,890	7,466	7,394	8,046	7,760
Peak demand as a percentage of the total installed capacity (PES plus NBES)	72.0%	76.4%	82.8%	82.0%	86.8%	83.7%
EDP:						
EDP's average available capacity (PES)	6,808	6,765	6,801	6,841	6,695	6,831
EDP's average available capacity (NBES ⁽³⁾)	196	215	247	226	228	562
EDP's available capacity as a percentage of the total installed capacity (PES plus NBES)	77.3%	77.4%	78.2%	78.4%	74.7%	79.7%
Peak demand as a percentage of EDP's average available capacity (PES plus NBES)	93.1%	98.7%	105.9%	104.6%	116.2%	105.0%

(1) PES.

(2) Non-binding Electricity System, which consists of generation in the Independent Electricity System other than the other independent producers. All of the NBES hydroelectric plants with an installed capacity less than or equal to 10 MW became special regime producers in October 2002. Special regime generation generally consists of small or renewable energy facilities, from which the electricity system must acquire all electricity offered, at tariffs fixed according to the type of generation. Installed capacity of the NBES in 2003 includes the first 392 MW unit of TER CCGT that was in testing at the end of the year.

(3) Provisional values from 1999 to 2001 take into account the restructuring of the Vila Cova plant in 1999.

The Portuguese overall growth rate in demand for electricity is slightly higher than the rate reflected in the figures above due to the growth of auto production of electricity in certain industries. Auto producers supply their surplus electricity to REN, which displaces electricity generation in the PES.

The term installed capacity, as used herein, refers to the maximum capacity of a given generation facility under actual operating conditions. Maximum capacity of a hydroelectric facility is based on the gross electricity emission to the transmission network by the units of such facility, whereas maximum capacity of a thermal facility is based on the net electricity emission (net of own consumption) to the transmission network.

Generation

As of December 31, 2003, our Portuguese electricity generation facilities consist of hydroelectric, thermal (coal, fuel oil, natural gas and gas oil), biomass, cogeneration and wind generation facilities, and had a total installed capacity of 7,939 MW (including one 392 MW unit of the new TER CCGT plant, which was in service by the end of 2003 for testing purposes and began commercial operations in early 2004), 7,052 MW of which was in the PES and 888 MW of which was in the Independent Electricity System, and approximately 53% of which was represented by

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hydroelectric facilities, 28% by fuel oil/natural gas facilities, 15% by coal-fired facilities, 2% by gas oil facilities and 2% by wind-driven, biomass and cogeneration facilities. We do not own or operate any nuclear-powered facilities in Portugal.

Our installed capacity in the PES of 7,052 MW represents approximately 82% of the total installed capacity in the PES. From 2000 to 2002, the installed capacity of the PES remained constant. In 2003, a small decrease resulted from the decommissioning of the 132 MW Alto de Mira plant. Our smaller hydroelectric plants, wind generating facilities and cogeneration and biomass plants are part of the Independent Electricity System.

In 2003, our electricity generation in Portugal was approximately 27.7 TWh in the ordinary regime. According to REN, the total generation value in the ordinary regime in Portugal in 2003 was approximately 37.0 TWh.

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Since its creation in 1994, CPPE has operated all of our conventional thermal plants and approximately 92.6% of our hydroelectric plants. In 2003, CPPE accounted for approximately 96.3% of our electricity generation in Portugal. During the second half of 2003, we began reorganizing our generation business in preparation for the liberalization of the Iberian electricity market, which was expected to start operations by June 20, 2004. Pursuant to a new agreement (which has not yet been made public) signed by the Portuguese and Spanish governments at the Iberian Summit at Santiago de Compostela on October 1, 2004, it is expected that MIBEL will begin operations by June 30, 2005. We are in the process of consolidating a number of generation companies formerly held by EDP Produção, which operate in the Independent Electricity System, into CPPE as part of the reorganization of our generation business.

EDP Energia was created to supply electricity to Qualifying Consumers and to conduct energy trading activities. The energy trading activities were subsequently transferred to EDP Produção.

EDP Produção also holds a variety of engineering and operations and maintenance, or O&M, companies, including EDP Produção EM Engenharia e Manutenção, S.A., a company which undertakes hydroelectric and thermal engineering projects and studies, project management, engineering and consulting.

Enernova (wind energy) and EDP Bioelétrica (biomass plants) are now held directly by EDP outside of EDP Produção. Since 1996, Enernova has increased by six times its installed generation capacity, from 10 MW to 65 MW. New projects are in progress, some of which are under construction and others are in licensing development, which will add installed capacity of 280 MW by 2006, and 300 MW by 2008.

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The following map sets forth the CPPE power plants in the Binding Sector as of December 31, 2003.

The generation capacity of CPPE plants in the Binding Sector is bound to the PES under PPAs between CPPE and REN. Under the PPAs, CPPE is guaranteed a monthly fixed revenue component (capacity charge) that remunerates, at an 8.5% real rate of return, the net asset value of CPPE's power plants. The revenue amount CPPE receives as a capacity charge also includes the depreciation related to these assets, and is based on the contracted availability of each power plant, regardless of the energy it produces. The PPAs also allow CPPE to

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pass-through to the final tariff its total fuel consumption cost through a variable revenue component (energy charge) that is invoiced monthly to REN. Pursuant to the Portuguese government's policy for the reorganization of the energy sector, the PPAs may be subject to early termination, as a step in the creation of an Iberian electricity market.

In fact, Decree law no. 185/2003 of August 20, 2003, contemplates the eventual early termination of the PPAs in accordance with certain rules to be set out in a separate decree law, which is expected to provide for adequate compensatory measures to cover the investments and other commitments set out in each PPA that are not otherwise compensated through market-derived revenues. For that purpose, Law no. 52/2004 of October 29, 2004 has granted a legislative authorization from the Portuguese parliament to the Portuguese government permitting it to provide for the granting of compensation with respect to the early termination of the PPAs (including in relation to the definition of the methodology for the determination of the amounts due, as well as in relation to procedure and time for such payment) and for the creation of the necessary mechanisms to ensure the payment of such compensatory amounts through the pass-through of charges to all electric energy consumers as permanent components of the Global Use of System Tariff (UGS Tariff).

This legislative authorization, which was granted for a 180-day period, also establishes that the Portuguese government is authorized to determine (i) that the charges relating to the compensatory measures should be billed to electric energy consumers simultaneously with the remaining components of the UGS Tariff, and (ii) the time at which compensation paid to producers is to be included in the relevant taxable income so as to have a tax-neutral effect.

Once the decree law regarding early termination of the PPAs is enacted, we may consider, in accordance with applicable legislation, securitizing the compensation amounts arising from such terminations, subject to terms and conditions to be defined. In the event such amounts are securitized, we intend to use the proceeds for the partial redemption of our financial indebtedness.

The following table sets forth our total installed capacity by type of facility at year-end for the years 1999 through 2003 and the first half of 2004.

Type of facility	As of December 31,					As of
	1999	2000	2001	2002	2003	June 30,
						2004
Hydroelectric:						
CPPE plants	3,903	3,903	3,903	3,903	3,903	3,903
Independent System hydroelectric plants	309	309	309	309	311	311
Total hydroelectric	4,212	4,212	4,212	4,212	4,214	4,214
Thermal ⁽¹⁾	3,327	3,281	3,281	3,281	3,149	3,149
Wind	20	30	41	41	65	96
Biomass	9	9	9	9	9	9
Cogeneration	0	67	67	111	111	111
CCGT ⁽²⁾	0	0	0	0	392	392
Total	7,568	7,599	7,610	7,654	7,939	7,971

(1) On June 30, 2003, the PPA of the Alto de Mira plant expired and the plant was decommissioned.

(2) The first unit of this plant began commercial service on February 14, 2004 and the second unit is currently in testing.

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The following table sets forth the global gross margin of our PPAs per year until 2027, assuming that contracted availability is met, and including the PPA capacity charge, environmental capital expenditure at Sines (SO₂ and NO_x reduction) and other charges, such as land rentals and startup costs.

CPPE s Power Purchase Agreements - Gross Margin

Year	PPA	Year	PPA	Year	PPA
	(thousands of EUR)		(thousands of EUR)		(thousands of EUR)
2004	887,169	2012	849,160	2020	387,791
2005	905,349	2013	746,481	2021	364,932
2006	916,055	2014	686,310	2022	364,672
2007	917,463	2015	682,710	2023	351,339
2008	944,296	2016	592,999	2024	347,269
2009	970,771	2017	586,813	2025	17,655
2010	942,736	2018	390,839	2026	16,981
2011	854,094	2019	390,325	2027	16,272

Hydroelectric generation is dependent upon hydrological conditions. In years of less favorable hydrological conditions, less hydroelectricity is generated and the PES must depend upon increased thermal production. In addition, in years of less favorable hydrological conditions, imports of electricity may increase. For purposes of forecast models, our estimated annual hydroelectric production based on current installed capacity in an average year is 10.6 TWh and can reach about 15 TWh in a wet year and may fall to less than 7 TWh in a dry year. Between 1993 and 2003, our actual hydroelectric production ranged from a low of 6.9 TWh in 1999, a very dry year, to a high of 14.9 TWh in 2003, a record wet year.

The following table summarizes our electricity production, excluding losses at our plants and our own consumption, by type of generating facility from 1999 through 2003 and the first half of 2004, and also sets forth our hydroelectric capability factor for the same period:

Type of facility	Year ended December 31,					June 30,
	1999	2000	2001	2002	2003	2004
	(in GWh, except hydroelectric capability factor)					
Hydroelectric:						
CPPE plants ⁽¹⁾	6,457	10,229	12,607	6,764	13,964	5,335
Independent System hydroelectric plants	447	624	790	573	901	313
Total hydroelectric	6,904	10,853	13,397	7,336	14,865	5,648
Thermal:						
Coal	9,319	9,091	8,677	9,532	9,473	4,887
Fuel oil and natural gas	7,596	4,631	5,583	7,848	3,120	547
Gas oil	2	38	50	13	26	5
Coal and fuel oil ⁽²⁾	85	11	30	44	(1)	0
Cogeneration	0	134	423	590	679	358
CCGT ⁽³⁾					203	1,155
Total thermal	17,002	13,905	14,763	18,027	13,500	6,952

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Wind	53	70	90	113	128	96
Biomass	2	5	18	37	38	24
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	23,961	24,833	28,269	25,513	28,532	12,720
Hydroelectric capability factor ⁽⁴⁾	0.68	1.08	1.19	0.75	1.33	0.83

- (1) Includes the following amounts of our own consumption for hydroelectric pumping, 491 GWh in 1999, 558 GWh in 2000, 485 GWh in 2001, 670 GWh in 2002, 485 GWh in 2003 and 176 GWh in June 2004.
- (2) Since the beginning of 1998, our existing plant at Tapada do Outeiro uses only fuel oil. Production in 2003 reflects the fact that our plant at Tapada do Outeiro generated an amount of electricity that was less than the plant's own consumption.
- (3) The first unit of this plant began commercial service on February 14, 2004 and the second unit is currently in testing.
- (4) The hydroelectric coefficient varies based on the hydrological conditions in a given year. A hydroelectric capability factor of one corresponds to an average year, while a factor less than one corresponds to a dry year and a factor greater than one corresponds to a wet year.

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The average availability for production of CPPE's plants remained stable from 1999 (93.0%) through 2003 (92.7%) for thermal plants, and increased slightly from 95.1% to 96.8% for hydroelectric plants during the same period. Forced outage is unplanned availability at a power plant caused by trips, critical repairs or other unexpected occurrences. Non-availability results from planned maintenance and forced outages. CPPE is reducing planned maintenance outages through more efficient maintenance techniques. CPPE's generating facilities have experienced very low rates of forced outage over the past five years. Management believes these low rates compare favorably with the European average. In the period 1999 through 2003, forced outages of CPPE's thermal plants has ranged between 2.1% and 2.8%. During the same period, forced outages of CPPE's hydroelectric plants ranged between 0.4% and 1.0%. In 2003, forced outages of CPPE's thermal plants was 2.1% and hydroelectric plants was 0.44%.

The average availability factor is defined as the total number of hours per year that a power plant is available for production as a percentage of the total number of hours in that year. This factor reflects the mechanical availability, not the actual availability of capacity, which may vary due to hydrological conditions. The table below indicates for each type of CPPE generating facility the average capacity utilization and average availability factor indicators, comparable with other European utilities, each calculated in accordance with our computational method, for the indicated periods:

Type of facility	Average capacity utilization ⁽¹⁾						Average availability factor					
	Year ended December 31,					Six months ended June 30,	Year ended December 31,					Six months ended June 30,
	1999	2000	2001	2002	2003		1999	2000	2001	2002	2003	
Hydroelectric	18.9%	29.8%	36.9%	19.8%	40.8%	31.3%	95.1%	95.0%	94.8%	95.9%	96.8%	98.5%
Thermal:												
Coal ⁽²⁾	89.3%	86.8%	83.1%	91.3%	90.7%	93.9%	90.5%	89.2%	90.5%	94.0%	94.2%	96.3%
Fuel oil and natural gas	50.6%	30.8%	37.2%	52.3%	20.8%	7.3%	93.2%	94.6%	96.6%	93.7%	90.8%	93.2%
Coal and fuel oil ⁽³⁾	10.3%	2.8%	7.2%	10.8%	0.0%	0.0%	98.6%	99.6%	98.9%	98.2%	94.9%	100.0%
Gas oil ⁽⁴⁾	0.1%	1.3%	1.7%	0.4%	1.2%	0.6%	99.6%	99.4%	98.4%	99.1%	98.0%	99.7%
Total weighted average thermal ⁽⁵⁾	58.3%	47.8%	49.9%	60.7%	44.8%	39.5%	93.0%	93.2%	94.6%	94.4%	92.7%	94.8%

(1) The average capacity utilization is defined as actual production as a percentage of theoretical maximum production.

(2) The average availability of the coal plants in 1999 was affected by the installation of low NO_x burners in each unit of the Sines plant, one per year, which required production from each unit to stop temporarily.

(3) None, primarily due to minimal generation at our Tapada do Outeiro plant as a result of a wet year in 2003 and the fact that this is a peak load power plant.

(4) Increase in average capacity utilization was due to the need to use the fuel stock of the Alto de Mira power plant in the context of its decommissioning in 2003.

(5) Weighted average is based on total installed capacity of the thermal system.

During the period from 1999 through 2003, CPPE has had operating and maintenance costs, excluding fuel and depreciation costs, below the limits contained in the relevant PPAs over that time period. Management expects to continue to maintain these costs below the PPA limits in 2004. However, we expect most of the PPAs to terminate during 2004 or 2005 as a result of a decree law expected to be enacted, and we expect that compensation mechanisms for these terminations will be defined with the goal of maintaining the economic value of the terminated PPAs. On June 30, 2003, the PPA of our 132 MW Alto de Mira plant terminated on the scheduled expiration date.

Table of Contents**Hydroelectric Plants**

As of December 31, 2003, we operated 25 hydroelectric generating facilities in the Binding System, with 63 total units and an aggregate installed capacity of 3,903 MW.

Based on an independent revaluation of our assets in 1992, we estimate that the average remaining useful life of our dams is approximately 45 years. The table below sets out our hydroelectric plants, installed capacity as of December 31, 2003, the type of hydroelectric plant, the year of commencement of operation and the year in which the most recent major refurbishment, if any, was accomplished.

Hydroelectric plants	Installed capacity (MW)	River reservoir plant type	Year entered into service	Year of last major refurbishment
CPPE Plants:				
Alto Lindoso	630.0	Reservoir	1992	
Miranda	369.0	Run of river	1960/95	1970
Aguieira	336.0	Reservoir	1981	
Valeira	240.0	Run of river	1976	
Bemposta	240.0	Run of river	1964	1969
Pocinho	186.0	Run of river	1983	
Picote	195.0	Run of river	1958	1969
Carrapatelo	201.0	Run of river	1971	
Régua	180.0	Run of river	1973	
Torrão	140.0	Reservoir	1988	
Castelo de Bode ⁽¹⁾	159.0	Reservoir	1951	2003
Vilarinho Furnas	125.0	Reservoir	1972/87	
Vila Nova (Venda Nova/Paradela)	144.0	Reservoir	1951/56	1994
Fratel	132.0	Run of river	1974	1997
Crestuma-Lever	117.0	Run of river	1985	
Cabril	108.0	Reservoir	1954	1986
Alto Rabagão	68.0	Reservoir	1964	
Tabuaço	58.0	Reservoir	1965	
Caniçada	62.0	Reservoir	1954	1979
Bouçã	44.0	Reservoir	1955	1988
Salamonde	42.0	Reservoir	1953	1989
Pracana	41.0	Reservoir	1950/93	1993
Caldeirão	40.0	Reservoir	1994	
Touvedo	22.0	Reservoir	1993	
Raiva	24.0	Reservoir	1982	
Total	3,903.0			
Independent System Hydroelectric Plants:				
Hidrocenel ⁽²⁾	107.6	Various	Various	
HDN ⁽³⁾	118.5	Various	Various	
EDP Energia ⁽⁴⁾	84.9	Various	Various	
Total	311.0			
Total maximum capacity	4,214.0			

(1)

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We invested approximately 13 million in the modernization of the electricity generating turbines and other dam equipment at Castelo de Bode, which was completed at the end of 2003.

- (2) Hidrocel, which operates 15 plants with capacities ranging from 0.1 MW to 24.4 MW and dates of entry into service from 1906 to 2003, was merged into CPPE in 2004.
- (3) HDN, which operates 13 plants with capacities ranging from 0.9 MW to 44.1 MW and dates of entry into service from 1922 to 1992, was merged into CPPE in 2004.
- (4) EDP Energia owns five plants with capacities ranging from 0.2 MW to 80.7 MW and dates of entry into service from 1927 to 1951.

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The following table presents the net generation, for the last two years, of our hydroelectric power plants operating under PPAs, as well as the end date of each PPA.

Profile of CPPE s Hydroelectric Power Plants under PPA with REN

	End of PPA	Annual		Average
		Net Generation		Net Generation
		2002	2003	1990-2003
		(GWh)		
Hydro				
Alto Lindoso	2024	599	948	910
Touvedo	2024	48	72	71
Alto Rabagão	2015	54	145	105
Paradela	2015	135	264	241
Venda Nova 1	2015	218	456	346
Venda Nova 2	2027			(1)
Salamonde	2015	153	261	226
Vilarinho Furnas	2022	160	181	182
Cançada	2015	238	347	315
Miranda	2013	478	1,365	995
Picote	2013	513	1,121	833
Bemposta	2013	535	1,374	909
Pocinho	2024	262		412
Valeira	2024	444	1,049	633
Vilar-Tabuaço	2024	48	178	123
Régua	2024	428	891	580
Carrapatelo	2024	558	1,092	756
Crestuma-Lever	2024	258	513	330
Torrão	2024	272	314	262
Caldeirão	2024	49	76	50
Aguieira	2024	538	614	384
Raiva	2024	41	66	44
Cabril	2015	185	491	285
Bouça	2015	97	230	149
C. Bode	2015	216	608	359
Pracana	2024	49	99	57
Fratel	2020	188	528	259
Total Hydro		6,764	13,964	9,814

(1) Venda Nova 2 Power Plant will start industrial service in January 2005.

Table of Contents**Thermal plants**

CPPE operates all our conventional thermal power plants, with total installed capacity, as of December 31, 2003, of 3,148.5 MW and installed capacity per generating unit ranging from 16 MW to 298 MW. The following table sets forth, as of December 31, 2003, our conventional thermal plants by installed capacity, type of fuel, net efficiency at maximum output, number of units and year entered into service.

Thermal plants	Installed Capacity (MW)	Fuel	Net efficiency at maximum output	Number of units	Years entered into service
Sines	1,192.0	Coal	36.8	4	1985-89
Setúbal	946.4	Fuel oil	38.2	4	1979-83
Carregado I	473.8	Fuel oil	37.3	4	1968/1974
Carregado II ⁽¹⁾	236.4	Fuel oil /	37.6	2	1976
		Natural gas			
Tunes	197.0	Gas oil	28.4	4	1973/1982
Tapada do Outeiro (EDP facility) ⁽²⁾					1959/ 1967
	46.9	Coal /fuel oil	29.4	1	(unit 3)
Barreiro	56.0	Fuel oil	34.2	2	1978
Total maximum capacity	3,148.5				

(1) These units began burning natural gas in 1997.

(2) This three-unit plant is being progressively decommissioned by the end of 2004. The first unit of 50 MW was decommissioned on December 31, 1997. The second unit of 50 MW was decommissioned on December 31, 1999. Since 2000, only one 50 MW unit, currently burning fuel oil, has been operational.

There has been no significant change in average net efficiency of CPPE's thermal plants over the past five years. With continued proper maintenance of the thermal facilities, CPPE expects to maintain net efficiency at least at levels contracted in the PPAs.

The following table presents the net generation, for the last two years, of our thermoelectric power plants operating under PPAs, as well as the end date of each PPA and the fuel costs per power station:

Profile of CPPE's Thermoelectric Power Plants under PPA with REN

	End of PPA	Annual Net Generation		Annual Fuel Costs	
		2002	2003	2002	2003
		(GWh)		(EUR)	
Sines	2017	9,532	9,473	149,741	131,771
Setúba	2012	5,191	1,834	173,290	71,333

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Carregado (I and II)	2010	2,408	1,091	92,121	51,075
Barreiro	2009	249	195	16,003	16,971
Other		57	26	3,457	2,757
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total		17,437	12,619	434,612	273,908
		<u> </u>	<u> </u>	<u> </u>	<u> </u>

Other Energy Sources

Renewables

In addition to our hydroelectric and thermal plants, we promote the use of renewable energy sources with other types of facilities. Enernova, our subsidiary specializing in this area, concentrated its initial investments in wind farms (due to greater technological advances made to date). Our first wind facility commenced operation in 1996. We now have five wind facilities with a combined installed capacity of 65 MW. In 2002, we created a new subsidiary for the biomass assets, EDP Produção Bioelétrica, which owns the Mortágua biomass (forestry waste) power plant. This plant started operations in 1999 and has an installed capacity of 9 MW.

Fuel

CPPE uses a number of fossil fuels in the generation of electricity. The introduction of natural gas to Portugal is diversifying the sources of primary energy. For more information on our use of natural gas you should read [Natural Gas](#) below.

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CPPE fuel consumption costs, including transportation, were 273.9 million in 2003 and 434.6 million in 2002, which represented approximately 41.2% and 52.8%, respectively, of CPPE's total operating expenses. The decrease in the total cost of fuel consumed from 2002 to 2003 resulted primarily from a decrease in the thermal production powered by fuel oil, due to increased hydroelectric production in 2003, which was a wet year.

The table below shows a breakdown of costs of fuel consumed by CPPE from 1999 through 2003 and the first half of 2004:

Type	Year ended December 31,					June 30,
	1999	2000	2001	2002	2003	2004
	(thousands of EUR)					
Imported coal	116,823	128,902	142,810	148,773	130,531	80,704
Fuel oil ⁽¹⁾	109,371	146,721	193,867	259,816	117,716	21,413
Gas oil ⁽²⁾	219	1,895	4,618	1,526	2,744	567
Natural gas	42,163	25,364	12,260	24,497	22,917	7,383
Total	268,576	302,882	353,555	434,612	273,908	110,067

⁽¹⁾ Includes consumption for the production of steam at the Barreiro power plant.

⁽²⁾ Small amounts of gas oil are consumed by the gas oil plants for the operation of these plants in synchronous compensation mode for purposes of voltage regulation and a very small amount of generation.

The following table sets forth the amounts of fuel purchased by CPPE in each of the last five years.

Type	Year ended December 31,					June 30,
	1999	2000	2001	2002	2003	2004
	(thousands of metric tons, except natural gas)					
Imported coal	3,533	3,564	3,108	3,587	3,593	1,580
Fuel oil ⁽¹⁾	1,712	1,052	1,237	1,941	716	42
Gas oil	0	0	26	3	10	1
Natural gas ⁽²⁾	376	142	60	150	131	190,508

⁽¹⁾ Includes purchases for the production of steam at the Barreiro plant.

⁽²⁾ Measured in millions of cubic meters. The increase in 2004 is due to the start of the first unit of the TER CCGT power plant.

Coal

As the Sines power plant is a base load, or continuous operation power plant, CPPE enters into supply contracts for more than one year for the major part of its consumption of coal. Pursuant to the PPAs, for purchases of coal, an annual Target Contract Quantity, or TCQ, is defined by REN based on the forecasts for coal consumption for a wet year. The TCQ is the basis for long-term supply and shipping contracts, which are negotiated by CPPE, subject to REN approval. In addition, CPPE makes spot-market purchases as necessary. In both 2003 and 2002, CPPE purchased 78% of its coal through long-term contracts and 22% of its coal on the spot market. In comparison, in 2002 and 2001, CPPE

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purchased 78% and 70%, respectively, of its coal through long-term contracts, and 22% and 30%, respectively, of its coal on the spot market.

The following table shows a breakdown of CPPE's coal purchases from 1999 to 2003 and the first half of 2004 by geographic markets as a percentage of total purchases.

Region	Year ended December 31,					June 30,
	1999	2000	2001	2002	2003	2004
South Africa	28.0%	38.0%	28.0%	28.9%	34.6%	28.6%
United States	12.0%	10.0%	17.0%	3.2%	9.9%	16.6%
Australia	17.0%	0.0%	13.0%	23.2%	18.6%	8.1%
South America	43.0%	48.0%	27.0%	16.3%	32.9%	35.5%
Southeast Asia	0.0%	4.0%	15.0%	16.9%	0.0%	9.9%
Europe	0.0%	0.0%	0.0%	11.3%	4.0%	1.4%
Total	100%	100%	100%	100%	100%	100%

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In 2003, the average cost of coal consumed was 36.7 per ton. In 2002 and 2001, the average cost of coal consumed for imported coal was 41.4 per ton and 43.8 per ton, respectively.

Fuel Oil and Gas Oil

Fuel oil purchases by CPPE are made in the spot market and pursuant to contracts. CPPE purchases fuel oil from refineries in Europe, primarily in Portugal and northwestern Europe, and is remunerated through PPAs based on, among other things, costs of fuel oil indexed to the spot market.

The average cost of fuel oil consumed in 2003 was 164.76 per ton, compared with 143.25 and 141.22 in 2002 and 2001, respectively. The increase in 2003 was due to increases in market prices as a result of the conflict in Iraq and production control by OPEC members. To meet its objectives to improve air quality, CPPE has shifted its fuel oil purchases to lower sulfur fuel oil, which has increased the cost of consumed fuel oil. In 2003, the average sulfur content of fuel oil purchased by CPPE was approximately 0.9%, compared with 2.1% in 2002. In October 2002, CPPE initiated the use of fuel with a 1% sulfur content. The use of lower sulfur fuel oil has increased, and will increase in the future, the average cost of fuel oil consumed.

CPPE maintains gas oil reserves as fuel for emergency gas turbine generators. Since gas oil is very expensive and economically inefficient, these reserves are used on a very limited basis. Consequently, small purchases of gas oil have been made by CPPE, as required by REN.

The increase in 2003 of the consumption of gas oil was due to higher production by the Alto de Mira plant prior to its decommissioning in order to exhaust its fuel inventory.

Natural Gas

Since the introduction in 1997 of the import of natural gas from Algeria into Portugal by Transgás, CPPE has had access to natural gas as a source of primary energy. CPPE converted two units of Carregado into dual-fired (fuel oil and natural gas) in late 1997. In 2003, CPPE purchased 131 million cubic meters of natural gas for a total of 22.9 million compared to 150 million cubic meters of natural gas in 2002 for a total of 24.5 million. For more information on our activities related to natural gas you should read Other International Activities and Strategic Investments.

Planned New Plants

In order to meet increased demand for electricity in Portugal, additional capacity is planned for the National Electricity System. The following table sets out planned new power facilities in Portugal.

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Facility	Type of generation	Developing entity	Planned capacity (MW)	Target year	Status
Alqueva ⁽¹⁾	Hydroelectric	EDIA/CPPE	240	2004	Under Construction
Venda Nova II	Hydroelectric	CPPE	192	2004	Under Construction
Baixo Sabor	Hydroelectric	CPPE	180	2010	Planning
Picote II	Hydroelectric	CPPE	236	2010	Planning
CCGT Ribatejo	CCGT	TER ⁽²⁾	3x392	2004/2006	Under Construction

(1) EDIA Empresa de Desenvolvimento e Infra-estruturas de Alqueva, S.A. (EDIA) is a company wholly-owned by the Portuguese Republic that is developing a multi-purpose hydro scheme for irrigation and the production of electricity. CPPE will operate the Alqueva hydroelectric power plant.

(2) TER CCGT operates in the Non-Binding Sector. The first unit began commercial service in February 2004, the second unit has been in testing since September 30, 2004 and is expected to begin commercial service before the end of 2004. The third unit is expected to begin commercial service in March 2006. TER was merged into CPPE in 2004.

Table of Contents**Capital Expenditures**

In 2003, we spent 261.1 million in capital expenditures in technical costs for our generation facilities, compared with 276.5 million in 2002 and 131.7 million in 2001. Our capital expenditures in the generation sector have been concentrated on the following activities: conducting preliminary studies for and building of hydroelectric plants, maintaining and upgrading existing power plants, investing in environmental projects such as the installation of emission reduction equipment and, in 2003, investing 142.4 million in the new TER CCGT (combined cycle gas turbine) power plant units 1 and 2, and 38.4 million in wind energy farms. At this stage, management expects that the TER CCGT plant will cost approximately 600 million, including all three units.

The following table sets forth our capital expenditures in technical costs from 1999 through 2003 and the first half of 2004 on plants by type and status of generating plant.

Plant type and status	Year ended December 31,					June 30,
	1999	2000	2001	2002	2003	2004
			(audited)			(unaudited)
			(thousands of EUR)			
Thermal/Hydro						
Public Electricity System						
Hydroelectric plants under construction	6,449	14,235	16,877	25,690	34,359	5,017
Hydroelectric plants in operation	10,475	9,038	10,289	12,756	11,732	2,303
Thermal plants in operation	25,199	17,623	14,764	16,261	20,340	3,349
Plants under study	359	190	1,450	1,011	349	9
Total CPPE	42,482	41,086	43,380	55,718	66,780	10,679
Independent Electricity System						
Hydroelectric plants	11,457	7,913	4,964	4,137	3,849	326
TER	0	3,571	58,535	142,946	142,350	80,582
Wind	5,726	11,128	6,521	11,159	38,389	31,408
Cogeneration facilities	37,654	25,439	13,083	9,602	255	22
Biomass ⁽¹⁾	12,679	0	0	35,180	614	28
Total Independent Electricity System	67,516	48,051	83,103	203,024	185,456	112,365
Others ⁽²⁾	0	0	0	0	312	654
Non-specific investment ⁽³⁾	4,070	4,969	5,250	17,721	8,599	1,068
Total Generation	114,068	94,106	131,733	276,463	261,148	124,767

(1) Investments in 2002 include 35.2 million related to an intra-group transfer of the Mortagua biomass power plant (built in 1999), to EDP Produção.

(2) Other investments include studies and investment relating to our trading system.

(3) Non-specific investment refers to investments not directly related to our plants, such as administrative buildings, transportation equipment and implementation of new information systems.

We currently expect that our planned capital expenditures and investments will be financed from internally generated funds, existing credit facilities and customer contributions, which may be complemented with medium- or long-term debt financing and equity financing as additional capital expenditure requirements develop. To learn more about our sources of funds and how the availability of those sources could be affected, see Operating and Financial Review and Prospects Liquidity and Capital Resources.

Transmission

The transmission system in mainland Portugal is owned and operated by REN, which is obligated by law to supply electricity within the National Electricity System. Electricity transmission in Portugal is the bulk transfer of electricity, at voltages between 150 kV and 400 kV, from generation or acquisition sites across a transmission system to areas of use via networks that are linked to each other to form an interconnected national transmission grid. As described above, the Portuguese government purchased a 70% interest in REN from us in late 2000. For more information on this purchase, you should read [Operating and Financial Review and Prospects Overview](#).

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REN operates the national transmission grid on an exclusive basis pursuant to Portuguese law under a concession provided for by Decree law no. 182/95 of August 27, 1995. The concession is valid for 50 years from September 2000, when the concession agreement was signed.

The Portuguese transmission system operates at a frequency of 50 Hz, which is in line with the majority of the European transmission systems. At year-end 2003, there were 47 substations operating on the national transmission grid, not including power plants. All of these substations are now fully automated and operated by remote control.

Of REN's transmission lines at December 31, 2003, approximately 2,438 km were 150 kV lines, 2,704 km were 220 kV lines and 1,403 km were 400 kV lines. Additionally, at the beginning of April 2004, a new 400 kV circuit of the interconnection line Alto-Lindoso-Cartelle was put into operation. We understand that, within the context of creation of MIBEL, REN plans to establish two additional interconnections with Spain by 2006: Alqueva-Balboa, a 400 kV line scheduled for completion by the end of 2004, and Douro Internacional-Aldeadavila, a 220 kV or 400 kV line scheduled for completion in 2006.

In addition to the construction and operation of the national transmission grid, REN is also responsible for central dispatch of all power plants with installed capacity of more than 10 MW. This includes scheduling generation to match, as closely as possible, the demand on the national transmission grid. As part of managing the national transmission grid, REN is also responsible for scheduling imports and exports with Spain. It buys and sells electricity in the Spanish organized electricity market at market prices. Apart from the power plants in the PES, REN is also obligated to buy energy from auto producers, cogenerators, small hydroelectric producers and other renewable source energy plants operating under Portuguese law within the Independent Electricity System.

The following table sets forth REN's net imports made in the conduct of its operations in each of the last five years in GWh and as a percentage of total demand.

Year	Net imports (GWh)	Percentage of total demand
1999	(857)	N/A
2000	931	2.5
2001	239	0.6
2002	1,899	4.7
2003	2,794	6.5

Distribution

Electricity distribution in Portugal is a regulated business and involves the transfer of electricity from the transmission system and its delivery across a distribution system to regulated consumers and Qualifying Consumers, meter reading and installation, and supply to regulated consumers. The local electricity distribution function in mainland Portugal is carried out almost exclusively by EDPD. Through fourteen network distribution areas, as well as seven commercial areas directed at serving customers supplied in the PES, EDP distributed electricity to 5,767,401 million consumers in 2003 out of a total of 5,767,916 according to DGGE, amounting to 38,916 GWh, of which 4,048 GWh was distributed to Qualifying Consumers. At December 31, 2003, EDPD employed approximately 6,334 personnel.

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Under Portuguese law, distribution of high-voltage electricity, greater than 45kV and less than 110kV, and medium-voltage electricity, greater than 1kV and less than or equal to 45kV, is regulated by DGGE through the issuance of a binding license with no time limitation. EDPD holds high- and medium-voltage electricity licenses, which it obtained in 2000. Distribution of low-voltage electricity is regulated through 20-year municipal concession agreements with municipal councils. EDPD pays rent to each municipality as required by law. For more information on licenses and concessions held by us, you should read note 1 to our audited consolidated financial statements.

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Under the terms of the binding licenses, EDPD is obliged to supply electricity to all customers located within its licensed area that are part of the PES. EDPD is also obliged to provide access to the distribution network to producers in the Independent Electricity System in return for a regulated access charge from consumers. EDPD owns, leases or has rights of way for the land on which its substations are situated. In addition, EDPD has long-term rights of way for its distribution lines. If necessary, new properties may be acquired through the exercise of eminent domain. In those cases, EDPD compensates affected private property owners.

The authorized area of EDPD covers all of mainland Portugal. At December 31, 2003, EDPD's distribution lines spanned a total of approximately 194,609 kilometers. The only distribution lines in Portugal not owned by EDPD are those of the auto producers and small cooperatives, which own their own lines. The following table sets forth the kilometers of EDPD's distribution lines, by voltage level, at December 31, 2003.

<u>Distribution lines</u>	<u>Km</u>
Overhead lines:	
High-voltage (60/130kV)	7,267
Medium-voltage (6/10/15/30kV)	52,742
Low-voltage (1kV)	98,099
Total overhead lines	158,108
Underground cables:	
High-voltage (60/130kV)	361
Medium-voltage (6/10/15/30kV)	11,513
Low-voltage (1kV)	24,627
Total underground cables	36,501
Total	194,609

Customers and Sales

EDPD distributes electricity to approximately 5.8 million customers. Approximately 67% of electricity consumption in 2003 was along the coast, with approximately 15% in the Oporto metropolitan region and 20% in the Lisbon metropolitan region. EDPD classifies its customers by voltage level of electricity consumed. The following charts show the number of customers as of December 31, 2003 and June 30, 2004, according to level of voltage contracted, and indicates whether such customers are binding customers supplied by EDPD or Qualifying Consumers to which EDPD distributes electricity on behalf of suppliers in the Independent Electricity System.

<u>Customers by voltage level</u>	<u>Year Ended December 31, 2003</u>		
	<u>Binding customers</u>	<u>Qualifying consumers</u>	<u>Total</u>
High- and very high-voltage ⁽¹⁾	146	3	149
Medium-voltage ⁽²⁾	19,039	1,916	20,955
Special low-voltage ⁽³⁾	28,184	0	28,184
Low-voltage ⁽⁴⁾	5,718,999	0	5,718,999
Total	5,766,368	1,919	5,768,287

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- (1) High-voltage is greater than 45 kV and less than or equal to 110 kV. Very high-voltage is greater than 110 kV.
- (2) Medium-voltage is greater than or equal to 1 kV and less than or equal to 45 kV.
- (3) Special low-voltage consumers have subscribed demands above 41.4KW and voltage levels below 1 kV. Special low-voltage customers are primarily small industrial and commercial customers.
- (4) Low-voltage is less than 1 kV.

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Customers by voltage level	Six Months Ended June 30, 2004		
	Binding customers	Qualifying consumers	Total
High and very high-voltage ⁽¹⁾	160	2	162
Medium-voltage ⁽²⁾	18,516	2,594	21,110
Special low-voltage ⁽³⁾	28,691	0	28,691
Low-voltage ⁽⁴⁾	5,769,672	0	5,769,672
Total	5,817,039	2,596	5,819,635

(1) High-voltage is greater than 45 kV and less than or equal to 110 kV. Very high-voltage is greater than 110 kV.

(2) Medium-voltage is greater than or equal to 1 kV and less than or equal to 45 kV.

(3) Special low-voltage consumers have subscribed demands above 41.4KW and voltage levels below 1 kV. Special low-voltage customers are primarily small industrial and commercial customers.

(4) Low-voltage is less than 1 kV.

EDPD has experienced increased demand over the past five years in all electricity voltage levels. Considering overall demand on EDPD's distribution network, both from binding customers and Qualifying Consumers, consumption has grown at an average annual growth rate of 4.8% from December 31, 1999 to December 31, 2003. The highest average annual growth rate during this period (6.0%) was in demand from very high and high-voltage customers. These voltage levels experienced a 9.3% increase in demand in 2003 due to a large increase in the industrial activity of one of our largest customers, as well as a higher demand on the distribution grid from auto producers. Under current regulations, REN must purchase all surplus electricity offered by auto producers, among other independent producers, at a specified tariff through EDPD. As the auto producers may purchase electricity at a price below that at which they sell to REN, the buying and selling of electricity by auto producers has increased demand for use of the distribution grid. Demand by medium-voltage levels increased from 10,639 GWh in 1999 to 12,534 GWh in 2003, representing average annual growth of 4.2%.

Following the gradual decrease of the eligibility threshold between 1999 and 2003, more electricity distributed through EDPD's network corresponds to consumption by medium-voltage qualifying consumers. As a result, electricity demand by medium-voltage binding consumers decreased from 10,639 GWh in 1999 to 8,600 GWh in 2003, whereas electricity demand by medium-voltage qualifying consumers, non-existent in 1999, increased to 3,934 GWh in 2003. Consumption by low-voltage customers, typically residential and services, increased from 17,786 GWh in 1999 to 21,513 GWh in 2003, representing average annual growth of 4.8%. The growth in low-voltage consumption during this period resulted primarily from the increase in the number of low-voltage customers from approximately 5.3 million to approximately 5.8 million, as well as an increase in annual consumption per consumer.

The following table shows electricity distributed in each of the last five years and the first half of 2004, separated by type of consumer.

	Year ended December 31,					Six months ended June 30,
	1999	2000	2001	2002	2003	2004
	(GWh)					
Electricity distributed						
Very high-voltage and high-voltage:						
Binding customers	3,855	4,104	4,259	4,271	4,755	2,659
Qualifying consumers	0	83	176	182	114	27

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Total very high-voltage and high-voltage	3,855	4,187	4,435	4,453	4,869	2,686
Medium-voltage:						
Binding customers	10,639	11,092	11,358	11,198	8,600	3,378
Qualifying consumers	0	133	344	776	3,934	2,860
Total medium-voltage	10,639	11,225	11,702	11,974	12,534	6,238
Low-voltage	16,839	17,884	18,823	19,424	20,346	10,550
Public lighting	947	1,010	1,065	1,080	1,167	664
Total	32,280	34,306	36,025	36,931	38,916	20,138

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On a revenue basis, our Portuguese electricity sales grew from 2,938 million in 1999 to 3,546 million in 2003. The most significant increase in sales has been to low-voltage customers (typically residential and services), to whom sales increased from 2,056 million in 1999 to 2,596 million in 2003. Recent growth in revenue from electricity sales was due to expansion in consumption and average tariff increases set by the regulator of 2.8% in 2003 and 2.3% in 2002. Furthermore, the increase in revenue from electricity sales in 2001, 2002 and 2003 was also influenced by the tariff adjustment, as discussed below. The following table shows EDPD's total domestic sales of electricity to binding customers by level of voltage required, as well as revenues from the use of distribution network, charged to Qualifying Consumers for the periods indicated.

	Year ended December 31,					Six months ended
	1999	2000	2001	2002	2003	June 30, 2004
	(audited)					(unaudited)
	(thousands of EUR)					
Electricity sales						
Very high-voltage and high-voltage	158,887	156,049	165,957	167,827	186,467	108,058
Medium-voltage	722,963	749,100	772,357	783,388	615,394	250,412
Low-voltage	1,981,460	2,080,475	2,194,035	2,335,135	2,500,380	1,373,161
Public lighting	74,351	80,279	83,918	86,614	95,731	55,250
Tariff adjustment	0	(55,995)	42,218	70,482	77,919	(118,324)
Total binding customers	2,937,661	3,009,908	3,258,485	3,443,446	3,475,891	1,668,557
Qualifying Consumers	0	1,152	2,788	12,939	70,485	58,254
Total	2,937,661	3,011,060	3,261,273	3,456,385	3,546,376	1,726,811

Tariffs are fixed by the regulator in advance for each year and are based in part on estimated data for variables such as demand and cost. If there are differences between the estimated data and the data actually experienced during the period, adjustments, shown in the table above as the tariff adjustment, will be made to the tariff in a subsequent period to account for these differences. The tariff adjustment reflects our estimate of the amount that will be applied in fixing tariffs in subsequent periods as a result of these differences. Tariff adjustments represent adjustments related to EDPD's distribution and supply activities. Due to actual consumption in 2002 and 2003 below that assumed in the setting of the 2002 and 2003 tariffs, amounts invoiced to final customers did not sufficiently compensate EDPD for the fixed amount that EDPD was required to pay for electricity acquired from REN, giving rise to a tariff adjustment in each of 2002 and 2003. For more information on the tariff adjustments, you should read Operating and Financial Review and Prospects.

The number of distribution customers per distribution employee is an important measure for EDPD. In the period from 1999 through 2003 and the first half of 2004, the number of customers per employee has increased from 586 to 910.

Table of Contents**Purchases of Electricity**

EDPD purchases all of its electricity in the Binding Sector from REN. In 1999, the regulator established a legal framework that limits purchases of electricity by EDPD from the Non-Binding Sector, which for the 2002-2004 regulatory period is 8%. EDPD has historically purchased less than 8% of its total energy from suppliers in the Non-Binding Sector and abroad. REN must purchase, and EDPD must purchase from REN, all electricity surplus produced by Other Independent Producers. The cost of purchased electricity is passed through to customers in accordance with the regulated tariff system and is not a determining factor in EDPD's results.

	Year ended December 31,					Six months ended June 30,
	1999	2000	2001	2002	2003	2004
	(GWh)					
Electricity Purchases						
From Binding Sector generation	32,483	33,915	35,282	34,801	32,307	15,117
From Other Independent Producers	2,165	2,469	2,552	2,817	3,694	2,162
From the non-binding system (SENV)	447	622	891	1,354	2,044	1,662
Total	35,095	37,007	38,726	38,972	38,046	18,941

Distribution Losses

EDPD experiences technical losses of electricity which are associated with the normal use of its network and, to a far lesser extent, commercial losses of electricity due primarily to gaps between estimated meter readings and actual levels of consumption, which are usually recovered in subsequent years, with the exception of losses due to stolen energy and faulty meters. The losses are within the normal range for the types of networks employed and we expect the amount of annual losses to remain constant as a result of capital expenditures in our distribution network, although we expect an increase in consumption.

The following table sets forth data regarding the losses of EDPD in absolute terms and as a percentage of demand, as well as EDPD's own uses of energy for the periods indicated.

	Year ended December 31,					Six months ended June 30,
	1999	2000	2001	2002	2003	2004
	(in GWh, except percentages)					
Demand on the distribution network	35,095	37,230	39,263	39,965	42,261	22,128
Own uses of energy	31	21	22	20	33	16
Distribution losses	2,756	2,875	3,183	3,008	3,259	1,704
Distribution losses/demand on the distribution network	7.9%	7.7%	8.1%	7.5%	7.7%	7.7%

Capital Expenditures

In recent years, our largest capital expenditures have been on the distribution system. EDPD is obligated by law to connect all customers who request to be linked to the PES. As a result, the largest component of capital expenditures is spent on connecting new customers, improving network efficiency and developing the network (installing new cables and new lines) to accommodate the growth in demand.

EDPD's total 2003 capital expenditures in technical costs amounted to 334.7 million, of which approximately 8% are expenditures on non-specific administrative, technical and commercial systems and corresponding technology support infrastructure, including an installment payment of approximately 12.0 million for the acquisition of an information technology system from EDINFOR. EDPD's capital expenditures in technical costs in distribution totaled 379.0 million in 2002, 260.4 million in 2001, 234.0 million in 2000 and 231.4 million in 1999. These amounts also include amounts paid by customer

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contributions in cash, but do not include assets in kind contributed by customers. These in kind contributions amounted to 61.0 million in 2003, 54.1 million in 2002, 69.5 million in 2001, 52.8 million in 2000 and 57.1 million in 1999. New customers are required by current regulation to make a contribution, in cash or in kind, for connections based on factors such as the type of voltage, the amount of power to be supplied, and distance to the network. In 2003, total customer contributions, and certain amounts contributed for infrastructure improvements, amounted to approximately 120.7 million.

Conservation Measures

We have been progressively implementing a voluntary policy to promote electricity conservation in an effort to decrease the variability of the load on the system and to increase efficient use of electricity. In doing so, we have increased dissemination of information on end-use efficiency in several industrial subsectors, services and residential use. We have also launched a program of granting awards to industrial customers for successfully implementing electricity efficiency projects and have established a joint venture with other energy sector companies whose main goal is to promote energy conservation.

In addition, the tariff structure has been designed to promote the rational use of electricity, basing tariffs on marginal costs, which may vary by time of day or season. Large consumers with a capability to reduce demand are offered an interruptible tariff rate, which results in a discount to the consumer and helps to alleviate demand at peak times.

Tariffs

The prices we charge for electricity are subject to extensive regulation under a tariff regime that was revised in 1998, causing significant price reductions. In December 1998, the regulator implemented a new tariff regulatory code to be applied in mainland Portugal, establishing a periodic definition of regulatory parameters for tariffs and a methodology for setting tariffs. During the first regulatory period, including the years 1999-2001, and the second regulatory period, including the years 2002-2004, prices were set annually according to a series of formulae that were derived based primarily upon what was deemed to be an appropriate return on assets in transmission, a return fixed by price cap in distribution, and a return on assets and agreed costs in commercialization, i.e., the activity of supply, measurement and billing of energy sales to final clients.

In April 2002, the Portuguese government extended the powers of the regulator to the Portuguese archipelagos of Azores and Madeira, with the intention of leveling the higher tariffs of these island regions to comparatively lower tariffs of the mainland Portugal while providing adequate financial returns to island electricity companies. This leveling led to an incremental increase in prices charged to mainland customers, although such prices cannot increase more than inflation.

In the Binding Sector, distribution tariffs for customers are differentiated by voltage level, tariff option and period of electricity consumption. These tariffs, when set, are uniform throughout mainland Portugal within each level of voltage.

For the 2002-2004 regulatory period, the regulator has applied a four-rate tariff price structure related to the time of day for medium-, high- and very high-voltage consumers. Low-voltage consumers with subscribed demands above 20.7 kVA have a three-rate time of day structure, while low-voltage consumers with subscribed demands up to 20.7 kVA might choose between a single-rate tariff, or a day-night tariff option.

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Producers and consumers in the Non-Binding Sector have a right to access and use the national transmission grid and our distribution network through the payment of access tariffs for the Global Use of System, the Use of the Transmission Network, the Use of the Distribution Network and Network Commercialization, which terms and conditions were established by the regulator.

Tariffs are set by the regulator pursuant to a periodic registration of regulatory parameters. In 1999, high-, medium-and low-voltage tariffs declined in real terms by 12.8%, 12.8% and 7.5%, respectively, from 1998

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levels. For 2000, in nominal terms, tariffs for all voltage levels declined by 0.6% from the 1999 levels. For 2001, in nominal terms, tariffs for all voltage levels increased, on average, by 1.2% from the 2000 levels. In November 2001, the regulator published the regulatory framework for the 2002-2004 regulatory period. For 2002, in nominal terms, tariffs increased across all voltage levels by an average of 2.2% from the 2001 levels. For 2003, in nominal terms, tariffs increased across all voltage levels by an average of 2.8% from the 2002 levels. In real terms, adjusted for inflation, very high-, high- and medium-voltage tariffs have declined by an average of 3.4% over the period 1999 to 2004. The tariffs for low-voltage customers have also declined by an average of approximately 3.1% over the same period. For 2004, in nominal terms, tariffs increased across all voltage levels by an average of 2.1% from the 2003 levels.

For the 2002-2004 regulatory period, the regulator considers the distribution function to consist of three business areas, which could in the future be liberalized at different times and subject to different tariff regulatory regimes: use of the distribution network, network commercialization services and commercialization of supply in the Binding Sector. The use of the distribution network area involves activities relating to investments in and the operation of the distribution grid. Tariffs applicable to the use of the distribution network are based on a price cap mechanism designed to reduce distribution tariffs on an annual basis by an average over the three years of the regulatory period, a percentage equal to the Portuguese Consumer Price Index, minus a percentage referred to as the efficiency coefficient. The efficiency coefficient was approximately 5% for the 1999-2001 regulatory period and is approximately 7% for the 2002-2004 regulatory period. The network commercialization area consists of activities related to meter installation, reading and the billing of all services associated with the use of the distribution network. The commercialization of supply in the Binding Sector area consists of activities directly relating to the final consumer, such as customer service, billing of final consumers in the Binding Sector and collecting payments from consumers. The tariff applicable to the network commercialization services and commercialization of supply in the Binding Sector area is based on costs accepted by the regulator plus a 9% return on assets.

Tariffs are also subject to an annual extra adjustment mechanism that takes into account the deviations of actual costs compared to forecasted costs used to derive tariffs for the previous one or two years. As a result, we have adopted a tariff adjustment in our financial statements that reflects our estimate of the amount that will be applied in fixing tariffs in subsequent periods as a result of differences between estimated and actual data. Customer tariffs for very high-voltage, high-voltage and medium-voltage are subject to quarterly adjustments, primarily to accommodate changes in fuel prices. For more information on the tariff adjustment, you should read *Distribution Customers and Sales, Operating and Financial Review and Prospects* and note 39(p) to our audited consolidated financial statements.

According to the proposal on the parameters, tariffs and prices of electricity and other services for 2005 released by ERSE on October 15, 2004, ERSE has proposed that in 2005 the tariffs for sale to final customers in Portugal (mainland) will be increased by 2.1% in nominal terms compared to 2004. The proposal is based on certain assumptions, including an expected inflation rate in 2005 of 2% and an expected increase in the electricity consumption of 3.4% in 2005 (in mainland Portugal). In addition, in the proposal, ERSE states that the approval of a new framework law for the electric system, the termination of PPAs and the opening of MIBEL are expected to cause an extraordinary revision of the tariffs during 2005.

The Tariff Regulation enacted by ERSE provides that the Tariff Council of ERSE, a consulting body on tariffs and regulation, must issue its (non-binding) opinion on this proposal by November 15, 2004. Subsequently, ERSE, considering the opinion expressed by the Tariff Council, will approve the final parameters, tariffs and prices, which should be published by December 15, 2004.

Competition

Until 1988, we had a monopoly for the generation, transmission and distribution of electricity in Portugal, although a very small number of municipalities distributed low-voltage electricity to consumers. Since 1988,

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measures have been taken to encourage limited competition in power generation in Portugal. In 1999, the regulator implemented measures to encourage competition in the supply of electricity in Portugal. For more information on these measures, you should read [Electricity System Overview](#). In addition, as a result of political and regulatory developments, especially within the context of the creation of MIBEL, we expect increased competition from Spanish electricity companies.

In December 2003, four qualified suppliers were authorized to operate in the Portuguese non-binding system, three of which are Spanish companies: Endesa Energia, S.A.; Iberdrola, S.A.; Union Fenosa Comercial; and Sodesa Comercialização de Energia, S.A. See [Iberian Electricity Market](#) and [Spain History and Overview](#).

Generation

The existing power stations of CPPE, which in 2003 formed 89% of our generating capacity, are all part of the PES. The earnings that CPPE derives from these power stations are unlikely to be affected by competition from generators in the Independent Electricity System. In accordance with the terms of the PPAs, CPPE's operating income is dependent on the availability of capacity and is substantially unaffected by levels of actual output. Under Portuguese law, any projects for construction of new thermal power plants in the PES must be subject to an open tender coordinated by DGGE. In the case of hydroelectric generation, all plants planned to be commissioned until 2010 are allocated by law to CPPE.

The PES includes two power stations that are not owned and operated by us: the Pego power plant, which was constructed and commissioned by us and later sold to Tejo Energia, and Tapada do Outeiro, which commenced full operations in 1999 and is owned and operated by Turbogás. The admission of these power stations to the PES resulted from two international tender processes coordinated by us in accordance with Portuguese government policy in effect at that time to establish competitive practice in the electricity generation sector. We expect to participate in future tender processes.

Subject to the issuance of generation licenses, we may construct plants that will operate in the Independent Electricity System, such as the TER CCGT plant. The first unit of the TER CCGT plant entered commercial service in early 2004. The two remaining units are expected to start operating in October 2004 and March 2006, respectively.

New plants in the Independent Electricity System will operate in the openly competitive market and sell power to REN under competitive offers or make bilateral contracts with REN, Non-Binding Sector customers, Binding Sector distributors or Spanish agents.

Because Portugal is contiguous only with Spain and there are limited connections between Spain and the rest of Europe, and because of recent political, legal and regulatory developments, we expect that a regional market on the Iberian Peninsula will develop. In January 2004, the Portuguese and Spanish governments signed a final agreement for the creation of the Iberian electricity market, which agreement was approved by the Portuguese parliament under Resolution no. 33-A/2004 of April 20, 2004 and ratified by the President of the Portuguese Republic under Decree no. 19-B/2004 of April 20, 2004. This agreement calls for, among other things, the harmonization of tariff structures, and the creation of a common pool for Portugal and Spain to be fully implemented in 2006. See [Iberian Electricity Market](#) and [Spain](#). Accordingly, we expect to face increased competition in generation and wholesale supply from Spanish participants in the market.

Distribution

EDPD, and previously, our distribution companies, have historically held an effective monopoly over distribution. However, increases in the levels of industrial auto production have reduced the amount of electricity sold to these entities from the PES. In addition, in early 1999, the regulator implemented legislation liberalizing the electricity supply business.

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As of May 15, 2003, all Eligible Consumers automatically may become Qualifying Consumers. In 2003, the total number of Eligible Consumers represented approximately 45% of demand in mainland Portugal in volume terms.

From January 1, 2002 until February 25, 2004, all electricity consumers other than low-voltage consumers were Eligible Consumers. From February 26, 2004 to August 18, 2004, the eligibility threshold was extended to include special low-voltage consumers, and with Decree law no. 192/2004 of August 17, 2004, full liberalization of the electricity market was completed with the opening of the market to the remaining low-voltage consumers.

If Eligible Consumers elect to become Qualifying Consumers, EDPD will continue to receive two of the three tariff components relating to distribution.

SPAIN

History and Overview

The creation of an Iberian Electricity Market is the driving force behind our decision to expand our operations to Spain. In 2001, we identified Hidroantábrico as an independent utility company that could facilitate our entry into the Spanish energy market.

In December 2001, we signed an agreement with EnBW, Cajastur and Cáser concerning joint control of Hidroantábrico. The agreement of all parties is required for specified key corporate actions. Operational matters require only the consent of us and EnBW. In the event of a deadlock concerning operational matters, however, we would ultimately be able to decide the course of action, but EnBW would have a right to require us to purchase its shares in Hidroantábrico in such an event. The appointment of Hidroantábrico's chief executive officer, chairman and the secretary of the board of directors requires the agreement of all three parties. If agreement cannot be reached, we would designate the chief executive officer, Cajastur would appoint the chairman and EnBW would appoint the secretary of the board of directors. Hidroantábrico is currently 39.5% owned by us, 34.6% owned by EnBW and 24.7% owned by Cajastur and Cáser. The remaining 1.2% comprises shares owned by other shareholders and own shares held by Hidroantábrico. As described below, in connection with the acquisition of an additional 56.2% stake in Hidroantábrico, we have agreed to terminate this shareholders' agreement and entered into a new shareholders' agreement with Cajastur and Cáser in respect of Hidroantábrico. The termination of the existing agreement and the effectiveness of the new agreement will be effective upon completion of the acquisition.

In March 2003, Hidroantábrico won the auction privatization process that led to its acquisition of 62% of Naturcorp. Subsequently, Naturcorp reorganized its gas holdings, as a result of which a minority shareholder in Gas de Euskadi, another gas company controlled by Hidroantábrico, exchanged its holding for shares in Naturcorp such that 100% of Gas de Euskadi was integrated into the Naturcorp group and Hidroantábrico's ownership of Naturcorp decreased from 62% to 56.8%. As part of this reorganization, Gas Natural, the minority shareholder in Gas de Euskadi, a subsidiary of Naturcorp, exchanged its 20.5% stake in Gas de Euskadi for a stake in Naturcorp. As a result of the reorganization of Naturcorp, Hidroantábrico has become the second largest gas company in the Spanish market, with more than 500,000 customers and approximately 10% of Spain's regulated revenues for gas distribution, or 8% of GWh of gas distributed.

Following completion of the rights offering and the application of its proceeds as described above in [Use of Proceeds](#) and [Information on the Company Overview Electricity](#), our stake in Hidroantábrico will be 95.7%. As described above, Cajastur and Cáser will retain interests

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aggregating to a 3.1% stake in Hidroantábrico and, pursuant to a new shareholders' agreement entered into on July 29, 2004 that will be effective upon completion of the acquisition, will have certain veto rights, especially in relation to certain matters relating to regional concerns, which will preserve Hidroantábrico's links with the region of Asturias. In addition, Cajastur will have a long-term put option entitling it to sell its interest in Hidroantábrico to us at a

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price indexed to the value of our ordinary shares. Completion of the acquisition of the additional stake in Hidroantábrico depends on completion of the rights offering, such that if the rights offering is terminated, we will not acquire this additional stake.

Market Structure

The two major characteristics of the Spanish electricity sector are the existence of the wholesale Spanish generation market, or Spanish pool, and the fact that any consumer is free to choose its supplier as of January 1, 2003. Competition was first introduced in the Spanish electricity market on January 1, 1998 by Law 54/1997, which provided a regulatory framework that reorganized the functioning of the market.

Generation facilities in Spain operate either in the ordinary regime or the special regime. Special regime generators, which comprise cogeneration and renewable energy facilities of up to 50 MW may sell their net electricity output to the system either (i) at tariffs fixed by decree, or at tariffs linked to pool prices plus a premium, that vary depending on the type of generation and are generally higher than Spanish prices, or (ii) in the Spanish pool (or by bilateral contracts), together with certain premiums and incentives. Ordinary regime generators provide electricity to the Spanish pool and by bilateral contract to consumers and liberalized suppliers at market prices.

Companies with the capability to sell and buy electricity may participate in the Spanish pool. Electricity generators sell electricity in the pool and the regulated electricity distributors, suppliers in the liberalized, or unregulated, market and consumers that are permitted to participate in the pool, or qualified consumers, buy electricity in this pool. Foreign companies or consumers that have foreign agent status may also sell and buy in the Spanish pool. The market operator and agency responsible for the market's economic management and bidding process is OMEL.

In addition to selling electricity to regulated consumers (customers that are subject to a regulated final tariff and are not qualified consumers), transmission companies and regulated distributors must provide network access to all suppliers and qualified consumers that have chosen to be supplied in the liberalized market. However, qualified consumers must pay an access tariff to the distribution companies if such access is provided. At the beginning of each year, the Spanish government sets both the final and access tariffs. By Royal Decree no. 1802/2003, the Spanish government established the electricity tariffs for 2004.

Liberalized suppliers are free to set a price to qualified consumers. These entities' main direct activity costs are the wholesale market price and the regulated access tariffs to be paid to the distribution companies. Electricity generators and liberalized suppliers or consumers may also engage in bilateral contracts without participating in the wholesale market.

Generation

Hidroantábrico's installed capacity represents 4.7% of Spain's mainland generation capacity, or 5.5%, excluding special regime facilities (which are generally cogeneration and renewable energy facilities). In 2003, Hidroantábrico had a total installed capacity of 2,820 MW, approximately 56.9% of which are coal-fired facilities, 13.9% a CCGT facility, 16.1% hydroelectric facilities, 1.3% cogeneration facilities and 5.9% renewable energy facilities other than special regime hydroelectric. Hidroantábrico also holds a 15.5% interest in the Trillo nuclear power plant that accounts for 165 MW of the plant's total installed capacity of 1,066 MW.

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The following table sets forth Hidrocontábrico's total installed capacity by type of facility at year-end 2001, 2002 and 2003 and as of June 30, 2004.

Type of facility	As of December 31,			As of
	2001	2002	2003	June 30,
	(MW)			
Hydroelectric:				
Hydroelectric Ordinary regime	408	413	432	432
Hydroelectric Special regime ⁽¹⁾	23	23	23	23
Total hydroelectric	431	436	455	455
Thermal:				
Coal	1,588	1,588	1,605	1,604
CCGT	0	393	393	393
Nuclear	165	165	165	166
Total Thermal	1,753	2,146	2,163	2,163
Cogeneration ⁽²⁾	38	41	37	33
Wind ⁽²⁾	24	30	129	129
Biomass ⁽²⁾	3	5	6	3
Waste ⁽²⁾	13	13	30	34
Total	2,262	2,671	2,820	2,816

(1) Includes 19.15 MW related to Hidrocontábrico's 48.86% stake in Hidraulica de Santillana (39.2 MW).

(2) In the case of projects owned by SINAE, these figures represent SINAE's stake in each project's installed capacity. Hidrocontábrico owned 60% of SINAE in 2001 and 2002, and 80% in 2003 and during the first half of 2004. For more information on SINAE, see "Special Regime Generation" below.

The following table sets forth Hidrocontábrico's thermal plants.

Thermal plants	Installed capacity (MW)	Fuel	Year entered into service
Coal			
Aboño			
Unit I	366	Coal	1974
Unit II	556	Coal	1985
Soto de Ribera			
Unit I	68	Coal	1962
Unit II	254	Coal	1967
Unit III	361	Coal	1984
Nuclear			
Trillo	165	Uranium	1988
CCGT			
Castejón	393	Natural Gas	2002

Total installed capacity

2,163

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The following table sets forth Hidroantábriico s hydroelectric plants in the ordinary regime:

Hydroelectric plants	Installed capacity (MW)	River reservoir plant type	Year entered into service	Year of last major refurbishment
La Malva	9.14	Reservoir	1917/24	2002
La Riera	7.83	Run of river	1946/56	2001
Miranda	73.19	Run of river	1962	2000
Proaza	50.33	Reservoir	1968	2002
Priañes	18.50	Reservoir	1952/67	2003
Salime	78.99	Reservoir	1954	2003
Tanes	125.46	Reservoir	1978	1995
La Barca	55.72	Reservoir	1967/74	2002
La Florida	7.60	Reservoir	1952/60	1998
Laviana	1.10	Run of river	1903	2001
Caño	1.00	Run of river	1928	1996
San Isidro	3.12	Run of river	1957	2002
Total installed capacity	431.98			

The average remaining useful life of Hidroantábriico s hydroelectric generation plants is approximately 47 years.

Since hydroelectric generation is dependent on hydrological conditions, for forecasting model purposes the estimated Hidroantábriico hydroelectric production based on current installed capacity in an average year is 806 GWh, ranging from a maximum of 1,058 GWh in a wet year to a minimum of 590 GWh in a dry year.

Generation activity in 2003 was characterized by high availability and efficiency of, and high production by, Hidroantábriico s power plants, together with lower pool prices than in 2002 due to the higher hydro availability in the Spanish power system. Hidroantábriico s generation in the ordinary regime, excluding its own or ancillary consumption, rose 4.8% from 13,503 GWh in 2002 to 14,155 GWh in 2003 (out of a total generation in the Spanish market in 2003 of approximately 190.4 TWh, according to OMEL), of which hydroelectric generation represented 861 GWh, an increase of 11.7% from 2002. Coal-fired thermal generation amounted to 10,491 GWh in 2003, a reduction of 4.6% from 2002 due to a wet year. Nuclear generation, in respect of the 15.5% stake in the Trillo plant, amounted to 1,257 GWh in 2003, an increase of 3.7% from 2002. Natural gas-fired thermal generation amounted to 1,546 GWh in 2003, a threefold increase from 2002 due to the full-year operation, in 2003, of the new Castejón CCGT that commenced electricity production in October 2002.

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The following table summarizes Hidrocontábrico's electricity generation for 2001, 2002 and 2003 and the first half of 2004, excluding losses at generation plants and Hidrocontábrico's own or ancillary consumption, and sets forth the hydroelectric coefficient at year-end 2001, 2002 and 2003 and as of June 30, 2004.

Type of facility	Year ended December 31,			Six months ended June 30,
	2001	2002	2003	2004
	(in GWh, except by hydroelectric coefficient factor)			
Hydroelectric:				
Hydroelectric Ordinary regime ⁽¹⁾	867	771	861	544
Hydroelectric Special regime	78	41	86	56
Total hydroelectric	945	812	947	600
Thermal:				
Coal	9,832	10,997	10,491	5,052
Natural Gas	0	522	1,546	905
Nuclear ⁽²⁾	1,222	1,212	1,257	568
Cogeneration	78	110	114	56
Total thermal	11,132	12,841	13,408	6,581
Wind	59	61	119	145
Biomass	24	28	32	7
Waste	11	44	81	67
Total	12,171	13,786	14,587	7,399
Hydroelectric coefficient ⁽³⁾	1.080	0.96	1.068	1.165

(1) Includes the following amounts of consumption for hydroelectric pumping: 140 GWh in 2001, 131 GWh in 2002 and 127 GWh in 2003.

(2) Corresponding to 15.5% of Trillo's generation.

(3) The hydroelectric coefficient varies based on the hydrological conditions in a given year. A hydroelectric coefficient of one corresponds to an average year, while a factor less than one corresponds to a dry year and a hydroelectric coefficient greater than one corresponds to a wet year.

The average availability for production of Hidrocontábrico's power plants increased from 94.21% in 2002 to 95.68% in 2003 for thermal plants and decreased from 89.26% in 2002 to 87.71% in 2003 for hydroelectric plants. Hidrocontábrico's forced outages in 2003 were 1.58% at thermal plants and 1.88% at hydroelectric plants.

The table below sets out for each type of Hidrocontábrico generating facility the average capacity utilization and the average availability factor for 2002 and 2003 and the first six months of 2004.

Type of facility	Average capacity utilization ⁽¹⁾				Average availability factor			
	Year ended December 31,			Six months ended June 30,	Year ended December 31,			Six months ended June 30,
	2001	2002	2003	June 30,	2001	2002	2003	June 30,

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				2004				2004
Hydroelectric	24.56%	21.66%	23.12%	29.26%	93.21%	89.26%	87.71%	95.86%
Thermal:								
Coal	74.97%	83.79%	78.75%	76.13%	93.80%	93.94%	95.73%	94.61%
Natural gas ⁽²⁾	0%	47.31%	46.55%	54.59%	0%	97.19%	96.26%	96.89%
Nuclear	90.35%	89.57%	92.95%	84.13%	90.67%	89.66%	93.85%	85.82%
Total weighted average thermal⁽³⁾	76.42%	81.75%	73.98%	72.83%	93.51%	94.21%	95.68%	94.35%

(1) The average capacity utilization is defined as actual production as a percentage of theoretical maximum production.

(2) Hidroantábriço's natural gas fueled CCGT plant began operations in 2002.

(3) Weighted average is based on total installed capacity of the thermal system.

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Although Hidroantábrico experienced increased production and plant efficiency, in terms of plant availability, in 2003, prices decreased in the Spanish electricity market due to very favorable hydrological conditions. This led to increased hydroelectric production, which adversely affected operating results of Hidroantábrico's generation activity in 2003.

Planned outages in 2003 occurred as a result of maintenance on the Aboño Unit 1, Soto Unit 2 and Castejón power plants, as well as a refueling outage in the Trillo nuclear power plant. Hidroantábrico's generation facilities benefited from several environmental improvements and equipment upgrades. Hidroantábrico has improved its systems and management procedures through the integration of several functions and processes, including technical, administrative and purchasing processes.

Thermal generation consumed 3,865 thousand metric tons of coal in 2003, 73.4% of which was imported and 26.6% domestic. Fuel consumption costs including transportation amounted to 211 million in 2003 and 198.4 million in 2002, representing approximately 79.6% and 77.3%, respectively, of Hidroantábrico's total consolidated operating expenses. Despite the fact that 2003 was a wetter year than 2002, Hidroantábrico's fuel costs increased due to the full-year operation in 2003 of Hidroantábrico's new CCGT plant at Castejón that started commercial operation in September 2002. Castejón's gas cost was the main cause of the fuel cost increase that occurred during 2003.

As a result of its increased thermal production, Hidroantábrico's market share in the Spanish pool rose from 7.5% in 2002 to 7.6% in 2003. Hidroantábrico generating plants sell all their electricity output into the Spanish pool at very competitive prices.

In 2003, capital expenditures on generating facilities amounted to 93.9 million, an increase of 8.18% from 2002. These expenditures are set forth below.

Plant type and status	Year ended December 31,			Six
	2001	2002	2003	months ended June 30, 2004
		(audited)		(unaudited)
		(thousands of EUR)		
Hydroelectric plants in operation	1,106	1,428	2,107	352
Thermal plants in operation	9,801	65,082	20,151	10,156
Plants under construction	101,776	0	0	224
Special regime: ⁽¹⁾				
Hydroelectric plants in operation	3	2	0	0
Wind	6,147	16,264	49,047	92,752
Waste	698	2,067	3,500	3,316
Biomass	2,194	1,120	350	225
Cogeneration facilities	1,339	814	18,720	2,625
Total Generation	123,064	86,777	93,875	109,650

⁽¹⁾ Excludes capital expenditures of H. Santillana, a company in which we hold in minority stake. Data corresponding to SINAE, a 60%-owned subsidiary of Hidroantábrico as of December 31, 2001 and 2002, respectively, and an 80%-owned subsidiary of Hidroantábrico as of December 31, 2003 and June 30,

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2004, represents 100% of capital expenditures of SINAE and its subsidiaries. For more information on SINAE, see Special Regime Generation below.

Hidroantábrico is planning to develop three CCGT plants as set forth in the table below:

Facility	Type of generation	Developing entity	Planned capacity (MW)	Target year	Status
Soto	CCGT	Contratación de Construcción y Servicios	400	2007	Licensing Process
Castejón 2	CCGT	Contratación de Construcción y Servicios	400	2006	Licensing Process
Cadiz	CCGT	Contratación de Construcción y Servicios	400	2008	Licensing Process

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Table of Contents***Special Regime Generation***

Special regime generation is developed by Hidrocantábrico through Genesa, a 80%-owned subsidiary, which mainly focuses on cogeneration and wind power. Throughout 2003, Hidrocantábrico worked on the restructuring of this business's shareholdings and industrial activities, with the objective of providing a basis for stable and sustained development focusing on the promotion, operation and management of renewable energy sources, mainly wind power. As part of this restructuring, on July 31, 2004, Hidrocantábrico merged its subsidiaries, Genesa and Sinae to form a new company, Genesa I, which was subsequently renamed Genesa. In respect of operations, delays in the launching of some projects resulted in a lower contribution than previously anticipated from Hidrocantábrico's renewable energy business, as did the high natural gas prices that reduced cogeneration margins, one of the main activities of this business.

During 2003, we commenced the construction of the 124 MW Campollano wind farm in Albacete. The construction of the 65 MW Parques Eólicos del Cantábrico in Asturias (including the Cuesta 8MW, the Los Lagos 39 MW and the Acebo 18MW wind farms) and the 34 MW Parque Eólico Arlazón wind farm in Burgos were concluded and all commenced operations in 2003, with the exception of the Acebo wind farm, which went into production in January 2004. Additionally, the 20MW Sierra del Cortado wind farm began operating in 2003. The waste plant of Sinova at Soria, with an installed capacity of 16.3 MW, started operations at the end of 2003.

Hidrocantábrico is planning to develop the following wind farms:

Facility	Type of Generation	Planned Capacity (MW)	Target Year	Status
P.E. Cruz del Hierro (improvements)	Wind	5.3	2004	In construction
P.E. Albacete	Wind	124.1	2004	In construction
P.E. Madero (improvements)	Wind	33	2005	Planning
P.E. Curiscao-Pumar	Wind	87.8	2005	Planning
P.E. Brújula	Wind	73.5	2005	Planning
P.E. Las Lomillas	Wind	49.5	2005	Planning
P.E. Carondio	Wind	41.6	2006	Planning
P.E. Avila Oeste	Wind	68.0	2006	Planning
P.E. Munera I & II	Wind	70	2006	Planning
P.E. Medinaceli	Wind	40	2007	Planning
P.E. Avila Oeste	Wind	68.0	2007	Planning
P.E. Burgos Este	Wind	111	2007	Planning
P.E. San Roque	Wind	24	2008	Planning
P.E. La Dehesica	Wind	28	2008	Planning

Table of Contents**Distribution and Supply***Electricity Distribution*

Hidrocantábrico has a network infrastructure that covers the regions of Asturias (accounting for the vast majority of its network), Valencia, Madrid and Alicante, totaling 19,147 km as follows:

Distribution lines	Km
Overhead lines:	
High-voltage (50/132kV)	1,211
Medium-voltage (5/10/16/20/22/24 kV)	4,493
Low-voltage (<1kV)	11,089
Total overhead lines	16,793
Underground cables:	
High-voltage (50/132kV)	7
Medium-voltage (5/10/16/20/22/24 kV)	919
Low-voltage (1kV)	1,428
Total underground cables	2,354
Total	19,147

Electricity distributed in 2003 through Hidrocantábrico's own network amounted to 8,659 GWh, a 3.4% increase from 2002 levels. As of December 31, 2003, Hidrocantábrico had 561,208 customers out of a total number of consumers of 22,935,663, according to the *Comisión Nacional de Energía*, representing a 2.2% increase from 2002 and includes 1,468 qualified consumers that previously had been supplied by non-regulated suppliers. Since January 1, 2003, every consumer in Hidrocantábrico's market can elect to be supplied by non-regulated suppliers. In 2003, there were a total of 28,703,579 consumers in Iberia according to the Portuguese DGGE and the Spanish *Comisión Nacional de Energía*.

In 2003 and the first six months of 2004, the volume of electricity distributed and the number of customers by voltage level was as follows:

Distribution by level of voltage	2003 Sales and Customers		
	GWh	% annual increase (decrease) from 2002	Total customers
High and very high-voltage ⁽¹⁾	5,520	0%	19
Medium-voltage ⁽²⁾	991	19%	690
Low-voltage ⁽³⁾	2,148	6%	560,499
Total	8,659	3%	561,208

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- (1) High-voltage is greater than 36 kV and less than or equal to 145 kV. Very high-voltage is greater than 145 kV.
 (2) Medium-voltage is greater than or equal to 1 kV and less than or equal to 36 kV.
 (3) Low-voltage is less than 1 kV.

	Sales and Customers as of		
	June 30, 2004		
Distribution by level of voltage	GWh	% annual increase (decrease) from June 30, 2003	Total customers
High and very high-voltage ⁽¹⁾	2,846	6%	20
Medium-voltage ⁽²⁾	512	6%	728
Low-voltage ⁽³⁾	1,167	10%	566,664
Total	4,525	7%	567,412

- (1) High-voltage is greater than 36 kV and less than or equal to 145 kV. Very high-voltage is greater than 145 kV.
 (2) Medium-voltage is greater than or equal to 1 kV and less than or equal to 36 kV.
 (3) Low-voltage is less than 1 kV.

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During 2003, Hidroantábrico's distribution business, Hidroantábrico Distribución Eléctrica, S.A.U., continued its expansion outside of Asturias in the autonomous communities of Madrid, Valencia and Alicante, all of which are geographic areas with strong economic activity. The operating results of the distribution business in 2003 increased from 2002 as a consequence of connecting new substations in Valencia and Alicante, which also reduced the initial launching activity expenses outside of Asturias.

In 2003, Hidroantábrico continued to improve technical and operational management activities. The networks and facilities were enlarged and Hidroantábrico continued the development of information technology and automation of the distribution network.

Gas Distribution

Gas invoiced in 2003 to the regulated market amounted to 4,370 GWh, representing a 199% increase from 1,464 GWh in 2002, due to the contribution of Naturcorp. Additionally, the volume of gas distributed in the liberalized market (in which we provide third-party access to our network) reached 5,257 GWh. The total number of gas consumers that are connected to Hidroantábrico's distribution network increased from 157,051 in 2002 to 542,794 in 2003, out of a total number of consumers of 5,295,362, according to the *Comisión Nacional de Energía*. The acquisition of Naturcorp added 372,364 customers. Hidroantábrico's gas distribution activities revenues of 157.0 million in 2003 compared with 55.6 million in 2002, the increase primarily reflecting the acquisition of Naturcorp. In 2003, Hidroantábrico had 9% of the 6,053,669 gas consumers in Iberia. (According to Galp Energia there were 758,307 consumers in Portugal in 2003 and according to the *Comisión Nacional de Energía* there were 5,295,362 consumers in Spain in 2003.)

Electricity and Gas Supply

The energy supply activity performed by Hidroantábrico Energía, S.A.U., or Hidroantábrico Energía, includes the supply of electricity to qualified consumers. Hidroantábrico Energía invoiced 4,712 GWh of electricity supply in 2003, with revenues of 394.3 million in 2003, compared to 241.8 million in 2002. This figure represents 6.5% of the liberalized market. More than 74% was supplied outside of Hidroantábrico's traditional market.

In 2003, Hidroantábrico Energía successfully participated in the annual auction of the RENFE electricity contract, the Spanish railroad and the biggest electricity consumer currently in the market. Hidroantábrico Energía won 28% of the 2003 and 2004 supply contracts.

In 2003, Hidroantábrico Energía continued its natural gas supply service that began in 2002. Since August 1, 2003, Naturcorp has been included in reported results of gas supply. Taking Naturcorp into account, Hidroantábrico has entered into 474 contracts and invoiced 5,711 GWh.

Other Activities

Telecommunications

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In 2003, Hidroantábriico s cable telecommunications business continued its development through two subsidiaries, which are the concessionaires of television, fixed line telephony and internet for Asturias, Telecable de Asturias, S.A.U., or Telecable, and for Castilla y León, Retecal, Sociedad Operadora de Telecomunicaciones de Castilla y León, S.A., or Retecal. Telecable is 100%-owned by Sociedad Promotora de las Telecomunicaciones en Asturias, S.A., which is 45.95%-owned by Hidroantábriico. Retecal is 34.96%-owned by Hidroantábriico.

As of December 31, 2003, there were a total of 732,700 cabled homes and 189,982 customers for both subsidiaries, an increase of 17% from 2002. Telecable adopted a new network technology that allows voice over Internet Protocol (VoIP) services, deployed a television infrastructure improving image and sound quality, rolled out its cable network to the city of Pravia and moved its technical teams to its new headquarters at the Gijón City Technological campus.

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Hidrocantábrico increased its shareholding position in Retecal from 30.99% in 2002 to 34.96% in 2003, as a consequence of a share exchange of its participation in TV Castilla-León, which resulted in receipt of additional Retecal shares. The transmission network among its 17 urban networks was finished, as was the fiber optics interconnection between León and Oviedo. Telecable revenues were 49.1 million in 2003, compared to 35.5 million in 2002. Retecal revenues were 49.6 million in 2003, compared to 45.9 million in 2002.

On October 20, 2004, Hidrocantábrico announced that it had reached an agreement with Grupo Corporativo Ono for the sale of its total shareholding position of 34.96% in Retecal, having enacted the corresponding sale and purchase notarial deed on that day. The cash proceeds from this sale amounted to 57.5 million, while the book value of the shareholding position was 32.8 million.

Research and Development

Research and development activities carried out in 2003 were aimed at the reduction of emissions, treatment of by-products, maintenance and the extension of equipment life at various plants and were conducted in coordination with various universities and industry groups and were partially subsidized by the Spanish government and European Union entities.

BRAZIL

Overview

Brazil's electricity industry is organized into one large interconnected electricity system, which is known as the Sistema Interligado Nacional, or the Brazilian SIN, comprised of electricity companies in the southern, southeast, central-western, northeast and parts of the northern regions of Brazil, and several other small, isolated systems. Generation, transmission, distribution and supply activities are legally separated in Brazil.

In 2003, Brazil had a total installed capacity of 77,321 MW, of which approximately 86% was hydroelectric and 14% was thermoelectric. In addition, in order to satisfy its electricity requirements, Brazil imported 8,078 MW of electricity in 2003. Centrais Elétricas Brasileiras S.A. Eletrobrás, or Eletrobrás, a company controlled by the Brazilian government, owns approximately 32.57% of the installed generating capacity within Brazil. Eletrobrás has regional subsidiaries responsible for generation and transmission of electricity: Centrais Elétricas do Norte do Brasil S.A. Eletronorte and Companhia Hidroelétrica do São Francisco CHESF in the north and northeast of Brazil, Furnas Centrais Elétricas S.A. in the southeast and central-west of Brazil and Centrais Elétricas do Sul do Brasil S.A. Eletrosul in the south of Brazil. In addition, Eletrobrás controls Eletrobrás Termonuclear S.A. Eletronuclear.

In addition to the government-owned entities at the federal level, certain Brazilian states have government-owned entities involved in the generation, transmission and distribution of electricity. They include among others, Companhia Energética de São Paulo CESP, Companhia Paranaense de Energia COPEL and Companhia Energética de Minas Gerais CEMIG. With regard to distribution activity, most of the former state-owned companies were privatized and, in 2003, private companies distributed more than 70% of the distributed electricity in Brazil.

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Our electricity operations in Brazil consist of distribution, generation and related activities. The following of our Brazilian subsidiaries are engaged in distribution:

Bandeirante Energia S.A., or Bandeirante, in São Paulo;

Espirito Santo Centrais Eléctricas S.A., or Escelsa, in the state of Espirito Santo; and

Empresa Energética do Mato Grosso do Sul S.A., or Enersul, in the state of Mato Grosso do Sul.

In generation, we participate in the following companies:

FAFEN Energia S.A. in the state of Bahia;

Investco (Lajeado plant) in the state of Tocantins, through EDP Lajeado S.A.; and

Enerpeixe S.A. (under construction), in the state of Tocantins.

Our related businesses comprise our trading businesses, which are concentrated in Enertrade S.A.

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In recent years the electricity sector in Brazil has been adversely affected by internal and external economic circumstances related to Brazil in general and by problems specific to the electricity sector. The Brazilian economy was affected by the worldwide economic slowdown in recent years, and, in 2002, uncertainty inside and outside Brazil surrounding the October presidential elections. As a result, there was a sharp depreciation in the value of the real against other major currencies and increases in Brazilian inflation and interest rates. These conditions led to a scarcity of financing sources, which adversely affected the industrial sectors of the Brazilian economy including the electricity sector.

In addition to these adverse economic circumstances, in recent years electric utility companies in Brazil have had to contend with a government imposed rationing program that was in effect from June 2001 until February 2002, low wholesale prices in the wholesale electricity market, or the MAE, and uncertainties regarding the electricity sector's regulations and framework.

In 2003, the main events affecting the Brazilian electric utility industry were: (i) the macroeconomic turnaround in the country; (ii) the good hydrological conditions in the main consumption markets (except the Northeast region); (iii) the substantial increase in the installed capacity, mainly due to investments started in the previous periods; and (iv) the moderate consumption growth despite the nearly zero economic growth. As a result, the electric sector in 2003 was characterized by energy oversupply. While the installed capacity increased on average 5% from 2000 to 2003, the consumption in 2003 was lower than in 2000.

We continue to carry out a restructuring plan in Brazil. On October 31, 2002, we completed the first stage of the restructuring, which put our interests in the following companies under the direct control of EDP Brasil S.A., our holding company for Brazil, or EDP Brazil: Energest S.A., Enertrade Comercializadora de Energia S.A., Bandeirante Energia S.A., EDP Lajéado S.A., FAFEN Energia S.A. and Enerpeixe S.A. On December 31, 2003, EDP Brazil took the control of IVEN S.A., or IVEN, the company that directly controls Escelsa and indirectly controls Enersul. In connection with this process, EDP Brazil merged Calibre Participações S.A., 135 Participações S.A., EDP 2000 Participações Ltda, and EDP Investimentos Ltda. Following the reorganization of the IVEN holding, EDP Brazil owns a 69.55% stake in the voting shares and a 23.99% stake in IVEN's total capital. The main goals of this transaction were to simplify the shareholding structure and to eliminate tax inefficiencies. In furtherance of our Brazilian shareholding restructuring process, we expect EDP Brazil to take control of the remaining shares of IVEN owned by EDP Group during 2004.

Another action taken was the merger of Enerpro into Energest, consolidating in Energest all activities concerning the development and implementation of generation projects, and also engineering, operation and maintenance services for the generation business units in Brazil.

Generation

EDP Lajeado

In late 1997, EDP Brazil formed a consortium with three Brazilian distribution companies that were awarded a 35-year concession to build a dam and operate a hydroelectric power plant in Lajeado, Brazil. We own 14.36% of the shares and 27.65% of the voting rights in Investco, the company that operates the plant. EDP Lajeado owns the right to sell 27.37% of the energy generated by the Lajeado hydroelectric power plant. Of the total energy generated, 24.75% can be freely traded with other electricity market agents, while the remaining energy must be sold at regulated prices to distribution companies. The Lajeado hydroelectric power plant began full operation in November 2002, following the completion and commissioning of its fifth unit, and has an installed capacity of 902.5 MW. The plant produced 4,457 GWh in 2003.

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On December 30, 2003, Investco, a company that operates the Lajeado plant and of which EDP Lajeado owns 14.36% of the shares and 27.65% of voting rights, did not redeem part of the Redeemable Shares Class R from Eletrobras scheduled to be redeemed at that time because it did not have sufficient retained results from

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previous years as required under Brazilian Law. Discussions are under way between Investco and Eletrobras in order to find alternatives to resolve the situation. The shares not redeemed amount to approximately 150 million reais (39.2 million).

With regard to EDP Lajeado, EDP Brazil recorded a provision of 90 million reais (26 million at the time of the charge) in 2003. EDP Brazil's trading company, Enertrade, entered into a PPA to acquire electricity produced by the Lajeado plant and entered into PPAs with EDP Brazil's distribution companies with respect to such electricity. At the time these PPAs were entered into, the electricity price permitted under tariff regulations was higher than under regulations subsequently issued by ANEEL, but before ANEEL's approval of the PPAs. Enertrade contested ANEEL's decision and obtained an injunction permitting it to charge prices set forth in the PPAs until there is a decision on the merits. However, EDP Brazil's distribution companies have not yet obtained such an injunction despite contesting ANEEL's decision and are, therefore, prohibited from passing on to customers the prices in the PPAs. Given the current situation, EDP has recorded a provision for future losses.

Couto Magalhães

In November 2001, a consortium 49%-owned by EDP Brazil and 51%-owned by Grupo Rede was awarded a concession to build and operate a 150 MW hydroelectric power plant on the Araguaia River in Brazil, the Couto Magalhães power plant. The construction of the project was expected to start in 2003 and its operations during 2006. The project was interrupted due to additional environmental requests by regulators that were not agreed to in the original concession contract, which led to increasing development costs and postponing the start-up of construction, as well as plant operations. These requests negatively impact the economic viability of the project. The consortium has informally requested rescission by the regulator of the concession contract and is now waiting for a formal response.

Peixe Angical

In June 2001, a consortium 95%-owned by EDP Brazil and 5%-owned by Grupo Rede was awarded a concession to build and operate a 450 MW hydroelectric power plant on the Tocantins River in Brazil, the Peixe Angical power plant. The annual concession rent is 6.8 million reais (1.8 million) for 29 years starting in the seventh year of the 35-year concession. After a one-year suspension, construction of the plant was reinitiated in October 2003, following the completion of an agreement between us and Eletrobrás and BNDES. The agreement included an equity participation of 40% of Furnas and funding of 670 million reais (175 million) approved by BNDES, reducing the amount to be supported by us. At the end of 2003, we had invested 204 million reais (72 million) in this project. Plant operations are planned to begin in 2006.

FAFEN Energia

The first phase of the FAFEN Energia thermoelectric plant in the Bahia state of Brazil began on August 25, 2002, with an installed capacity to produce 54 MW of electricity and 152 tons per hour of steam. From that capacity, the plant has to produce 22 MW and 42 tons per hour of steam under a tolling regime for Petrobras Petróleo Brasileiro S.A. EDP Brazil has an 80% participation in the venture, and Petrobras holds the remaining 20%. Its second phase configuration will include an additional gas turbine of 26.7 MW and a steam turbine of 53 MW. The construction was initiated in March 2003 and should be completed during 2004. It is estimated that following completion of the second phase, the plant will produce a total of 133 MW of electricity and 42 tons per hour of steam. In 2003, FAFEN Energia produced 173,902 MWh and 352,603 tons of steam. At the end of 2003, we had invested 269 million reais (83 million) in this project.

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In respect of FAFEN Energia, in 2003, EDP Brazil recorded a provision of 139 million reais (40 million at the time of the charge) due to the unlikelihood of FAFEN Energia selling energy at prices equivalent to the normative value for thermal plants, i.e., the regulated tariff for electricity from thermal plants. When the decision was made to invest in the FAFEN Energia plant, electricity price estimates were based on the normative value for

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thermal plants. In 2002, Bandeirante and FAFEN Energia signed a PPA based on such estimated value. The PPA was subject to approval by ANEEL, which was denied because FAFEN Energia had not complied with all of the conditions set out in Brazil's Thermal Plant Priority Program, which provides for the sale of electricity at the normative value for thermal plants. Subsequently, FAFEN Energia and Bandeirante entered into a new PPA. The new PPA uses as a reference, in accordance with conditions set by ANEEL for its approval, the normative value of hydroelectric plants, which is considerably lower than the price previously expected. The new PPA was approved by ANEEL in June 2004. As a result of the foregoing, EDP Brazil recorded this provision for future losses.

Distribution

In 2003, our distribution companies in Brazil served more than 2.9 million customers, distributed 21,424 GWh of electricity and had revenue of 3.2 billion reais (919.8 million).

Company	Year Ended December 31, 2003			
	Customers (thousands)	GWh Distributed	Revenue (thousands of reais)	Revenue (thousands of euros)
Bandeirante	1,320	11,380	1,674,395	484,069
Escelsa	968	7,187	943,697	272,824
Enersul	614	2,857	563,586	162,933
Total	2,902	21,424	3,181,678	919,826

In the first six months of 2004, our distribution companies in Brazil served more than 2.9 million customers, distributed 11,120 GWh of electricity and had revenue of 1.7 billion reais (486.9 million).

Company	Customers (thousands)	GWh Distributed	Revenue (thousands of reais)	Revenue (thousands of euros)
Bandeirante	1,348	6,038	937,141	257,690
Escelsa	978	3,563	499,610	137,380
Enersul	626	1,519	333,806	91,788
Total	2,951	11,120	1,770,557	486,858

Bandeirante

EDP Brazil holds a 96.50% stake in the share capital of Bandeirante, a distribution company in the Brazilian state of São Paulo that, in 2003, served more than 1.32 million customers.

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In 2003, Bandeirante sold 9,539 GWh, a 6% decrease from 2002, primarily due to consumption decreases in the industrial segment. Consumption in the residential segment represented 22.4% of total sales volume, an increase of 0.8% from 2002. Consumption in the industrial segment represented 54.8% of total sales volume, a decrease of 12.8% from 2002, reflecting the loss of liberalized customers to other energy suppliers. Consumption in the commercial segment represented 12.4% of total sales volume, an increase of 4.5% from 2002. In the other segments, which represent 10.5% of total sales volume, the consumption increase was 8.2% from 2002. Taking into account electricity distributed to liberalized customers, which pay Bandeirante a fee for use of its distribution grid, Bandeirante distributed 11,380 GWh in 2003, a 4.2% increase from 2002.

On October 23, 2003, Bandeirante's tariffs were adjusted as part of a periodic tariff review resulting in an increase of 18.08% over the period from 2004-2008, of which 14.68% will be applied during the first year and the remaining 3.4% will be applied over the next three annual tariff readjustment processes.

In 2003, Bandeirante made capital expenditures of 136 million reais (39.3 million) with a focus on modernization, customer service, improvement of the network's operational conditions in expanding regions and

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increases in the electricity grid's operational flexibility. As part of a program of modernization, 50 million reais (15 million) was spent in 2003, including expenditures relating to a new operations center and in the new commercial information system.

In order to improve productivity, Bandeirante has been encouraging its employees to adopt procedures that build a creative and innovative culture that is focused on results and responsive to customers and the market. In 2003, Bandeirante reduced its workforce to 1,261 employees, achieving a customer per employee ratio of 1,050.

At the end of March 2003, the company raised 200 million reais (55 million at the time of the issue) through the issuance of 6-month promissory notes. In September 2003, the company issued new promissory notes in amount of 180 million reais (53 million at the time of the issue) to refinance the notes issued in March 2003.

At the end of 2003, Bandeirante's board of directors approved a long-term loan of U.S.\$100 million from the Inter-American Development Bank to finance the expansion of the distribution grid and to improve the general quality of services.

On October 22, 2004, we announced that the Brazilian electricity regulator, ANEEL, had decided to amend the average electricity tariff increase granted to Bandeirante as part of the October 23, 2003 tariff review from 18.08% to 10.51%. Despite the provisional status of this review (the definitive asset base and tariff impact is to be decided and communicated by ANEEL in connection with the October 23, 2005 tariff adjustment), we have opted to book the retroactive effects of this measure (covering the period from October 23, 2003 through October 23, 2004) already in our financial statements for the third quarter of 2004. The impact of this adjustment on Bandeirante's results before taxes in 2004 is estimated to be approximately R\$104 million (29 million based on the average Portuguese Central Bank rate for real for 2004 through September 30, 2004) and the total estimated impact on EDP's net income in 2004 approximately R\$66 million (18 million based on the average Portuguese Central Bank rate for real for 2004 through September 30, 2004).

On October 22, 2004, ANEEL, through an additional resolution, also authorized Bandeirante to increase electricity tariffs for the one-year period commencing October 23, 2004 by an average of 15.95% on the new tariff. In practical terms, this represents an 11.4% increase on the average tariff charged by Bandeirante from October 23, 2004 through October 22, 2005.

We believe that the cumulative effect of these two measures will not have a material impact on the results anticipated by the business plan we announced on December 2, 2003.

Escelsa

EDP and its subsidiaries own 54.76% of Escelsa, a distribution company in the Espírito Santo state of Brazil that, in 2003, served more than 968,000 customers.

In September 2002, a lawsuit with GTD Participações, S.A., or GTD, a Brazilian company, received a favorable decision on the merits in our favor. This decision, however, is subject to an appeal to the High State Court of Rio de Janeiro, which has not yet been decided. Previously, a shareholders' agreement with GTD that provided for joint control of Escelsa was in force. The lawsuit was filed by GTD when it contested the termination of this shareholders' agreement. GTD attempted to suspend our rights as controlling shareholder, but the judiciary denied this request. We convened an extraordinary shareholders' meeting of Escelsa in September 2002 at which we gained control of Escelsa, which control

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had previously been shared jointly with GTD. In October 2002, we took over the management of Escelsa and appointed new executive officers. Since that time, we have fully consolidated Escelsa. Following the decision of the Lower Court of Rio de Janeiro, GTD filed an additional lawsuit in the Federal Court of Rio de Janeiro with a similar complaint, but this time against Brazilian Union and Eletrobras, as well, on which no ruling has yet been made.

The electricity required by Escelsa's distribution grid in 2003 totaled 8,185 GWh, an 11% increase from the previous year. In order to meet market demand, Escelsa's hydroelectric plants generated 922 GWh internally, which represents 11.2% of the electricity required. Escelsa purchased the remaining 5,975 GWh from other suppliers. In addition, 1,287 GWh produced by other generators passed through Escelsa's grid.

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Escelsa's total electricity sales volume was 5,900 GWh in 2003, representing a 7% decrease from 2002 due to decreased electricity sales to the commercial and industrial segments. Consumption by the residential segment represented 20.3% of total sales volume, an increase of 5.5% from 2002. Consumption by the industrial segment represented 46.5% of total sales volume, a decrease of 16.6% from 2002, which reflects the loss of liberalized customers to other energy suppliers. Consumption by the commercial segment represented 12.8% of the total sales volume, a decrease of 10% from 2002, also reflecting the loss of liberalized customers. The energy supply sold to other electric utilities represented 5.4% of the total sales volume, an increase of 1% from 2002. Finally, sales to other segments represented 15.0% of the total sales volume, an increase of 13% from 2002. Taking into account electricity distributed to liberalized customers, which pay Escelsa a fee for use of its distribution grid, Escelsa distributed 7,187 GWh in 2003, an 11% increase from 2002.

On August 7, 2003, ANEEL approved Escelsa's tariff readjustment, an increase of 17.3% that consisted of:

8.96% to compensate for Escelsa's non-controllable costs, which are passed along to customers;

7.8% to compensate for Escelsa's controllable costs, which were adjusted to reflect inflation, and were discounted by 0.63%, due to the pass-through to the tariffs of the year's productivity gains, or the X Factor; and

0.54% to compensate for Escelsa's losses during the rationing period in 2001-2002.

Every three years, Escelsa's tariffs are reviewed according to its concession contract, for the purpose of reassessing the fair return on capital employed. On August 7, 2004, ANEEL approved a 6.33% increase in Escelsa's tariffs.

In 2003, Escelsa had capital expenditures of 64 million reais (19 million), of which 57 million reais (17 million) were technical costs related to the expansion and improvement of the distribution grids, new substations and company modernization. The remaining 7 million reais (2 million) were financial costs related to the expenditures capitalized in Escelsa's assets.

Escelsa's workforce at the end of 2003 totaled 1,309 employees, 3.5% less than in 2002. Escelsa continues to increase the customers per employee ratio, reaching 742 in 2003 from 705 in 2002, an improvement of 5%.

Enersul

EDP and its subsidiaries indirectly hold a controlling stake in Enersul, a distribution company in the Mato Grosso do Sul state of Brazil, that, in 2003, served more than 614,000 customers.

Enersul's total energy sales volume for 2003 was 2,816 GWh, representing a 2% increase from 2002. Sales to the residential segment represented 31.4% of the total sales volume, an increase of 1.1% from 2002. Sales to the industrial segment represented 23.5% of the total sales volume, a decrease of 2.5% from 2002. Sales to the commercial segment represented 19.7% of the total sales volume, an increase of 3.7% from 2002. Enersul had 613,645 customers at the end of 2003, an increase of 3% compared to 2002. Taking into account electricity distributed to liberalized customers, which pay Enersul a fee for use of its distribution grid, Enersul distributed 2,857 GWh in 2003, a 4% increase from 2002.

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On April 8, 2003, ANEEL approved a tariff increase for Enersul of 42.26% as part of a periodic tariff review. Of this amount, 32.59% has already been applied to the current tariff and the remainder, 9.67%, will be added to the tariff over the years from 2004 to the next review in 2007. On April 8, 2004, ANEEL approved an increase in Enersul's tariff averaging 17.02% across consumer segments.

In 2003, Enersul had capital expenditures of 56 million reais (16 million) focused on modernizing, improving and expanding the company's distribution grid.

Although at the end of 2003, Enersul's workforce was 1.2% higher than in 2002, totaling 940 employees, the company was able to improve its ratio of customers to employees to 653 in 2003 from 643 in 2002.

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In 2003, Enersul wrote off 22 million reais (7 million at the time of the write-off) related to the market value of Campo Grande s gas turbine acquired in 2001, as Enersul terminated this project and decided to sell the turbine.

CERJ

In 1996, EDP, S.A. formed a consortium with Chilectra and Endesa that acquired approximately 70% of the stock of Companhia de Eletricidade do Rio de Janeiro, S.A., or CERJ, an electricity distribution company in the Rio de Janeiro state of Brazil. EDP, S.A. currently owns 7.77% of CERJ (11.27% at December 31, 2003), reflecting reductions in our stake as a result of capital increases that we did not participate in.

Related Activities

Enertrade manages contacts between our Brazilian generation and distribution businesses and engages in electricity trading. In addition, Enertrade seeks to capture business from liberalized clients that move away from our distribution companies as sources of supply and sell to other liberalized clients. As the New Model provides that liberalized clients may only purchase electricity from generators or traders, we expect that the shift of these clients away from our distribution companies will continue.

In 2003, Enertrade s sales volume amounted to 2,713 GWh, of which 1,620 GWh were sold to liberalized customers. Enertrade purchased 1,072 GWh from EDP Lajeado. This represents an increase of 28% in comparison to the previous year. The average prices of energy sold and purchased by Enertrade in 2003 were, respectively, 58.8 reais/MWh and 53.34 reais/MWh.

TELECOMMUNICATIONS

History and Overview

In March 2000, we announced a strategic decision to pursue the telecommunications business. This decision provided us with an opportunity to leverage our existing resources and expertise and to build on our initiatives in the telecommunications and information technology businesses. In Portugal, our telecommunications and related activities are conducted by ONI. The current shareholder structure in ONI is as follows: EDP 56.025%, Brisa S.A. 17%, BCP 16.188%, BCP s pension fund 6.637%, GALP Serviços 4.096% and GALP 0.054%.

In 2003, ONI had revenues of 331.1 million, of which 15.3 million was generated from services provided to the EDP Group, and an operating loss of 68.7 million compared with, in 2002, revenues of 320.8 million, of which 13 million was generated from services provided to the EDP Group, and an operating loss of 154.8 million.

In the first quarter of 2003, ONI revised its organizational structure to better achieve the goals and strategies defined for its business segments. This process was concluded in the fourth quarter of 2003, by the merger of ONI Grandes Redes, ONI Sistemas de Informaço, ONI One, ONI

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Solutions, Shopping Direct and Brisatel into ONI Telecom. Accordingly, ONI's businesses are currently pursued in two main areas: wireline Portugal and wireline Spain.

Wireline Portugal comprises:

ONI Telecom, a wholly-owned subsidiary of ONI, which is a licensed telecommunications company that develops and provides wireline communication services to corporate and residential clients and also serves as a carrier's carrier, selling capacity to other communications companies.

uCall, a 60%-owned subsidiary of ONI offering call center services, which fulfills ONI's needs in back office support, as well as providing services to companies outside the ONI group.

Wireline Spain comprises:

Comunitel, a 99.93%-owned subsidiary of ONI, which is a telecommunications operator specializing in providing communication services to corporate clients. Comunitel was one of the first operators to provide advanced telecommunication services in Spain.

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Ola Internet, a wholly-owned subsidiary of ONI, which is a company offering voice and data services to medium-size companies in Spain.

In early 2004, ONI became the owner of 99.98% of Germinus XXI, or Germinus, an incubator company developing services in the market where telecommunications, media, hardware and software converge, increasing its previous ownership of approximately 80% of Germinus. The Germinus group offers services in four activities: applications and technological platforms, professional services, information services and network business.

As of December 31, 2003, ONI had approximately 1,160 employees, with 51% based in wireline Portugal and 49% based in wireline Spain.

Telecommunications Market

In accordance with EU requirements, the Portuguese government has taken significant steps during the past several years to open the telecommunications market to competition. In 1997, Portuguese regulations took effect that permitted us and others to install and provide infrastructure for telecommunications services. On January 1, 2000, Portugal opened the entire telecommunications sector to competition.

As of January 1, 2001, alternative carriers have been permitted to offer local and regional indirect calls, and as of June 30, 2001, customers have been allowed to keep their existing phone numbers while changing to a different access operator. Although number portability now exists in Portugal, ONI believes that some additional technical issues need to be addressed by ICP-Autoridade Nacional de Comunicações, or ICP-ANACOM, to make number portability a more efficient process. ICP-ANACOM is expected to pass a regulation relating to these issues following a consultation process carried out in March 2004.

In January 2002, liberalization of the telecommunications sector advanced a step further with the long promised unbundling of the local loop (ULL). However, technical and administrative restrictions by the historical monopoly telecommunications operator Portugal Telecom, or PT, did not allow for widespread use of this technology, effectively preventing the new operators from exploiting this new opportunity.

Competition

In the fixed line business area, ONI is competing for market share primarily with PT, which historically held a monopoly on fixed line services in Portugal. Currently, in the first stages of liberalization of this area, PT continues to hold a dominant position in this market. Other fixed line operators in Portugal include Novis, controlled by Sonae.Com and France Telecom, and Jazztel. Based on data released by ICP-ANACOM, in the fourth quarter of 2003, new operators accounted for 13.4% of the total minutes in the fixed line area.

Indirectly, fixed line operators also face strong competition from cellular telephone service providers, particularly in the voice segment. Cellular services in Portugal are currently provided by TMN, Vodafone Portugal and Optimus.

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We also face significant competition in data transmission services and as an Internet Service Provider, or ISP. Numerous operators compete in these areas, including SAPO, a PT ISP, IOL, a Media Capital ISP, and Clix, a Sonae.Com ISP.

Telecommunications Activities

Infrastructure

ONI has in place an extensive infrastructure to provide telecommunications services, which includes approximately 6,000 kilometers of fiber optic cable, including multiple strings, for a total of approximately 150,000 kilometers of fiber optic backbone, in Portugal. We own approximately 110,000 kilometers of this backbone and lease approximately 40,000 kilometers to REN, Transgás and EDIS. ONI currently has approximately 300 points of presence, (PoPs) and 2 network central offices, in Lisbon and Porto. At the end of 2000, ONI linked its fiber optic network to Iberdrola's network, creating two new connections to Spain and adding to the existing connection with the network of Comunitel.

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The incorporation of Brisatel's assets in the ONI group in October 2001 added approximately 1,300 kilometers of fiber optic cable (of which approximately 1,120 kilometers are already installed) to the fiber optic cable that we had already in place at the time. Brisatel also added 70 PoPs and two international links with RENFE, the Spanish railroad operator, which required a restructuring of ONI's PoPs to avoid redundancy. The incorporation of Brisatel's assets in the ONI group was one of the factors that led ONI to renegotiate its lease of the fiber optic network owned by REN in early 2002. Under the renegotiated terms of this lease, the duration of the lease has been reduced from 20 years to 5 years and fiber optic pairs length was reduced by 50% to approximately 3,000 kilometers by the beginning of 2003. As of January 2004, fiber optic pairs length was reduced again to 2,329 kilometers.

ONI expects to increase consumer connections to its existing fiber optic backbone to provide telecommunications services. ONI has efforts underway to develop digital powerline technology and is currently conducting pilot tests.

Telephone and Data Services

ONI Telecom commenced operations in January 2000 as a voice and data fixed-line operator concurrent with the opening of competition in Portugal. We continue to provide services in this area through ONI. ONI Telecom's initial activities were focused on fixed-line voice services for businesses and high-value customers. ONI currently expects to develop other products and services, including value-added voice services, data transmission, and integrated voice, data and video services.

At December 31, 2003, ONI had approximately 741,000 registered voice lines generating demand for approximately 2.6 million minutes per day, or an aggregate of 939 million minutes in 2003. In comparison, in 2002 ONI's fixed line operation in Portugal accounted for approximately 733 million minutes of voice traffic.

According to a report by ICP-ANACOM for the fourth quarter of 2003, ONI holds an overall market share in fixed line telephone traffic of approximately 5%, which corresponds to approximately 45% among the new fixed line operators in Portugal.

In Spain, at December 31, 2003 our subsidiary Comunitel and its subsidiary Ola internet generated approximately 1,700 million minutes of voice traffic in 2003.

Internet Access Services

ONI has high capacity platforms to provide Internet access services and is operating as an ISP. As of December 31, 2003, ONI had approximately 436,000 registered ISP customers generating approximately 1.6 million minutes per day for an aggregate of approximately 638 million minutes in 2003.

In July 2002, ONI launched an Asynchronous Digital Subscriber Line, or ADSL, product that allows high speed Internet access over regular telephone lines and that can be installed by end users over their existing telephone lines.

Regulation

Our activities in the telecommunication area subject us to a number of regulatory regimes, including licensing requirements and operating restrictions. ONI holds licenses for the establishment and operation of public telecommunications networks (ICP-05/99-RPT, granted June 14, 1999) and the provision of Fixed Telephony Service (ICP-001/99-SFT, granted August 10, 1999). ONI also holds a registration for the provision of public use telecommunications services (Register-006/99 dated January 20, 1999). ONI was awarded two licenses for the use of frequencies aimed at fixed wireless access in the 3.6-3.8 Mhz and 24.5-26.5 Ghz bands (ICP-01/99-FWA and ICP-05/99-FWA granted December 29, 1999). In 2003, ONI requested the revocation of the 3.6-3.8 Mhz band license. The difficulties of installing terminal equipment and the lack of scale, together with other technological difficulties, made the operation of a fixed wireless network difficult and uneconomical.

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Financial Results

As a recent entrant in the telecommunications sector, during its first four years of operations ONI has incurred significant operating costs in connection with developing and sustaining its business while, at the same time, increasing revenues as a result of its growing customer base. ONI had revenues for 2003 of 331.1 million, of which services provided to the EDP Group amounted to 15.3 million, and an operating loss of 68.7 million. In comparison, ONI had revenues for 2002 of 320.8 million, of which services provided to the EDP Group amounted to 13 million, and an operating loss of 154.8 million. ONI's 2003 operational capital expenditures for fixed line communications in Portugal and Spain were approximately 28.6 million compared with approximately 140.8 million in 2002. ONI's total assets at the end of 2003 were 835 million compared with 888 million at the end of 2002.

ONI's current assessment of expenditures in the telecommunications area anticipates an investment by ONI of approximately 114 million for the period 2004-2006 almost exclusively for network infrastructure and client connections and equipment, although the amount of investments may change as ONI's plans develop.

In view of the applicability of Article 35 of the Portuguese Companies Code, which requires that the shareholders' equity of a company may not be lower than 50% of its share capital (and in such case requires the company to increase its shareholders' equity to be at least two-thirds of its share capital), ONI will need to adopt measures to bring itself into compliance with this obligation, which shall be determined at its next general shareholders' meeting, which has been scheduled for November 22, 2004.

OTHER INVESTMENTS AND INTERNATIONAL ACTIVITIES

During 1998, we acquired in the Spanish securities market 3% of the share capital of Iberdrola, a Spanish utility company. In September 2003, we sold a block of 10 million shares representing 1.11% of the share capital of Iberdrola to Banco Bilbao Vizcaya Argentaria, S.A., for 153.9 million. In October 2003, we sold 17,050,000 shares, representing a 1.89% stake in the share capital of Iberdrola, to BANCAJA, Caja de Ahorros de Valencia, Castellón y Alicante for 246.2 million. As a result of this transaction, we no longer have any stake in Iberdrola. Iberdrola holds a stake in us of slightly less than 5% of our share capital, which corresponds to slightly more than 5% of our voting rights.

We also have a direct and indirect interest of approximately 6.03% in ELCOGAS, S.A. (4.31% through EDP Participações, and 4.31% through Hidrocarbónico, which is presently 39.5% owned by us), a consortium that includes, in addition to us, Electricité de France, Endesa, Iberdrola, International Power and others. ELCOGAS, S.A. was formed to build and operate a 300 MW integrated gasification combined cycle plant in Puertollano, Spain. This plant burns gas obtained from the coal gasification process.

We hold a 21% interest in a consortium that indirectly owns an 80.88% interest in the capital of Empresa Eléctrica de Guatemala S.A., or EEGSA, which is an electricity distribution company in Guatemala. In 2003, EEGSA had approximately 717,000 customers, a sales volume of 3,429 GWh and a service area of 6,200 square kilometers. EEGSA is Central America's largest distribution company. In 2003, EEGSA generated 312.6 million in revenues and had a net income of 15.2 million. The consortium is made up of EDP, Iberdrola and Teco Energy, a Florida electric company.

We also own a 21.19% stake in CEM Companhia de Electricidade de Macau, S.A., or CEM, the electric utility company of Macau, and have an active role in CEM's management. In 2003, CEM had approximately 195,500 customers and sold 1,754 GWh of electricity. In 2003, CEM had

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revenues of 216.0 million and net income of 58.8 million. CEM has the concession for generation, transmission and distribution in Macau until December 2010. CEM serves a population of approximately 470,000 in an area of 28 square kilometers. In 2003, we reorganized our shareholding in CEM by winding up an intermediary holding company, Sogeste, in which we had an 85% stake, and acquiring a proportion of the stake held in CEM by the other shareholder of Sogeste, Gaixa Geral de Depósitos. As part of this reorganization process, we sold a 2.06% stake in CEM to China Power International Holding, a company of the main electricity operator in mainland China, as an opportunity to diversify and strengthen the shareholder structure of CEM.

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In late 1999, we formed a consortium, 60% owned by us and 40% owned by AdP Aguas de Portugal, which was chosen by the government of Cape Verde to acquire a 51% interest in Electra, for which we paid 27 million. Electra produces electricity and distributes electricity and water in Cape Verde. In 2003, Electra produced 199 GWh of electricity, compared to 181 GWh in 2002, and distributed 133 GWh to 65,538 customers in an area of 4,030 square kilometers. Also in 2003, Electra produced 4 million cubic meters of water and distributed 2.8 million cubic meters of water to 22,578 customers. Electra had revenues of 27.7 million and a net loss of 5.0 million in 2003.

We have a 10% interest in Tejo Energia, which was incorporated in October 1992 and acquired from us in November 1993 the Pego Thermoelectric Power Plant. The other shareholders of that company are International Power (45%), Endesa Europa (35%) and EDFI (10%). The Pego Thermoelectric Power Plant has two coal units with an installed capacity of approximately 300MW each. Presently, Tejo Energia sells all the energy it produces to the Portuguese PES through REN under a long-term PPA.

On October 26, 2004, we signed a call option agreement with IPR and IPBV for the purchase of a 20% shareholding and related shareholder loans in Turbogás and of a 26.667% shareholding and related shareholder loans in Portugal. For further information on this agreement, see Information on the Company Strategy Iberian Energy.

Turbogás was incorporated in 1994 with the sole purpose of carrying out the development, construction and operation of a combined-cycle gas fired power station at Tapada do Outeiro, in Portugal, with a total installed capacity of 990 MW. Presently, Turbogás sells all the energy it produces to the Portuguese PES through REN under a long-term PPA. Portugal is the entity in charge of the operation and maintenance of this power station.

We currently hold a 20% interest in the share capital of Turbogás. The other shareholders of Turbogás are RWE, with a shareholding of 75%, and KOCH, with a shareholding of 5%. RWE owns 100% of the shareholding in Portugal.

CERTAIN SUBSIDIARIES

Apart from EDP Produção, EDPD, Hidroantábrico, our Brazilian companies and ONI, we have a number of subsidiaries that provide various services to our other companies. Some of these subsidiaries also provide services to third parties. These entities contributed 151 million in revenues in 2003.

EDP Valor integrates some of our service companies with the objective of achieving cost reductions within EDP through the consolidation of resources and the centralizing of purchasing activities. Since the first quarter of 2002, EDP Valor has extended its services to EDP Produção and EDPD.

EDP Electricidade de Portugal Internacional, S.G.P.S., S.A. provides management and organization consulting services in electricity generation, transmission and distribution, undertakes project management and promotion, and executes and supervises the performance of commercial contracts.

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EDINFOR Sistemas Informáticos, S.A., which is our main company operating in the information technology market, develops, operates and markets software and systems, and also provides consulting and vocational training in information technology. EDINFOR holds a 57.77% interest in ACE-SGPS, which is a holding company for Portuguese companies that provide management, strategic and information systems consultancy, corporate turnaround and organization restructuring services, as well as e-trade, data warehousing, knowledge management and customer relationship management, and planning and management of IT solutions, financial services and implementation and training in SAP R3. Among other companies, EDINFOR also holds major interests in: Copidata Industrial Gráfica e Equipamentos, S.A., a company that creates, executes and sells graphic systems; IT-Log, Logística e Gestão de Tecnologias de Informação, S.A., a company whose activities consist of the conception, production, installation, logistics and management of IT systems; and IT-GEO, Tecnologias e Informação Georeferenciadas, S.A., a company whose activities consist of the development and integration of geographic information systems and the production, maintenance and sale of geographic data.

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On September 30, 2004, we announced our intention to enter into exclusive negotiations with LogicaCMG with a view to entering into a strategic partnership involving the sale of 60% of EDINFOR's share capital. We expect this transaction to involve the renegotiation of our existing contracts with EDINFOR in order to ensure that we have access at competitive prices to the best international practices in the field of information technology and to ensure that our core information technology systems continue to be run by EDINFOR, while benefitting from the worldwide positioning of LogicaCMG. With such a partnership in place, we expect to be better able to focus on our core business, while maintaining the availability and security of key systems, and enhancing EDINFOR's growth potential.

Affinis Serviços de Assistência e Manutenção Global, S.A. provides home services and contractor management to residential and corporate customers through a network of skilled professionals. In the residential area, Affinis offers home services including the planning, installation, maintenance and repair of electrical, gas, plumbing and structural systems and the replacement of household appliances. In the corporate area, Affinis provides technical assistance with respect to many of the services provided in the residential area.

BUSINESS INTERRUPTION

We did not experience, and we do not currently expect to experience, any interruptions to our generation and distribution activities that were or might be material to our consolidated financial condition. We cannot assure you, however, that we will be able to foresee any such interruptions or that any such interruptions will not occur.

In 2003, in Portugal, we had a 50-minute improvement in our Equivalent Interruption Time (or EIT) in respect of our distribution of electricity in the medium-voltage network, with an EIT of 370 minutes. Compared with 2002, this represented a 12% improvement. Approximately 29 minutes of the 370 minutes related to the wildfires that took place in Portugal during the summer of 2003, which affected a significant number of distribution lines and resulted in frequent cuts in electricity supply.

ENVIRONMENTAL MATTERS

In 1994, our board of directors adopted an Environmental Policy Declaration, which sets forth our principles for environmental policy and activities. Our policy is aimed at minimizing or, where possible, eliminating negative environmental impacts. We believe we are in material compliance with all existing EU, Portuguese, Spanish and Brazilian government environmental regulations, and expect that we will materially comply with proposed changes in EU and other applicable regulations.

We have been implementing an Environmental Management System (or EMS) for our electricity activities, as a fundamental aspect of our environmental policy. Pursuant to the EMS, 38% of our installed capacity in Portugal (85% of our thermal installed capacity) has been certified under ISO 14001.

Our main environmental focus concerns the reduction of the emission of atmospheric pollutants, namely SO₂ and NO_x emissions. Pursuant to environmental laws and regulations to which we are subject, we have been using fuel with progressively lower sulfur levels and have introduced NO_x primary reduction measures in the Sines thermoelectric power station (with the first phase of this introduction having been completed in 2000). In order to comply with new emission levels established by EU legislation, we initiated in 2003 the installation of the necessary emissions abatement equipment (fuel gas desulfurization and additional NO_x primary reduction measures) at Sines and are introducing similar equipment to control SO₂ and NO_x emissions at our thermoelectric plants in Spain. The Barreiro, Carregado and Setúbal power plants in Portugal are

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expected to be exempt from compliance with new emission limit requirements.

We have closely monitored national and international initiatives related to climatic changes. We have also actively contributed to discussions on the Portuguese National Program on Climate Change, which defines

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greenhouse gases (or GHG) emission reduction measures to be implemented in Portugal, as well as discussions on the National Allocation Plan, which assigns GHG emission allowances (namely, allowances for CO₂ emissions) to installations in specific industrial sectors, including thermal power plants. Similar initiatives are being considered in Spain. We have also been preparing for the European CO₂ emission allowances market, which is expected to start in January 2005. We have been participating in emissions market simulation exercises and considered market strategies.

We incur significant expenses in repair and prevention measures in order to fulfill the demands of environmental regulations. We made capital expenditures related to environmental matters in 2003 and 2002 of approximately 10 million and 15 million, respectively. We expect these capital expenditures to aggregate to approximately 40 million in 2004, of which 20 million will be related to new investments in emissions abatement equipment at the Sines power plant. Our aggregate estimate for capital expenditure to control emissions of SO₂ and NO_x in the period 2005 to 2007 is 345 million, of which half is expected to be incurred at our thermoelectric plants in Spain.

In March 2004, our Board of Directors approved the Principles for Sustained Development for the EDP Group, a set of eight principles relating to the economic, environmental and social aspects of the Group's operations.

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As of December 31 for the years indicated, the following table shows our number of employees by business areas and geographic area, as well as the installed capacity of our generation activities and the number of our customers by geographic area, together with the proportions of such capacity and the number of our customers, respectively, to our number of employees.

Employees	2001	2002	2003
Electricity Generation			
Portugal	2,157	2,099	1,983
Spain	464	481	471
Electricity Distribution			
Portugal	7,172	6,979	6,334
Spain	396	388	395
Brazil	3,860	3,626	3,514
MW Installed Capacity	2001	2002	2003
Electricity Generation			
Portugal	7,475	7,520	7,780*
Spain	2,161	2,559	2,595
Customers	2001	2002	2003
Electricity Distribution			
Portugal	5,541,396	5,664,655	5,765,996
Spain	536,746	549,091	561,208
Brazil	2,747,430	2,848,230	2,902,203
MW / Employee	2001	2002	2003
Electricity Generation			
Portugal	3.5	3.6	3.9
Spain	4.7	5.3	5.5
Customers / Employee	2001	2002	2003
Electricity Distribution			
Portugal	773	812	910
Spain	1,355	1,415	1,421
Brazil	712	786	826

* Excludes wind, biomass and the small hydro capacity belonging to EDP Energia.

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You should read the following selected consolidated financial data in conjunction with "Operating and Financial Review and Prospects" below and our audited consolidated financial statements, interim consolidated financial statements and other financial data found elsewhere in this prospectus or incorporated by reference herein.

The selected financial data below has been extracted from our audited consolidated financial statements as of and for each of the three years ended December 31, 2003 and the notes thereto, as well as from our interim consolidated financial statements as of and for the six-month periods ended June 30, 2003 and 2004 and the notes thereto. These consolidated financial statements have been prepared in accordance with Portuguese GAAP, which differs in certain significant respects from U.S. GAAP. See "Operating and Financial Review and Prospects" Portuguese GAAP compared with U.S. GAAP and note 39 to our audited consolidated financial statements and note 37 to our interim consolidated financial statements for a discussion of the principal differences between Portuguese GAAP and U.S. GAAP with respect to our consolidated financial statements.

	Year ended December 31,			Six months ended June 30,	
	2001	2002	2003	2003	2004
	(millions of EUR, except per ordinary share and per ADS data)			(unaudited)	
Statement of income:					
Amounts in accordance with Portuguese GAAP					
Electricity sales	5,201	5,876	6,296	3,116	3,138
Other sales ⁽¹⁾	98	112	160	31	127
Services ⁽²⁾	351	398	521	199	267
Total revenues	5,650	6,387	6,978	3,346	3,532
Raw materials and consumables	3,080	3,687	3,921	1,841	1,920
Personnel costs	592	625	647	345	325
Depreciation and amortization	665	740	846	408	389
Supplies and services	651	675	633	310	302
Own work capitalized ⁽³⁾	(233)	(242)	(236)	(117)	(104)
Concession and power-generation rental costs ⁽⁴⁾	149	158	176	88	95
Hydrological correction ⁽⁵⁾	0	0	0	0	0
Other operating expenses, net	73	95	86	63	54
Total operating costs and expenses	4,977	5,738	6,072	2,939	2,980
Operating margin	674	649	906	407	552
Net interest expense ⁽⁶⁾	205	223	359	183	181
Other non-operating income (expenses), net	126	(139)	(14)	59	(20)
Income before income taxes	594	287	532	284	350
Provision for income taxes (net of deferred taxes)	(203)	(172)	(196)	(111)	(103)
Minority interest	60	220	44	9	28
Net income	451	335	381	182	275
Net income from operations per ordinary share ⁽⁷⁾	0.22	0.22	0.30	0.14	0.18
Net income from operations per ADS	2.25	2.16	3.02	1.36	1.84
Basic and diluted net income per ordinary share ⁽⁷⁾	0.15	0.11	0.13	0.06	0.09
Basic and diluted net income per ADS ⁽⁷⁾	1.50	1.12	1.27	0.61	0.92
Dividends per ordinary share ⁽⁸⁾	0.11	0.09	0.09		
Dividends per ADS ⁽⁸⁾	1.13	0.90	0.90		

Cash flow data:**Amounts in accordance with Portuguese GAAP**

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Net cash from operating activities	1,221	898	1,774	791	852
Net cash used in investing activities	1,243	1,141	529	270	504
Net cash used in (from) financing activities	96	297	(1,119)	(512)	(486)

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	Year ended December 31,			Six months ended June 30,	
	2001	2002	2003	2003	2004
	(millions of EUR, except per ordinary share and per ADS data)			(unaudited)	
Balance sheet data (at period end):					
Amounts in accordance with Portuguese GAAP					
Cash and cash equivalents	34	214	287	143	204
Other current assets	1,496	1,863	1,919	1,866	1,860
Total current assets	1,530	2,077	2,207	2,009	2,064
Fixed assets, net ⁽⁹⁾	9,844	11,204	11,652	11,210	11,706
Other assets	4,860	4,844	4,792	4,852	5,020
Total assets	16,233	18,125	18,651	18,071	18,790
Short-term debt and current portion of long-term debt	1,744	1,887	1,579	1,789	1,649
Other current liabilities	1,286	1,631	1,711	3,041	1,896
Total current liabilities	3,030	3,518	3,290	4,830	3,545
Long-term debt, less current portion	4,055	6,107	5,914	6,214	5,811
Hydro account ⁽¹¹⁾	388	324	0	0	0
Other long-term liabilities	2,423	2,616	3,525	1,174	3,461
Total liabilities	9,896	12,566	12,729	12,218	12,817
Minority interest	241	65	236	57	234
Hydro account ⁽¹¹⁾	0	0	388	383	375
Shareholders' equity	6,097	5,494	5,298	5,413	5,364
Amounts in accordance with U.S. GAAP⁽¹⁰⁾					
Fixed assets, net ⁽⁹⁾	5,929	6,602	7,172		7,324
Total assets	15,455	16,922	17,730		18,118
Total current liabilities	3,052	2,551	3,280		3,416
Total long-term liabilities	7,721	10,420	10,892		10,731
Total liabilities	10,773	12,970	14,172		14,147
Shareholders' equity	4,441	3,886	3,497		3,739
Operating Data:					
Installed Capacity (MW)					
Portugal	7,610	7,654	7,939	7,661	7,971
Spain	2,262	2,671	2,820	2,736	2,816
Electricity Distributed (GWh)					
Portugal	36,025	36,931	38,916	19,372	20,138
Spain	7,919	8,375	8,659	4,227	4,525
Number of Electricity Distribution Customers (#)					
Portugal	5,541,418	5,665,056	5,768,287	5,731,006	5,819,635
Spain	536,746	549,091	561,208	556,062	567,412

(1) Consists of sales of steam, ash, information technology products and sundry materials.

(2) Consists of electricity-related services, services to information technology systems, telecommunications, engineering, laboratory services, training, medical assistance, consulting, multi-utility services and other services.

(3) Our consolidated income statements present expenses in accordance with their nature rather than their function. Therefore, costs incurred by us for self-constructed assets are capitalized as part of fixed assets and included as a reduction of total expenses under "Own work capitalized" when the related costs have been included in the relevant expense items.

(4) Substantially all of these amounts relate to rent expenses paid to municipalities for the right to distribute electricity in the relevant municipal areas.

(5) As required by government regulation, we record charges and credits to operating income, depending on hydrological conditions in a given year, to smooth the effect on our earnings and customer prices that result from changes in hydrological conditions. The difference between the economic costs of generating electricity and the economic reference costs based on an average hydrological year are included in this item. The imputed interest on the accumulated balance of the hydro account and other adjustments are included in "Other non-operating expenses (income)". In 2003 and for the following years, net gains and losses arising from the hydrological account are being charged to other non-operating income (expenses). In this respect, in 2003 we booked a 19.4 million income item, or US\$ 23.6 million, under this profit and loss account caption. Additionally, in 2001 we recorded a 47.5 million income item. We did not record such an item in 2002.

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- (6) Includes interest and related expenses and interest and related income.
- (7) Basic and diluted earnings per ordinary share are based on our historical average number of ordinary shares outstanding after giving effect to a 5 for 1 stock split and our average number of ordinary shares outstanding after giving effect to the 5 for 1 stock split plus the effect of the exercise of employee stock options, respectively. Basic and diluted earnings per ADS are based upon basic and diluted earnings per ordinary share multiplied by 10 as each ADS is equivalent to 10 ordinary shares on a post-split basis.
- (8) Based on 3,000,000,000 ordinary shares issued and outstanding.
- (9) Substantially all of these assets are subject to reversion to the Republic or the municipalities.
- (10) U.S. GAAP amounts for 2001 are not comparable to 2002 and 2003 due to the implementation of SFAS 142.
- (11) Commencing with 2003, the hydrological correction account is no longer presented in our consolidated balance sheet as a liability.

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OPERATING AND FINANCIAL REVIEW AND PROSPECTS

OVERVIEW

Company overview

Our principal business is the generation and distribution of electricity in Portugal and Spain (the Iberian Peninsula), which we consider to be, and refer to in this prospectus supplement, as our domestic market. We are also involved in activities related to our core energy business both in our domestic market, such as the distribution and supply of natural gas, and in Brazil, where we exercise control over three distribution companies and own interests in generation. In addition, we hold interests in other complementary businesses, such as a 56% stake in ONI, a fixed line telecommunications operator in Portugal and Spain.

Factors impacting our business

Our businesses, financial condition and operating performance have been and will continue to be primarily affected by:

the macroeconomic conditions in the countries in which we operate, which influence the overall level of demand for electricity and gas;

changes in the regulatory frameworks in the countries in which we operate, which can affect the tariffs that we are permitted to charge for electricity and gas;

our level of operating costs, which consist primarily of depreciation and amortization, fuel costs and costs of purchased electricity and gas, and wages and salaries; and

the volatility of the Brazilian real against the euro, which influences our reported results and the value of our consolidated assets and liabilities.

Economic factors

The level of demand for electricity in countries in which we operate is directly related to the general level of economic activity in those countries.

Over the last decade, Portugal has experienced a stronger rate of economic growth than many other EU Member States. From 1993 through 2003, Portugal's real gross domestic product, or GDP, grew at an average annual rate of 2.6%, as compared with an average of 2.2% for all EU

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Member States. Portugal, like other European countries, was affected by a recession from 1992 through 1994. Since 1996, however, the Portuguese economy has recovered and growth in Portugal's GDP has exceeded the EU average. The structure of Portugal's economy has been undergoing significant changes, as higher value-added sectors, such as manufacturing and services, have gained in relative importance compared to lower value-added sectors, such as agriculture. In 2003, Portuguese GDP declined by about 1.0% compared to a growth rate of 0.5% in the euro zone and a growth rate of 0.4% in Portugal in 2002 and 1.6% in 2001. The slowdown in the Portuguese economy in 2003 was mainly the result of international economic factors, principally the difficulty experienced in the euro zone and North America as these areas attempted to stage economic recoveries, lower demand in Portugal and a decline in EU exports as a result of the appreciation of the euro against the U.S. dollar. In addition, budgetary restrictions in several EU countries prevented the adoption of expansionary economic policies. Despite the unfavorable macroeconomic environment, electricity consumption in Portugal grew by 5.3% in 2003, one of the fastest growing rates in the euro zone, driven by a cold winter and a particularly warm summer.

In Spain, where we currently have a 39.5% ownership stake in Hidroantábriico, GDP growth was 2.4% in 2003, compared to 2.0% in 2002 and 2.7% in 2001. In 2003, Spain had one of the highest-performing European economies, significantly above the EU average and above Spanish GDP growth in 2002, despite the difficult international economic environment in 2003, particularly in Europe. Electricity consumption growth in the Spanish market was 5.8% during 2003, compared with growth of 2.4% in 2002.

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During 2001 and 2002, Brazil experienced a series of events that had a negative effect on its economy. On the international front, the troubled state of several of the major economies of Latin America, especially Argentina's default on its debt obligations and the Argentine government's decision to remove the peg of the Argentine peso to the U.S. dollar, raised fears that Argentina's economic difficulties would spread to Brazil. On the domestic front, the Brazilian economy was significantly affected by the energy rationing program implemented by the Brazilian government, the weakening of demand in Brazil and the uncertainty surrounding the results of the October 2002 presidential elections, which raised concerns over the continuity of a number of economic reforms. In 2003, Brazil experienced a positive turnaround in its economy, reflected in inflation indicators and currency exchange rates. This turnaround was largely due to improved liquidity in international financial markets, the economic growth of Brazil's main commercial partners (China, Argentina and the United States of America), adherence to the targets of inflation policy, agreement on primary surplus levels with the IMF and improvement in Brazil's trade balance, which reached U.S.\$24,800 million in 2003. The real depreciated 18.7% in 2001 and 52.2% in 2002, against the U.S. dollar, largely due to Brazil's increased financing requirements and a decrease in the inflow of foreign capital. In 2003, the Brazilian real appreciated 18.2% against the U.S. dollar, reaching 2.89 reals per U.S. dollar at the end of 2003, compared to 3.53 reals at the end of 2002, due to Brazil's decreased financing requirements, an increase in the inflow of foreign capital and government fiscal and monetary policies. Despite improvements in certain economic indicators and in currency exchange rates, the tight monetary policy pursued by the Brazilian government in 2003 adversely affected the domestic economy and GDP decreased by 0.22% after increases of 1.31% and 1.93% in 2001 and 2002, respectively. Despite the relatively modest economic growth, as measured by GDP, in 2002 and 2003, the resolution of most of the difficult economic factors and signs of the adoption of an economic policy based on stability have led to more optimistic expectations for the Brazilian economy for 2004.

Regulatory factors

Since the 1990s, the policy of successive Portuguese governments has been to remove barriers to trade, privatize state-owned companies and liberalize key economic sectors, such as telecommunications, transportation and energy and power. Prior to 1988, we had a nearly complete monopoly of the electricity generation, transmission and distribution business in Portugal. Since 1988, however, competition has increased in the generation business and is expected to continue to do so during the next few years as the EU competition policy is implemented. In 1999, the regulator implemented measures to encourage competition in the distribution of electricity in Portugal, and since August 18, 2004, all consumers have been able to choose their supplier. To learn more about these measures, you should read [Information on the Company Portugal Competition](#).

Tariffs are set by the regulator pursuant to a periodic registration of regulatory parameters. In 1999, in nominal terms, tariffs for all voltage levels declined by an average of 6.3% from 1998 levels. For 2000, in nominal terms, tariffs for all voltage levels declined by 0.6% from the 1999 levels. For 2001, in nominal terms, tariffs for all voltage levels increased, on average, by 1.2% from the 2001 levels. In November 2001, the regulator published the regulatory framework for the 2002-2004 regulatory period. For 2002, in nominal terms, tariffs increased across all voltage levels by an average of 2.2% from the 2001 levels. For 2003, in nominal terms, tariffs increased across all voltage levels by an average of 2.8% from the 2002 levels. In real terms, adjusted for inflation, very high-, high- and medium-voltage tariffs have declined by an average of 3.4% over the period 1999 to 2004. The tariffs for low-voltage customers also declined, in real terms, by an average of approximately 3.1% over the same period. For 2004, in nominal terms, tariffs have increased across all voltage levels by an average of 2.1% from the 2003 levels. In real terms, very high-voltage tariffs have increased 1.6% between 2003 and 2004, high-voltage tariffs remained stable, medium-voltage tariffs decreased by 0.1% and low-voltage tariffs increased 0.1%. Tariffs in 2004, in real terms, increased 0.21% on average across all voltage levels. To learn more about these tariffs, you should read [Information on the Company Portugal Tariffs](#).

In late 2000, the Portuguese government purchased a 70% interest in REN from us. The government's decision to purchase a controlling stake in REN from us was a part of the government's reorganization of the Public Electricity System, or PES, in accordance with the European trend toward greater liberalization. As part of

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this liberalization, the government sought to separate the company managing the national grid from generation and distribution companies, which the government in the decree law stated is the most suitable model of operation and would bring greater transparency and competition to the electricity sector. The decree law relating to the REN purchase permits us to purchase the sites of the power plants used in the Binding Sector in the event REN chooses not to use such sites and plants at the conclusion of the applicable contract for the expansion of the Binding Sector, thereby permitting us to continue to operate the plant in the Non-Binding Sector. The decree law also provides that, in the event we sell our remaining shares in REN, the government will have the first right to acquire these shares. Currently, our 30% interest in REN is accounted for under the equity method of accounting. The reduction of the Portuguese government's ownership to less than a majority interest in our shares and the reduction of our ownership interest to less than a majority interest in REN's shares triggered provisions in some of our debt agreements that provide specified remedies for creditors. For more information, see Liquidity and Capital Resources.

In Spain, following the trend of privatization and liberalization in other regulated sectors, a new regime was introduced in 1997 by Law 54/97 whereby management, transmission and distribution of electricity remained the only regulated activities in the electricity sector. Furthermore, in order to accomplish a complete unbundling between generation and transmission activities, accounting separation was established for companies carrying out both activities. Under this framework, a wholesale market run by the Spanish market operator, Compañía Operadora del Mercado Español de Electricidad, S.A., or OMEL, was established for generation activities. Customers above a determined voltage threshold were allowed to choose their electricity supplier, while Red Eléctrica de España, S.A., a state controlled entity, remained responsible for the technical management of the transmission grid. In recent years, further measures have been implemented to enhance competition, and since January 1, 2003 all customers can choose their electricity supplier. In other words, they can decide to remain regulated and subject to the electricity tariff or enter into a contract with a supplier at a market rate.

Pursuant to Law 54/97, the regulated electricity tariffs are determined by a Spanish governmental Royal Decree on an annual basis. The tariff may be amended if special circumstances warrant doing so, once the legal requirements have been complied with and the necessary reports are obtained. In 2002, a new method of tariff calculation was adopted for the period 2003-2010. Electricity companies that were in operation as of December 31, 1997 can recover a fixed amount of competition transition costs. This enables these companies to recover part of the costs borne by electricity generators during a period of transition to a competitive market until 2010. The regulated electricity tariff is based upon an average tariff or reference tariff, which includes all the applicable tariffs and costs. These tariffs are not specifically linked to an inflation-indexed formula. The system of regulated tariffs is used to determine the price of the supply of electricity and access to the transportation and supply networks. The regulated supply tariff is based upon a range of general tariffs, which are determined by the supply tension and the use of the power contracted.

For 1999, in nominal terms, the average tariff in Spain decreased by 5.57%. The decline of the average tariff continued until 2002, when the new method of calculation was adopted. The average tariff then increased for 2003 and 2004 by 1.65% and 1.72%, respectively. However, the reference tariff has decreased in real terms, adjusted for inflation, every year since 1992. Thus, the cumulative variation of the tariff in real terms reflects a 44.5% reduction since 1993.

Factors affecting the comparability of our results of operations

In the first half of 2002, we acquired 39.5% of Hidrocantábrico and started proportionally consolidating the company as of June 1, 2002. Our 2002 consolidated financial statements included Hidrocantábrico's contribution for the last seven months of 2002, whereas in 2003, our consolidated financial statements include Hidrocantábrico's contribution for the full year.

In October 2002, we gained operational control over Espirito Santo Centrais Electricas, S.A., or Escelsa, a Brazilian electricity distributor located in Espirito Santo State. Escelsa owns 65% of Empresa Energetica do Mato

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Grosso do Sul, S.A., or Enersul. Until the end of September 2002, we accounted for Enersul using the equity method, and from October 1, 2002, fully consolidated both Escelsa and Enersul. Despite the fact that this change in the consolidation method had no impact on our reported net profit, it did have an impact on our consolidated financial statements.

Our operating margin and net profit in 2003 increased by 39.6% and 13.7%, respectively, from 2002. In 2002, operating margin and net profit decreased by 3.7% and 25.6%, respectively, from 2001.

The increase in 2003 operating margin was influenced by the consolidation changes between 2002 and 2003 mentioned above relating to Hidrocantábrico, Escelsa and Enersul. If we had fully consolidated these companies for 12 months of 2002, our operating margin would have increased 23.8% in 2003. This increase is partly explained by the strong growth rates in electricity consumption across all of the countries in which we operate, an increase in the regulated revenues of EDPD, tariff increases granted to our distribution companies in Brazil by the Brazilian electricity regulator and better operating performance of ONI as a result of the implementation of a cost reduction plan and following discontinuation of ONI Way in 2002. The decrease in operating margin in 2002 was partially due to the effects of lower electricity distribution tariffs in Portugal following the start of the 2002-2004 tariff period and the combination of lower consumption in areas served by Bandeirante, Escelsa and Enersul following the electricity rationing program of the Brazilian government, and a severe devaluation of the real against the euro. A devaluation in the real negatively affects our consolidated results, as the results of our Brazilian companies are translated into euros in our consolidated results.

The 13.7% increase in net profit from 2002 to 2003 was due to a 39.6% increase in operating margin discussed above and lower extraordinary losses due to a one-time write-off in 2002 of our investment in ONI Way, in connection with the divestment of ONI's Universal Mobile Telephone Service, or UMTS, business. The factors positively affecting net profit were partially offset by higher financial charges and lower contributions from minority interests resulting from the proportional consolidation of Hidrocantábrico for 12 months in 2003 compared with seven months in 2002.

We do not expect one-time items to materially affect our results in 2004. Although we will continue to experience lower tariffs in our distribution business, we are optimistic that the regulator may allow us to include in our regulatory cost base significant restructuring costs related to our human resources, which we began to implement in the last quarter of 2003. In addition, in 2004 we will not have the capital expenditures previously required for ONI's development of a UMTS network.

Our costs are influenced by inflationary trends, fluctuations in fuel costs and hydrological conditions. In years with less favorable hydrological conditions, or drier conditions, use of thermal power can increase significantly, causing our spending on fuel to increase substantially. In years with more favorable hydrological conditions, or wetter conditions, the opposite result occurs. To smooth the impact on earnings and customer prices, the hydro account was established. The hydro account is discussed below in 2003 compared with 2002 Hydrological correction, in notes 2(p) and 21 to the audited consolidated financial statements and in notes 2(e) and 19 to the interim consolidated financial statements.

Our profit and loss account is prepared on the total-cost basis typically used by major Portuguese companies. Costs related to our personnel and materials incurred for assets under construction that are capitalized as part of fixed assets and will be amortized in future periods are classified in the income statement as expenses, and a corresponding amount is credited to Own work capitalized.

CRITICAL ACCOUNTING POLICIES

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Our reported financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of our consolidated financial statements. Our critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of

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reported results to changes in conditions and assumptions are factors to be considered in reviewing our consolidated financial statements and the discussions below in Results of Operations.

A critical accounting policy is one that is both important to results of operations and financial condition and requires management to make critical accounting estimates. An accounting estimate is an approximation made by management of a financial statement component or account. Accounting estimates reflected in our financial statements measure the effects of past business transactions or events, or the present status of an asset or liability. Accounting estimates included in the accounting policies presented in the consolidated financial statements require assumptions about matters that are highly uncertain at the time the estimate is made. Additionally, different estimates that could have been used, or changes in an accounting estimate that are reasonably likely to occur, could have a material impact on the financial statements. The inherent uncertainty of some matters can make judgments subjective and complex. The effects of estimates and assumptions related to future events cannot be made with certainty. Our estimates are based upon historical experience and on assumptions that management believes to be reasonable in the circumstances. These estimates may change with changes in events, information, experience, and our operating environment. The following critical accounting policies and estimates are those used in the preparation of our consolidated financial statements.

Fixed assets

Fixed assets are presented at historical cost except for items acquired before 1992, at revalued amounts. Historical costs include, except for assets constructed prior to 1995, finance charges and foreign exchange differences. They also include direct internal costs and general and administrative overheads.

We have entered into PPAs with REN, as the sole buyer for the Binding Sector, for the majority of the generation assets' economic lives. As permitted under Portuguese GAAP, these assets are classified as assets in our financial statements. Additionally, REN has recorded the minimum contracted payments made to producers in the Binding Sector in connection with PPAs as an expense of the respective periods. In accordance with U.S. GAAP, these PPAs between REN and our electrical generation company, CPPE, are accounted for as capital lease receivables for CPPE and capital lease obligations for REN. Prior to July 1, 2000, the effects of the PPAs between the two related companies were eliminated in consolidation.

The carrying values of all generation and distribution assets have been approved by the regulator for the purposes of accepting amortization as part of the tariff regime.

Depreciation is calculated on the straight-line basis at specific rates accepted by the tax authorities for us or for general purposes business, which reflect the economic useful lives of each category of fixed assets.

Payments received from customers and subsidies granted for the construction of fixed assets are presented as deferred revenue and amortized to income over a period equivalent to that of the related items.

Impairment of long-term assets

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Tangible and intangible fixed assets, net of the relevant deferred revenue, are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is reviewed for impairment at the end of the first complete financial year after the relevant acquisition, and thereafter if events or changes in circumstances indicate that the carrying amount may not be recoverable. When conducting a review for impairment, consideration is taken of the regulated and contractual aspects of our operations.

Uncertainties exist when assessing the recoverability of the carrying amounts of the tangible and intangible fixed assets. The assessment is made based on the best information available regarding the anticipated continuity of the concession or other contractual arrangements in place.

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Allowance for uncollectible accounts

Estimated provisions for uncollectible accounts receivable from retail electricity sales are recorded in the same period as the related revenues. These estimates are based on management's assessment of the probable collection of customer accounts, aging of accounts receivable, bad debt write-offs, and other factors. Certain circumstances and events can cause actual bad debt write-offs to vary from assumptions used in estimating uncollectible account provisions; these include general economic conditions, industry trends, deterioration of major customer credit worthiness, and higher defaults. Our earnings would be affected should such circumstances require a material adjustment to our provision for uncollectible accounts.

Employee retirement benefits

We have a commitment to complement the retirement and survivors' pensions of the employees subject to the ACT (collective labor agreement) to the extent that these are not covered by the Portuguese government's social security plans. Those employees have the option of taking early retirement, subject to certain conditions relating to pre-defined age and length of service requirements being met. Retired employees retain the right to medical assistance based upon similar conditions as those pertaining to employees still on the active payroll. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment, using valuations performed by independent qualified actuaries. The pension plans are generally funded by payments from the EDP Group companies, taking into account the recommendations of the independent qualified actuaries.

There are numerous uncertainties inherent in estimating employee retirement benefits and assumptions that are valid at the time of estimation, but may change significantly when new information becomes available. Fluctuations in the rates and other assumptions used for the actuarial valuations may, ultimately, result in actuarial gains or losses that, in accordance with the relevant accounting criteria, will be recognized in the financial statements.

Deferred income taxes

Deferred income taxes, recoverable and payable, have been included in our balance sheet as deferred tax assets and liabilities for the expected future tax consequences attributable to differences between the financial statement carrying amount of assets and liabilities and their tax bases.

There are certain uncertainties inherent in estimating deferred income taxes, namely that of the relevant companies of the EDP Group obtaining taxable profit in the periods in which such differences revert in the income statement.

Revenue recognition

Unbilled revenues

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Revenues from retail electricity sales are recognized when monthly billings are made to customers for energy sold, based upon meter readings performed on a cycle basis during each month, together with historical consumptions individually by customer. In order to properly match revenue with related expenses (power costs, distribution expenses, etc.), estimated unbilled revenues are accrued for electricity provided from meter read dates to each month-end. Such estimated unbilled revenues are based on our net system load, the number of days from meter reading to the end of each calendar month, and current retail customer rates.

In Portugal, the tariffs of electrical energy supplied to clients in the Binding Sector are determined by the regulator. Tariffs for clients outside the Binding Sector are negotiated and contracted on an individual basis. Tariffs in the electricity distribution business are subject to a price cap mechanism. These earnings are subject to a gross profit restriction and after being subject to confirmation or approval by the regulator are adjusted in future periods. We estimate amounts that are subject to future tariff revenue or adjustments and defer the recognition of the revenues until future periods. These amounts are recorded as accounts receivable-trade in the accompanying balance sheet.

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Hydrological correction account

The hydrological correction account constitutes a legally mandated mechanism for compensating the variable costs of electric-power generation. In years with unfavorable hydrological conditions, thermal generation increases and, consequently, expenditures on fuel and electricity imports increase substantially. In years with abundant rainfall, the opposite occurs. We cannot modify the tariffs we charge to take into account the changes in variable costs incurred as a result of hydrological conditions. In this context and with a view to avoiding major distortions in operating results, due to favorable or unfavorable hydrological conditions, the hydrological correction account is adjusted upwards or downwards based upon average hydrological conditions. Estimation of future hydrological conditions is based on the best information currently available. Changes in such estimates result in changes to the hydrological correction account in future financial periods.

The annual changes in the hydrological correction account consist of the following:

The difference between the economic costs of generating electricity and the economic reference costs is charged to REN for inclusion in the Binding Sector costs (prior to June 2000, this difference was charged to the income statement).

A financial charge associated with the hydrological correction account's accumulated balance.

An adjustment, which may be either an income or an expense item, corresponding to the amount necessary to make the expected balance, in a time scale of 10 years, equal to an adequate reference level.

The Portuguese government approves the amount of the accumulated balance and the movements during the year on an annual basis. Under U.S. GAAP, the effect of future changes in hydrological conditions is viewed as a general business risk and the resulting adjustments are therefore reversed.

Tariff adjustment

Prior to 1999, the selling price of electricity in Portugal was based upon a negotiated price between us and the government. Tariffs were generally based on operating costs incurred during a year associated with average hydrological conditions. However, there were no specific guidelines in place ensuring that we would recover actual cost incurred during this time. On January 1, 1999, and again on January 1, 2002, new tariff regimes were introduced that established formulae for the calculation of the selling price of electricity in Portugal. These tariffs at current market conditions allow us to recover actual costs incurred. On January 1, 2002, the regulator implemented alternative revenue programs that allow us to increase tariffs in future periods to recover allowable revenues.

Investments

Derogating from accounting principles generally accepted in Portugal, we implemented early International Accounting Standard 39 Recognition and Measurement of Financial Instruments, or IAS 39, for fiscal year 2003, having calculated the retroactive effects from December 31, 2002. Consequently, we classified our investments in accordance with this IAS 39, particularly with regard to the types of financial instruments and their recognition and measurement, carrying them under the following categories of financial assets: trading, held to maturity and available for

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sale. The classification depends on the purpose for which the investments were acquired. Our board of directors determines the classification of these investments on the date of acquisition and re-assesses this classification on a regular basis.

Trading account securities

Investments acquired primarily for the purpose of being traded in the very short-term are classified as trading securities and are recorded as current assets. For the purpose of our financial statements, short-term is defined as three months. Realized and unrealized gains and losses caused by changes in the fair value of trading securities are recorded in the profit and loss account during the period in which they occur.

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Medium- and long-term investment portfolio (investment securities available for sale)

Investments expected to be held for an undetermined period of time and that can be sold to meet liquidity requirements or in the event of changes in interest rates, are classified as available for sale under non-current assets, unless our board of directors has the express intention of holding the investments for a period of less than 12 months from the balance sheet date or if there is a need to sell them to generate operating capital, in which case they are carried under current assets. Acquisition cost includes transaction costs. Investments available for sale are accounted at their fair value.

Accounting for derivatives

Derivatives are initially measured in our consolidated balance sheet at cost and subsequently carried at fair value. The method of recognition of the resultant gain or loss depends on the nature of the item that is hedged. We identify derivatives as either: (i) hedging the fair value of the recognized assets or liabilities; (ii) hedging a planned transaction or firm commitment; or (iii) hedging a net investment in a foreign entity on the date on which the derivatives are acquired. Changes in the fair value of derivatives identified as fair-value hedging instruments and qualifying as effective, are recognized as a gain or loss in the profit and loss account together with the changes in the fair value of the asset or liability for which the hedging risk was taken. Changes in the fair value of derivatives identified and classified as cash-flow hedging instruments are recognized against reserves. When the planned transaction or firm commitment leads to recognition of an asset or liability, the gains and losses previously recorded against reserves are included in the initial measurement of the cost of the respective asset or liability. In any other case, the amounts recorded against reserves are transferred to the profit and loss account and classified as income or expense during the period in which the firm commitment or planned transaction impacted on the profit and loss account. For any transaction which, despite economic hedging in accordance with our risk management policies, is not classified as hedging in accordance with IAS 39, the gains and losses are recognized in the profit and loss account during the period to which they relate. On the date on which the hedging instrument expires or is sold, or when the hedging transaction no longer meets the requirements for hedge accounting in accordance with IAS 39, any cumulative gain or loss recorded against reserves is maintained until such time as the planned transaction or firm commitment is recognized in the profit and loss account. If the planned transaction or firm commitment is no longer expected, the cumulative gain or loss reported against reserves is transferred to the profit and loss account. The hedging of a net investment in a foreign entity is recorded in a manner similar to cash-flow hedging. If the hedging instrument is a derivative, any gain or loss on the hedging instrument in respect of the effective part of the hedge is recognized against reserves. The gain or loss on the ineffective portion of the hedge is recognized immediately in the profit and loss account. However, if the hedging instrument is not a derivative, all gains and losses on exchange rate fluctuations are recognized against reserves. To achieve hedge accounting on the date of commencement of the transaction, we document the relationship between the hedging instruments and the hedged items, as well as the respective risk-management objectives and strategies underlying the respective hedging transactions. This process includes the link between all derivatives identified as hedging instruments for assets and liabilities or for specific transactions or firm commitments. We also document in our evaluation, at the inception of the hedge and during the life of the hedge, whether the derivatives used in the hedging transactions are highly effective to compensate the fair value or the cash flows of the hedged items.

Estimate of the fair value of financial instruments

The fair value of derivatives traded on liquid markets and of assets available for sale is based on their listed prices on the balance sheet date. The fair value of interest-rate swaps is calculated on the basis of the present value of future estimated cash flows. The estimated value of future cash flows is used to determine the fair value of other financial instruments. The book values of financial assets and liabilities with a maturity of less than one year are assumed to be close to their fair values.

Restatements

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Under Portuguese GAAP, if a current year balance is reclassified or adjusted, the reporting entity is not allowed to restate the comparable prior year balance. Under US GAAP, unless specifically prescribed in accounting guidance, the reclassification or adjustment of a current year balance will result in a corresponding reclassification or adjustment in the prior year balance to make the information comparable.

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Beginning in January 2001, we consolidated the results of Bandeirante with our results. In 2002, following the conclusion of our acquisition of a 39.5% stake in Hidrocontábrico, we proportionally consolidated the results of Hidrocontábrico from June through December. On October 10, 2002, we gained control over Brazilian distribution companies Escelsa and Enersul. As a result, we consolidated the results of Escelsa and Enersul from October through December 2002. We currently control 54.74% of Escelsa and 35.69% of Enersul. In December 2002, we decided to discontinue ONI Way's UMTS operations, a decision which was reflected by a write-off of ONI Way and the consequent increase in Other non-operating expenses (income) due to the creation of a non-recurring provision of 280.9 million.

In March 2003, Hidrocontábrico won the auction privatization process that led to its acquisition of 62% of Naturcorp. Subsequently, Naturcorp reorganized its gas holdings, as a result of which a minority shareholder in Gas de Euskadi exchanged its holding for shares in Naturcorp, resulting in a decrease in Hidrocontábrico's ownership of Naturcorp from 62% to 56.8%. Naturcorp started to be fully consolidated in Hidrocontábrico as from August 2003.

For recent events relating to our results of operations for the nine months ended September 30, 2004, see Summary Recent Events above.

Six-Month Period Ended June 30, 2004 Compared with the Six-Month Period Ended June 30, 2003

The following table sets forth our revenues by geography and activity for the six-month periods ending June 30, 2003 and June 30, 2004.

	<u>Sales of Electricity</u>	<u>Other Sales</u>	<u>Services Rendered</u>	<u>Total</u>
	(unaudited) (millions of EUR)			
For the six-month period ended June 30, 2003				
Portugal				
Generation	626.5	9.6	7.5	643.6
Distribution & Supply	1,811.8	0.8	35.7	1,848.3
Spain				
Generation	120.1	0.4	0.5	121.1
Distribution & Supply	149.5	0.2	0.8	150.5
Gas	11.5	0	1.4	12.9
Brazil				
Generation	18.4	0	0	18.4
Distribution & Supply	441.6	0	0	441.6
Telecoms	0	7.4	142.6	150.0
Information Technology	0	13.1	82.2	95.2
Services and other adjustments	(63.8)	(0.6)	(71.5)	(135.9)
EDP Group	3,115.6	30.9	199.2	3,345.7
For the six-month period ended June 30, 2004				
Portugal				
Generation	678.2	10.4	36.0	724.6

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Distribution & Supply	1,745.2	1.2	11.8	1,758.2
Spain				
Generation	110.9	3.6	0.8	115.4
Distribution & Supply	124.1	31.6	8.5	164.2
Gas	9.3	82.7	7.7	99.7
Brazil				
Generation	13.5	1.7	3.8	19.0
Distribution & Supply	462.6	0	31.9	494.5
Telecoms	0	5.2	160.6	165.8
Information Technology	0	13.1	77.9	91.0
Services and other adjustments	(6.1)	(22.3)	(72.0)	(100.5)
EDP Group	3,137.7	127.2	267.1	3,532.0

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The following table sets forth our operating costs and expenses and our results of operations as a percentage of total revenues for the six-month periods ending June 30 2003 and 2004:

	For the six-month period ended June 30,	
	2003	2004
	(unaudited)	
Total revenues	100.0%	100.0%
Raw materials and consumables	55.0	54.4
Personnel costs	10.3	9.2
Depreciation and amortization	12.2	11.0
Other external supplies and services	9.3	8.6
Own work capitalized	(3.5)	(2.9)
Concession and power-generation rental costs	2.6	2.7
Provisions	1.9	1.3
Other operating expenses (income), net	0.0	0.2
Total operating costs and expenses	87.8	84.4
Operating margin	12.2	15.6
Net interest expense	5.5	5.1
Other non-operating expenses (income), net	(1.8)	0.6
Income before taxes	8.5	9.9
Consolidated net income	5.4	7.8

Revenues

Our total revenues for the first half of 2004 increased by 5.6% to 3,532.0 million from 3,345.7 million in the first half of 2003 due primarily to a 96.3 million increase in other sales (i.e., sales from our non-electricity businesses) resulting from the proportional consolidation of the Basque gas company, Naturcorp, as from August 2003, and an increase of 67.9 million in services rendered due to increased sales in our electricity activity in Portugal and Brazil and in our telecommunications activity.

Sales of electricity. Our total electricity sales increased 0.7% to 3,137.7 million in the first half of 2004, representing 89% of our total revenues, from 3,115.6 million in the first half of 2003 mainly due to a 3.5% increase in electricity sales from Brazil to 476.1 million in the first half of 2004 from 460.0 million in the first half of 2003. This increase was partially offset by a 13.1% decrease in electricity sales from Spain to 244.3 million in the first half of 2004 from 281.1 million in the first half of 2003, partly due to lower Spanish electricity pool prices.

Electricity sales in Portugal from generation, distribution and supply activities, which represented 77.2% of our total consolidated electricity revenues, decreased by 0.6% to 2,423.4 million in the first half of 2004 from 2,438.3 million in the first half of 2003, with an increase in electricity sales from generation activity being slightly exceeded by a decline in electricity sales from distribution and supply activities.

Electricity sales from our generation activity in Portugal increased 8.3% from 626.5 million in the first half of 2003 to 678.2 million in the first half of 2004. Approximately 83% of EDP Produção's generation revenues are based on long-term PPAs between each of its power plants and REN, as the single buyer for the Portuguese PES. The PPAs include an energy charge component that remunerates EDP Produção's plants operating in the PES for fuel consumed by producing electricity. Given that the first half of 2004 presented lower hydroelectricity levels than the

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first half of 2003 (a hydroelectric coefficient of 0.81 in the first six months of 2004 compared with a hydroelectric coefficient of 1.30 in the first six months of 2003), EDP Produção's thermal power plants were more utilized, which, combined with an increase in coal prices, resulted in higher fuel costs and thus in higher revenues from the variable component of the PPAs that remunerates for fuel consumption.

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Electricity sales from our distribution and supply activities in Portugal decreased 3.7% from 1,811.8 million in the first half of 2003 to 1,745.2 million in the first half of 2004 due to a 3.4% decrease in electricity distribution in the PES to 17,236 GWh in the first half of 2004 from 17,849 GWh in the first half of 2003. Electricity sales volume in the PES, which in the first half of 2004 represented approximately 85% of Portuguese electricity demand, was affected by the fact that some medium-voltage consumers opted to become Non-Binding Consumers, whereas, in the Non-Binding Sector, electricity distributed more than doubled to 3,149 GWh in the first half of 2004 from 1,531 GWh in the first half of 2003. Portuguese electricity demand increased 5.2% to 20,385 GWh in the first half of 2004 from 19,380 GWh in the first half of 2003, primarily due to a 14.2% increase in very high-voltage and high-voltage consumption following an increase in the number of our industrial clients. Electricity sales from our Portuguese generation activity also benefited from the beginning of industrial service, on February 14, 2004, of the first 400 MW unit at the new TER CCGT. TER contributed 1,155 GWh in electricity distributed to the network.

Beginning with the new tariff regime in Portugal that became effective in 1999, tariffs are fixed by the regulator in advance of each year based in part on estimated data for variables such as demand and cost. If there are differences between the estimated data and the actual data during a period, an adjustment is made to the tariff in a subsequent period to account for these differences.

In the first half of 2004, the aggregate tariff adjustment was negative at 118.3 million. This figure includes a negative adjustment of 78.9 million from the tariff adjustment for the first half of 2004, a negative adjustment of 10.6 million from the repositioning of half of the 2003 tariff adjustment and a negative adjustment of 28.8 million from the repositioning of half of the 2002 tariff adjustment. In the first half of 2003, the aggregate tariff adjustment was 15.0 million. This figure includes a positive adjustment of 5.5 million relating to the tariff adjustment for the first six months of 2003, a positive adjustment of 17.8 million from a revision made to the tariff adjustment for 2002, a negative adjustment of 5.1 million relating to the repositioning of half of the 2002 tariff adjustment and a negative adjustment of 3.4 million from the repositioning of half of the 2001 tariff adjustment.

Electricity sales in Brazil increased 3.5% to 476.1 million in the first half of 2004 from 460.0 million in the first half of 2003, primarily due to a 4.1% increase in electricity consumption at EDP's concession areas in Brazil, and also due to 2003 tariff revisions, including, in particular, a 14.68% average tariff increase for Bandeirante (as of October 22) and a 32.59% average tariff increase for Enersul (as of April 8). Growth of electricity sales to direct clients in Brazil was partially mitigated by the switch of some industrial consumers to the liberalized market, where consumers must pay the service for the use of the distribution grid (accounted as services rendered), and by the devaluation of the Brazilian real against the euro.

Other sales. Our other sales activities, including sales of natural gas, steam, ash, information technology products, telecommunications equipment and sundry materials, generated revenues of 127.2 million in the first half of 2004 compared with 30.9 million in the first half of 2003, due primarily to the proportional consolidation, since August 2003, of gas sales of Naturcorp on the same basis as Hidrocantábrico (i.e., at the 40% level). The consolidation of Naturcorp more than offset a 29.1% decrease in telecommunications equipment sales from 7.3 million in the first half of 2003 to 5.2 million in the first half of 2004.

Services rendered. Activities generating these revenues include electricity-related services, services related to information technology systems, telecommunications and engineering, as well as laboratory, training, medical assistance, consulting and multi-utility services and other services. Our revenues from other services increased to 267.1 million in the first half of 2004 from 199.2 million in the first half of 2003, due to increased sales provided by the electricity activity in Portugal and Brazil and by our telecommunications activity.

Revenues from services provided by the electricity activity in Portugal increased 10.8% to 47.8 million in the first half of 2004 from 43.2 million in the first half of 2003, mainly due to the ongoing liberalization process in Portugal. Services provided in Spain contributed 2.7 million and 17.1 million in the first half of 2003 and

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the first half of 2004, respectively, following the proportional consolidation of Naturcorp since August 2003. Our operations in Brazil contributed 35.7 million to our consolidated revenues from services in the first half of 2004, following the increased number of liberalized clients in our concession area, who must pay for the use of the distribution grid. The 12.6% increase in telecommunications services to 160.6 million in the first half of 2004 from 142.6 million in the first half of 2003 resulted from an increase in voice telecommunications services provided by ONI. Revenues from services provided from information technology activity declined 5.1% from 82.2 million in the first half of 2003 to 77.9 million in the first half of 2004 due primarily to a slowdown in the information technology sector in Portugal.

Operating costs and expenses

Our total operating costs and expenses increased by 1.4% to 2,980.4 million in the first half of 2004 compared to 2,938.9 million in the first half of 2003, mainly due to the proportional consolidation of Naturcorp and higher fuel costs at EDP Produção following a dry six months in which thermal generation was increased at the expense of hydro power. These effects more than offset the positive impact of lower operating costs at EDPD and ONI.

Operating costs at our Portuguese electricity business decreased 2.0% to 2,048.9 million in the first half of 2004 from 2,091.1 million in the first half of 2003. This decrease was partially because prior to 2004 we presented the compensation of depreciation of partly funded fixed assets as other non-operating income, while in 2004 we started to present this income as an operating item. This portion of depreciation is primarily due to new electricity connections made in prior years that were financed largely with customer payments, which are recorded as deferred income and, as the assets are depreciated, a portion of the amount is taken into income and offset by a corresponding depreciation charge. In addition, the restarting of our Human Resources Restructuring Program in 2003 resulted in a 6.7% decrease in the first half of 2004 compared to the same period in 2003 in personnel costs at our Portuguese distribution and supply activities. Operating costs at ONI decreased 3.3% from 192.9 million in the first half of 2003 to 186.6 million in the first half of 2004, benefiting from the cost-cutting program and a reduction in the number of employees.

As a percentage of revenues, total operating costs and expenses decreased to 84% in the first half of 2004 from 88% in the first half of 2003, due primarily to lower personnel costs, other external supplies and services, and depreciation and amortization expenses.

Raw Materials and Consumables. The major components of our raw materials and consumables are the costs of energy purchased, fuel costs and costs of other materials. Our raw materials and consumables costs increased 4.3% to 1,920.5 million in the first half of 2004 from 1,841.1 million in the first half of 2003, primarily due to the proportional consolidation of Naturcorp and to higher fuel costs at EDP Produção that followed a reduction in use of hydro generation due to a dry semester and an increase in coal prices.

Our costs of energy purchased increased 1.5% to 1,621.8 million in the first half of 2004 from 1,598.2 million in the first half of 2003.

Generation, distribution and supply activities in Portugal represented 71.6% of our costs of energy purchased in the first half of 2004 compared with 77.1% in the first half of 2003. Electricity purchases from generation in Portugal decreased 12.4 million in the first half of 2004 to 18.0 million, due to the fact that during the first half of 2004, the EDP Produção energy management department managed purchases in the Spanish pool, thus replacing purchases made in the first half of 2003 by small hydro producers operating for the Non-Binding Sector. Our costs of purchased electricity in distribution and supply activities in Portugal primarily include purchases made by EDPD from REN, as well as purchases from private generators and small independent producers. The energy that EDPD purchases from REN is supplied to the Binding Sector. In the first half of 2004, electricity purchases in distribution and supply decreased 4.9% to 1,143.3 million in the first half of 2004 from 1,202.6 million in the first half of 2003, reflecting a 3.4% decrease in electricity sales volume to the PES and lower estimated fuel costs used by

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ERSE, the independent regulator of the electricity industry appointed by the Portuguese government, when establishing 2004 tariffs.

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Costs of energy purchased in Spain increased 19.7% to 197.3 million in the first half of 2004 compared with 164.8 million in the first half of 2003, reflecting the first time consolidation of Naturcorp in August 2003.

Costs of purchased electricity in Brazil increased 1.3% in the first half of 2004 to 306.2 million from 302.1 million in the first half of 2003, due to a 4.1% increase in electricity distributed by our Brazilian subsidiaries, which was partly offset by the depreciation of the Brazilian real against the euro.

Our fuel costs increased 70.1% to 220.0 million in the first half of 2004 from 129.3 million in the first half of 2003. In the first half of 2004, fuel costs from generation in Portugal represented 74.2% of our fuel costs and increased 24.5% to 163.1 million in the first half of 2004 from 131.0 million in the first half of 2003. This increase in fuel costs reflects an increase in fuel utilization by EDP Produção associated with a higher recourse to thermal generation due to a dry semester and an increase in coal prices. In order to account for the variability of hydrological conditions in Portugal and its impact on the fuel costs, EDP uses a Hydrological correction account, or hydro account. As of June 30, 2004, the hydro account amounted to 375.2 million, reflecting a decrease of 12.3 million compared to December 31, 2003, which primarily reflects 17.1 million paid to REN, partially offset by 4.9 million in interest. In the first half of 2003, the hydro account increased 58.9 million to 383.1 million. This difference was primarily a result of the first half of 2004 having been particularly dry (hydro coefficient of 0.81) while the first six months of 2003 were wet (hydro coefficient of 1.30).

Fuel costs in Spain amounted to 54.5 million in the first half of 2004, which represented 24.8% of our fuel costs. In the first half of 2004, fuel costs in Spain were affected by an increase in imported coal prices.

The major components of our costs for other materials are the costs of cables, meters, transformers and other goods for resale, which are included under the item Raw materials and consumables Other materials. These costs decreased to 78.7 million in the first half of 2004 from 113.5 million in the first half of 2003. A majority of these costs are credited to Own work capitalized and the remainder is applied to maintenance of the transmission and distribution networks. See Own work capitalized below. Costs for other materials from generation, distribution and supply activities in Portugal represent 69.7% of our total costs for other materials. Costs of materials from our generation activity in Portugal decreased 28.0% in the first half of 2004 to 1.4 million from 2.0 million in the first half of 2003. Costs related to our distribution and supply activities in Portugal increased 4.0% to 53.4 million in the first half of 2004 from 51.3 million in the first half of 2003 because of the investments made on the EDPD distribution grid to improve service quality.

Costs of other materials in Spain decreased 16.1 million to 11.5 million in the first half of 2004 compared with 27.6 million in the first half of 2003. Costs from other materials in Brazil increased 0.9 million to 4.1 million in the first half of 2004 from 3.2 million in the first half of 2003. Cost of sales for telecommunications increased 1.3 million in the first half of 2004 to 4.5 million from 3.2 million in the first half of 2003, reflecting the completion of an equipment supply contract during the first six months of 2004. Raw materials and consumables costs relating to our information technology activities increased 6.2% to 11.5 million in the first half of 2004 from 10.9 million in the first half of 2003, which, despite the slowdown of the Portuguese information technology sector, reflects a slight recovery of EDINFOR Sistemas Informáticos, S.A., or EDINFOR s, activities related to finishing, graphics and equipment sales.

Personnel costs. Personnel costs, which consist mainly of wages and salaries and social security and pension fund contributions, decreased 5.9% in the first half of 2004 to 324.7 million from 345.3 million in the first half of 2003 due to the Human Resources Restructuring Programme restarted in 2003 at the Portuguese electricity business.

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Personnel costs in the Portuguese electricity business decreased 4.4% to 252.4 million in the first half of 2004 from 264.1 million in the first half of 2003 as a result of the Human Resources Restructuring Programme. As a percentage of total personnel costs, electricity business costs in Portugal remained stable in the first half of

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2004 at 78%. Personnel costs in generation in Portugal increased 3.3% to 63.1 million in the first half of 2004 from 61.0 million in the first half of 2003. Personnel costs in distribution and supply in Portugal decreased 6.7% to 189.4 million in the first half of 2004 from 203.0 million in the first half of 2003, reflecting the reduction in the number of employees at the distribution business. Following ERSE's approval, in August 2003, regarding the pass-through to final tariffs of up to 485.7 million of restructuring costs associated with early retirements and negotiated dismissals, we decided to continue with our Human Resources Restructuring Programme, which had been suspended.

In the Spanish energy business, personnel costs were 19.6 million in the first half of 2004 compared to 16.8 million in the first half of 2003. This increase was primarily due to the proportional consolidation of the Basque gas business, Naturcop, commencing in August 2003. Personnel costs in the Spanish gas business increased to 3.5 million in the first half of 2004 from 1.0 million in the first half of 2003.

Personnel costs in the Brazilian electricity business increased 8.2% to 31.3 million in the first half of 2004 from 28.9 million in the first half of 2003, which primarily reflects annual salary increases of approximately 10% in the middle of 2003.

Personnel costs in our telecommunications activities decreased 9.8% to 27.6 million in the first half of 2004 from 30.7 million in the first half of 2003, reflecting a reduction in the number of employees achieved primarily at the fixed line business in Spain.

Personnel costs in our information technology activities decreased 11.1% to 29.7 million in the first half of 2004 from 33.4 million in the first half of 2003, reflecting a reduction in the number of employees and successful wage negotiations.

Depreciation and amortization. Since the beginning of 2004, depreciation and amortization charges have been netted against income related to the compensation of depreciation of partly funded fixed assets. Prior to 2004, we presented this income as an other non-operating income. This income is primarily related to new electricity connections made in prior years that were financed largely with customer payments, which are recorded as deferred income and, as these assets are depreciated, a portion of the amount is taken into income and offset by a corresponding depreciation charge. This change in accounting presentation partly explains the decrease in depreciation and amortization charges of 4.8% to 388.8 million in the first half of 2004 from 408.3 million in the first half of 2003. The compensation of depreciation of partly funded fixed assets amounted to 38.0 million in the first half of 2004. This line item is discussed in note 26 to the interim consolidated financial statements.

Depreciation and amortization charges in the Portuguese electricity business decreased 12.1%, or 35.5 million, to 257.4 million in the first half of 2004 from 292.9 million in the first half of 2003 due to the change in the accounting presentation described above, which mainly affects this activity. The compensation of depreciation of partly funded fixed assets in the Portuguese electricity business amounted to 37.0 million in the first half of 2004.

In the Spanish energy business, depreciation and amortization charges increased to 38.4 million in the first half of 2004 from 27.9 million in the first half of 2003. This increase is primarily due to the proportional consolidation of the Basque gas business, Naturcop, since August 2003. Depreciation and amortization charges in the Spanish gas business increased to 11.9 million in the first half of 2004 from 2.0 million in the first half of 2003.

Depreciation and amortization charges in the Brazilian electricity business increased 0.7 million to 29.1 million in the first half of 2004 from 28.4 million in the first half of 2003.

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Depreciation and amortization charges relating to telecommunication activities decreased 6.4% to 31.8 million in the first half of 2004 from 34.0 million in the first half of 2003, reflecting lower investment needs. Investment required for the expansion of the network and acquisition of direct access infrastructure has already been completed.

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In the first half of 2004, depreciation and amortization charges relating to information technology activities increased 31.5% to 14.8 million from 11.3 million in the first half of 2003, primarily due to the investment in 2003 in the acquisition of new equipment for a data processing centre.

Supplies and services. These costs consist of supplies and services provided to us by external suppliers, and include external maintenance and repairs, specialized services, communication, rents, insurance and other services. External maintenance and repairs consists of work on our power plants, substations and transmission and distribution networks that we subcontract to others. Other specialized services includes technical services such as auditing, legal, consulting and revenue collection services. Communication services include telecommunications, postal, delivery and courier services. The cost of these external supplies and services decreased 2.6% to 302.0 million in the first half of 2004 from 310.2 million in the first half of 2003.

Supplies and services in the Portuguese electricity business increased 8.8% to 141.5 million in the first half of 2004 from 130.1 million, and as a percentage of our total supplies and services these costs increased to 47% in the first half of 2004 from 42% in the first half of 2003. Supplies and services relating to generation activity increased 3.2 million to 32.2 million in the first half of 2004 from 29.0 million in the first half of 2003 partly due to a higher activity level from EDP Produção's subsidiary for maintenance services, O&M Serviços, and higher telecommunication costs associated with the power plants remote control. Supplies and services relating to distribution and supply activity increased 8.2% to 109.4 million in the first half of 2004 partly due to an increase in management fees from EDP, S.A. and our shared services company, EDP Valor, and also due to an increase from IT logistics and related services from the EDINFOR Group.

In the Spanish energy business, supplies and services costs increased to 21.8 million in the first half of 2004 from 16.1 million in the first half of 2003. This increase is primarily due to the proportional consolidation of the Basque gas business, Naturcop, since August 2003. Supplies and services costs in the Spanish gas business increased to 4.6 million in the first half of 2004 from 1.3 million in the first half of 2003.

Supplies and services relating to the electricity business in Brazil decreased 6.5% to 30.3 million in the first half of 2004 from 32.4 million in the first half of 2003, mainly due to depreciation of the Brazilian real against the euro.

Supplies and services in our telecommunications activities increased 0.4% to 122.3 million in the first half of 2004 from 121.9 million in the first half of 2003 due to higher direct activity costs related to telecommunication services provided to our clients, resulting from the activity's organic growth. This increase was partly offset by the continued focus on efficiency, which enabled our telecommunication company, ONI, to achieve savings in fixed network expenses, advertising and specialised works.

Supplies and services related to our information technology activities decreased 15.0% to 29.5 million in the first half of 2004 from 34.7 million in the first half of 2003, mainly as a result of the on-going efforts to control costs and the termination of a contract with IMB, as our information technology company, EDINFOR, invested in a new data processing center.

Own work capitalized. Own work capitalized consists of amounts that correspond to costs related to personnel and materials and other external supplies and services incurred for projects under construction that are capitalized and will be amortized in future periods. These amounts generally consist of consumption of materials, direct internal costs, general administrative overheads and financial charges. Own work capitalized decreased 10.7% to 104.2 million in the first half of 2004 from 116.7 million in the first half of 2003.

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Own work capitalized in the Portuguese electricity business in the first half of 2004 represented 94% of our total own work capitalized (compared to 91% in the first half of 2003). In the first half of 2004, it decreased 7.4% to 98.3 million from 106.1 million in the first half of 2003. Own work capitalized in our generation activity in Portugal decreased to 7.7 million in the first half of 2004 from 17.5 million in the first half of 2003 following the conclusion of the construction of TER CCGT plant's first 400 MW unit. Own work capitalized in the

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distribution and supply activities in Portugal had a slight increase to 90.5 million in the first half of 2004 from 88.6 million in the first half of 2003, reflecting EDPD's investments in the distribution grid to improve service quality.

Concession and power-generation rents. Concession and power-generation rental costs, which consist mainly of rents paid by EDPD to municipalities for concessions to distribute low-voltage electricity, increased to 94.7 million in the first half of 2004 from 87.9 million in the first half of 2003. The amount of rents payable to municipalities for concessions is set by government regulation and is based on the amount of low-voltage electricity consumed in the respective municipal areas each year. The 7.7% increase in concession and power-generation rental costs for the first half of 2004 compared to the first half of 2003 was primarily due to an increase in the average concession fee paid by our distribution company to the Portuguese municipalities, from 7.25% to 7.50% of previous year's low-voltage sales, and to the 7.4% increase in low-voltage sales between 2002 and 2003.

Provisions. Provisions decreased to 46.2 million in the first half of 2004 from 62.5 million in the first half of 2003, primarily due to a decrease in provisions for doubtful accounts as a result of an improved economic climate. This line item is discussed in note 29 to the interim consolidated financial statements.

Provisions in the Portuguese electricity business decreased to 29.0 million in the first half of 2004 from 46.9 million in the first half of 2003 (and as a percentage of our total provisions, decreased to 63% in the first half of 2004 compared to 75% in the first half of 2003). Provisions in distribution and supply activities decreased to 23.3 million in the first half of 2004 from 42.0 million in the first half of 2003 mainly due to an improved economic climate. In the Brazilian electricity business, provisions decreased 2.4 million to 8.2 million in the first half of 2004 from 10.7 million in the first half of 2003. In the telecommunication activity, provisions decreased 1.6 million to 1.7 million in the first half of 2004.

Other operating expenses/(income). This item primarily includes taxes other than income taxes and other operating income (net). The item increased to a 7.6 million expense in the first half of 2004 from a 0.1 million expense in the first half of 2003.

Operating margin

As a result of the factors discussed above, our operating margin increased 35.6% to 551.6 million in the first half of 2004 from 406.8 million in the first half of 2003. Operating margin from our core electricity business in Portugal increased 8.3% to 434.0 million in the first half of 2004 from 400.8 million in the first half of 2003, primarily due to an increase in electricity consumption of 5.2%, the beginning of operations at the TER CCGT plant and the reduction in personnel costs following the implementation of the Human Resources Restructuring Program. Operating margin from our Spanish energy business increased 10.8% to 37.9 million in the first half of 2004 from 34.2 million in the first half of 2003 following the proportional consolidation of the Basque gas business, Naturcop, commencing in August 2003. Operating margin from Brazilian electricity activities increased 45.1 million to 97.3 million in the first half of 2004, mainly as a result of the 4.1% increase in electricity consumption and tariff increases in 2003. Operating margin from telecommunication activities improved by 22.1 million to a 20.8 million loss in the first half of 2004 from a 42.8 million loss in the first half of 2003, mainly due to cost-cutting. Operating margin from information technology activities decreased 30.9% to 6.6 million in the first half of 2004 from 9.5 million in the first half of 2003 due to a slowdown in the Portuguese information technology sector.

Interest and related income/(expenses), net

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Our net interest and related income/(expenses) consist of interest and related income and expenses. These net expenses decreased to 181.5 million in the first half of 2004 from 182.5 million in the first half of 2003 (and decreased as a percentage of our total revenues to 5.1% in the first half of 2004 compared to 5.5% in the first half of 2003). This line item is discussed in note 31 to the interim consolidated financial statements.

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Net interest expenses decreased 7.5% to 144.0 million in the first half of 2004 from 155.8 million in the first half of 2003 following the reduction of our financial debt. Contributions from equity method investments increased 12.9 million to 20.1 million in the first half of 2004, partially because results for the first half of 2003 were negatively impacted by 7.2 million in accumulated losses from Electra. This investment was fully provisioned at the end of 2003. Net exchange differences decreased 20.5 million to an 18.0 million loss in the first half of 2004, mainly due to depreciation of the Brazilian real against the dollar in the first half of 2004, affecting the dollar-denominated debt of the Brazilian subsidiaries. Investment income decreased 22.5 million to 9.0 million in the first half of 2004 following the sale of the Iberdrola stake in the second half of 2003 and lower dividends received from our stake in BCP.

Other non-operating income/(expenses)

We had other non-operating expenses of 20.1 million in the first half of 2004 compared to other non-operating income of 59.4 million in the first half of 2003, partly due to the change in the accounting presentation of the compensation of depreciation of partly-funded fixed assets, which, as described above under Operating Costs and Expenses, prior to 2004 was presented as other non-operating income, and currently is presented as an operating item. In the first half of 2004, this item amounted to 38.0 million (presented in the depreciation and amortization line item see note 26 to the interim consolidated financial statements for more information on this line item) in comparison with 34.4 million in the first half of 2003. The income related to the reduction of provisions for contingencies and liabilities decreased 18.4 million to 4.8 million in the first half of 2004 from 23.3 million in the first half of 2003, primarily due to the use of a provision in the first half of 2003 that was created by Escelsa to mitigate the anticipated eventual market loss on its dollar-denominated assets. In connection with the Human Resources Restructuring Programme, in the first half of 2004, EDP recorded 23.2 million in human resources rationalisation costs, relating to negotiated dismissals (at the distribution activity, this cost is permitted by ERSE to be passed through to final tariffs) and compensation paid to early retirees that accepted acceleration of the legal retirement age.

Provision for income taxes

Our provision for income taxes is determined on the basis of the estimated taxable income for the period. Income taxes provided for in the first half of 2004 were 174.0 million compared with 141.8 million in the first half of 2003. The reference income tax rate in Portugal was 25% in the first half of 2004 compared with 30% in the first half of 2003. In addition, a municipal surcharge of up to 10% of the base rate is typically levied by the municipality in which the income is earned. Our effective tax rate is different from the reference income tax in Portugal each year, due to permanent differences arising mainly from amortization of goodwill and concession rights and amortization resulting from revaluation of fixed assets that are not deductible for income tax purposes. Our effective tax rate was 29.5% in the first half of 2004, compared with 39.0% in the first half of 2003. The effective tax rate in the first half of 2004 reflects a 118.3 million expense relating to tariff deviation in our electricity distribution business in Portugal, which tax benefit, amounting to 32.6 million, is accounted for as a provision for deferred income taxes rather than a provision for income taxes. In the first half of 2003, the effective tax rate was partly affected by the losses before taxes in our telecommunications business (EDP recorded lower losses in the first half of 2004), which tax benefit is not accounted under this line item. For more information on provision for income taxes, you should read note 33 of our interim consolidated financial statements.

Provision for deferred income taxes

Deferred income taxes are recognized in our audited consolidated financial statements in accordance with International Accounting Standard 12. Our provision for deferred income tax is determined, using the balance sheet liability method, on the temporary differences between the book values of assets and liabilities and their respective taxable bases. The taxable base of assets and liabilities is determined so as to reflect the consequences of taxation resulting from the way in which we expect, on the balance sheet date, to recover or to pay the recorded amount of our assets and liabilities. In determining deferred tax, the rate used is the one in effect or otherwise applicable on the balance sheet date. Recognized deferred tax assets are reduced to the recoverable

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amount that can be compensated against future expected profits.

In the first half of 2004, our provision for deferred income taxes amounted to a 70.6 million benefit and, in the first half of 2003, to a 31.2 million benefit. This difference is mainly explained by the fact that, in the first half of 2004, the deferred income tax relating to tariff deviations in the electricity distribution business in Portugal was in the form of a benefit amounting to 32.6 million, while in the first half of 2003, deferred income tax related to tariff deviation was a 6.2 million charge (tariff deviations in the first half of 2004 amounted to a 118.3 million expense and in the first half of 2003 to a 15.0 million income).

Consolidated net profit

As a result of the factors discussed above, our consolidated net income for the first half of 2004 increased 51.0% to 274.9 million from 182.0 million in the first half of 2003.

Years Ended December 31, 2003, 2002 and 2001

The following table sets forth our revenues by geography and activity for 2001, 2002 and 2003. For more information concerning our revenues, see note 26 to our audited consolidated financial statements.

	<u>Sales of Electricity</u>	<u>Other sales</u>	<u>Services rendered</u>	<u>Total</u>
	(millions of EUR)			
Year ended December 31, 2001				
Portugal				
Generation	1,277.9	12.4	14.6	1,294.9
Distribution and supply	3,282.5	1.6	19.9	3,304.1
Brazil				
Distribution and supply	690.5	0	0	690.5
Telecoms	0	30.9	157.0	187.9
Information technology	0	39.1	149.9	189.0
Services and other adjustments	(39.7)	13.9	9.7	(16.0)
EDP Group	5,201.3	98.0	351.1	5,650.4
Year ended December 31, 2002				
Portugal				
Generation	1,425.4	18.7	18.2	1,462.3
Distribution and supply	3,503.4	1.7	33.1	3,538.2
Spain				
Generation	145.1	2.5	0.8	148.3
Distribution and supply	150.1	7.6	6.3	164.0
Gas	0	10.5	1.1	11.5
Brazil				
Distribution and supply	668.6	0	0	668.6

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Telecoms	0	46.7	274.1	320.8
Information technology	0	35.5	188.5	224.0
Services and other adjustments	(16.5)	(11.2)	(123.5)	(151.2)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
EDP Group	5,876.2	112.0	398.4	6,386.6
Year ended December 31, 2003				
Portugal				
Generation	1,318.9	19.7	26.6	1,365.2
Distribution and supply	3,610.6	1.9	60.2	3,672.8
Spain				
Generation	256.8	2.0	1.1	259.9
Distribution and supply	287.7	28.9	12.4	329.0
Gas	0	75.9	10.1	86.0
Brazil				
Generation	27.4	2.3	11.5	41.3
Distribution and supply	929.0	0	37.6	966.6
Telecoms	0	7.3	323.8	331.1
Information technology	0	27.0	159.3	186.3
Services and other adjustments	(134.2)	(4.9)	(121.6)	(260.6)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
EDP Group	6,296.1	160.3	521.2	6,977.5

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The following table sets forth our operating costs and expenses and our results of operations as a percentage of total revenues:

	Year ended December 31,		
	2001	2002	2003
Total revenues	100%	100%	100%
Raw materials and consumables	54.5%	57.7%	56.2%
Personnel costs	10.5%	9.8%	9.3%
Depreciation and amortization	11.8%	11.6%	12.1%
Supplies and services	11.5%	10.6%	9.1%
Own work capitalized	(4.1)%	(3.8)%	(3.4)%
Concession and power-generation rental costs	2.6%	2.5%	2.5%
Provisions	2.1%	1.6%	1.1%
Other operating expenses (income)	(0.8)%	(0.1)%	0.1%
Total operating costs and expenses	88.1%	89.8%	87.0%
Operating margin	11.9%	10.2%	13.0%
Net interest and related expenses	3.6%	3.5%	5.1%
Other non-operating income / (expenses)	(2.2)%	2.2%	0.2%
Profit before tax	10.5%	4.5%	7.6%
Consolidated net profit	8.0%	5.2%	5.5%

Year Ended December 31, 2003 Compared with Year Ended December 31, 2002**Revenues**

Our total revenues in 2003 increased by 9.3% to 6,977.5 million from 6,386.6 million in 2002, due primarily to the increase in electricity sales, which in 2003 represented approximately 90.2% of our total revenues compared with 92.0% of total revenues in 2002. In 2003, revenues as well as the other items in our consolidated profit and loss account were affected by the proportional (40%) consolidation of Hidrocantábrico for twelve months, which in 2002 was proportionally consolidated for seven months, and the full consolidation of Escelsa and Enersul for twelve months, which in 2002 were equity consolidated for the first nine months and fully consolidated in the last quarter of the year. We have consolidated revenues from Hidrocantábrico in the amount of 662.5 million in 2003 and 321.4 million in 2002. Escelsa and Enersul contributed 435.8 million in 2003 and 100.8 million in 2002.

Sales of electricity. Our total electricity sales increased by 7.1% to 6,296.1 million in 2003 from 5,876.2 million in 2002 mainly due to the consolidation effects of Hidrocantábrico, Escelsa and Enersul noted above.

Electricity sales in Portugal from generation and distribution and supply activities, which represented 78.3% of our total consolidated electricity revenues, remained stable at 4,929.5 million in 2003 from 4,928.8 million in 2002, with the increase in electricity sales from distribution and supply activities being offset by a decline in electricity sales from generation activity.

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Electricity sales from our distribution and supply activities in Portugal increased 3.1% from 3,503.4 million in 2002 to 3,610.6 million in 2003 due to a 5.4% increase in the Portuguese electricity system demand from 36,931 GWh in 2002 to 38,916 GWh in 2003 and due to the fact that, in nominal terms, tariffs increased across all voltage levels by an average of 2.8% in 2003 from the 2002 levels. The 5.4% increase in electricity sales volume was primarily due to a 4.9% increase in low-voltage consumption, which occurred as a result of a cold winter and a particularly warm summer in 2003, as well as due to a 9.3% increase in very high-voltage and high-voltage consumption following an increase in the number of our industrial clients, after EDPD gained four large industrial clients. Electricity distribution in the PES decreased 3.1% to 34,868 GWh in 2003 from 35,973 GWh in 2002, whereas in the Non-Binding Sector, electricity distributed increased by more than fourfold to 4,048 GWh in 2003 from 958 GWh in 2002 due to the fact that some medium-voltage consumers opted to become Qualifying Consumers.

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Beginning with the new tariff regime in Portugal that became effective in 1999, tariffs are fixed by the regulator in advance of each year based in part on estimated data for variables such as demand and cost. If there are differences between the estimated data and the actual data during a period, an adjustment will be made to the tariff in a subsequent period to account for these differences. Our revenues include tariff adjustments that we calculate to estimate the portion of our revenues from electricity sales that should be deferred to a subsequent period to take account of data that the regulator will consider in setting tariffs. If actual costs and demand deviate from the estimated data, the revenues REN receives from electricity sales to EDPD will vary from the revenues allowable under the tariff regime. In the event actual revenues exceed the revenue level allowable, such as due to higher than estimated demand, REN is obligated, two years later, to compensate the PES for the excess. This compensation takes the form of a reduction in the amounts charged by REN to distributors such as EDPD in the PES. By contrast, if REN's actual revenues are less than the revenue level allowable, such as due to higher than estimated costs, REN will, two years later, be able to recover the shortfall through an increase in the amounts charged by REN to distributors such as EDPD in the PES. Any reduction or increase received by or charged to EDPD is fully passed through to the customer tariffs in the Binding Sector. There is also a tariff adjustment in respect of 1999, 2000 and 2001 reflecting the profit sharing mechanism in distribution relating to EDPD's selling and distribution activities, which is reflected in the customer tariffs two years later. For the 2002-2004 regulatory period, the profit sharing mechanism was eliminated. None of the accounting entries associated with tariff adjustments have an impact on our cash flow. For more information on the tariff adjustments, you should read note 39(p) to the audited consolidated financial statements.

In 2003, the aggregate tariff adjustment was 77.9 million. This figure includes a positive adjustment of 77.0 million from the 2003 tariff adjustment, a positive adjustment of 17.9 million from a revision made to the tariff adjustment of year 2002, a negative adjustment of 10.2 million from the 2002 tariff adjustment reposition and a negative adjustment of 6.7 million from the 2001 tariff adjustment reposition. In 2002, the aggregate tariff adjustment was 70.5 million. This figure includes a positive adjustment of 50.0 million relating to the application of the new tariff regulation in 2002, and a positive adjustment of 20.5 million relating to the 2000 tariff adjustment reposition.

Electricity sales from our generation activity in Portugal decreased 7.5% from 1,425.4 million in 2002 to 1,318.9 million in 2003. Approximately 89% of EDP Produção's generation revenues are based on long-term PPAs between each of its power plants and REN as the single buyer for the Portuguese PES. The PPAs include an energy charge component that remunerates EDP Produção's plants operating in the PES for fuel consumption incurred by producing electricity. Given that 2003 was a wet year, EDP Produção's thermal power plants were less utilized and we incurred lower fuel costs, resulting in lower revenues from the variable component of the PPAs that remunerate for fuel consumption.

Electricity sales in Spain increased to 542.2 million in 2003 from 295.1 million in 2002, primarily due to the proportional consolidation of Hidrocantábrico for twelve months in 2003 compared to seven months in 2002. Other factors that influenced this increase were higher electricity revenues in 2003 from Hidrocantábrico's supply activity that were partially offset by lower Spanish electricity pool prices during 2003.

Electricity sales in Brazil increased to 956.4 million in 2003 from 668.6 million in 2002, primarily due to the full consolidation of Escelsa and Enersul for twelve months in 2003 compared to three months in 2002. Other factors that influenced this increase were tariff revisions that affected our distribution companies in Brazil during 2003, namely a 14.68% average tariff increase for Bandeirante (as of October 22), a 17.30% average tariff increase for Escelsa (as of August 6) and a 32.59% average tariff increase for Enersul (as of April 8). These tariff increases were partially mitigated by the devaluation of the Brazilian real against the euro beginning in the first half of 2002.

Other sales. Our other sales activities, including sales of natural gas, steam, ash, information technology products, telecommunications equipment and sundry materials, generated revenues of 160.3 million in 2003 compared with 112.0 million in 2002, due primarily to the inclusion since August 2003 of gas sales of

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Naturcorp, which was proportionally consolidated in our accounts on the same basis as Hidrocantábrico. As a result, the contribution of the Spanish activities to the consolidated revenues from other sales activities increased to 105.3 million in 2003 from 20.1 million in 2002. This increase more than offset an 84.4% decrease in revenues from telecommunications equipment sales from 46.7 million in 2002 to 7.3 million in 2003, due to the completion of a major contract, and a 23.9% decrease in sales from our information technology activity from 35.5 million in 2002 to 27.0 million in 2003, due to a decrease in demand for IT solutions, as result of the economic slowdown that resulted in lower investments by corporations in information technology systems.

Services rendered. Our revenues from services increased to 521.2 million in 2003 from 398.4 million in 2002, due to the changes in EDP's consolidation of Hidrocantábrico, Escelsa and Enersul, as noted above, and increased sales by EDP Energia, Bandeirante and ONI. Activities generating these revenues include electricity-related services, services related to information technology systems, telecommunications, engineering, laboratory services, training, medical assistance, consulting, multi-utility services and other services. Revenues from services provided by the electricity activity in Portugal increased to 86.9 million in 2003 from 51.3 million in 2002, mainly due to an increase at EDP Energia resulting from the ongoing liberalization process in Portugal. Services provided in Spain by Hidrocantábrico contributed 6.2 million and 15.0 million in 2002 and 2003, respectively, following the proportional consolidation of Hidrocantábrico for twelve months in 2003. Our operations in Brazil contributed 49.1 million to our consolidated revenues from services in 2003, as a result of the full year consolidation of Escelsa and Enersul, as well as Bandeirante's contribution following the increased number of liberalized clients in its concession area that have to pay for the use of Bandeirante's distribution grid. The 18.2% increase in telecommunications services to 323.8 million in 2003 from 274.1 million in 2002 resulted from higher voice telecommunications services provided by ONI. Information technology activity revenues from services provided declined 15.5% from 188.5 million in 2002 to 159.3 million in 2003, due primarily to the Portuguese economic slowdown in 2003.

Operating costs and expenses

Our total operating costs and expenses increased by 5.8% to 6,071.8 million in 2003 compared to 5,737.9 million in 2002, mainly due to the consolidation effects already mentioned above relating to Hidrocantábrico, Escelsa and Enersul. These consolidation effects more than offset lower fuel costs at EDP Produção, following a wet year in which thermal generation was reduced in favor of hydro power, lower operating costs at Bandeirante associated with the depreciation of the Brazilian real against the euro beginning in June 2002, and lower costs at ONI, primarily as a result of the cost-cutting program and a reduction in the number of employees.

Hidrocantábrico's contribution to our total operating costs and expenses in 2003 totaled 580.3 million compared to 283.3 million in 2002 (seven months of proportional consolidation), while Escelsa and Enersul contributed 372.9 million in 2003 compared to 85.6 million in 2002 (three months of full consolidation). In addition, total operating costs at Hidrocantábrico reflect the consolidation of five months of Naturcorp in 2003 and the start of Castejón CCGT's operations in October 2002.

As a percentage of revenues, total operating costs and expenses decreased to 87.0% in 2003 from 89.8% in 2002 due primarily to lower costs of purchased electricity and fuel.

Raw Materials and Consumables. The major components of our raw materials and consumables are the costs of purchased electricity, fuel costs and costs of other materials. Our raw materials and consumables costs increased 6.3% to 3,921.1 million in 2003 from 3,687.1 million in 2002 due to the consolidation of Hidrocantábrico, Escelsa and Enersul, as noted above. These consolidation effects more than offset lower fuel costs at EDP Produção, following a reduction in use of thermal generation due to a wet year, and a decrease in the cost of sales of telecommunications equipment.

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Our costs of purchased electricity increased 11.8% to 3,360.3 million in 2003 from 3,005.5 million in 2002, due to the consolidation effects of Hidroantábriico, Escelsa and Enersul, as noted above.

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Generation and distribution and supply activities in Portugal represent 73.7% of our costs of purchased electricity. Electricity purchases from generation in Portugal increased 28.1 million in 2003 to 65.3 million due to an increase in electricity purchases of small hydro producers operating in the Non-Binding Sector as these producers are allowed to acquire energy up to their installed capacity in order satisfy energy procurements of the Non-Binding Sector. Our costs of purchased electricity in distribution and supply activity in Portugal primarily include purchases made by EDPD from REN, as well as purchases from private generators and small independent producers. The energy that EDPD purchases from REN is supplied to the binding sector. In 2003, electricity purchases increased 1.1% to 2,412.5 million in 2003 from 2,386.4 million in 2002, mainly due to a 4% increase in the average tariff charged on power purchases from REN, offset by a 3.1% decrease in the Portuguese binding system electricity consumption. For more information on these purchases of electricity, you should read Information on the Company Portugal Electricity System Overview The Independent Electricity System and Competition.

Costs of purchased electricity in Spain by Hidroantábrico represented 358.2 million in 2003 compared with 154.1 million in 2002. This increase is mostly due to consolidation effects. In addition, in 2003, Hidroantábrico's costs of purchased electricity reflect the first time consolidation of five months of Naturcorp in 2003 and the start of Castejón CCGT's operations in October 2002.

Costs of purchased electricity in Brazil increased 34.9% in 2003 to 656.5 million from 486.5 million. This increase is primarily due to the consolidation of Escelsa and Enersul, as noted above. In 2003, Escelsa and Enersul contributed 251.1 million compared with 57.5 million in 2002. Costs of purchased electricity at Bandeirante decreased 16.8% to 357.0 million in 2003 from 429.1 million in 2002, mainly due to the depreciation of the Brazilian real against the euro.

Our fuel, steam and ashes costs decreased 14.5% to 398.0 million in 2003 from 465.5 million in 2002. In 2003, fuel costs from generation in Portugal represented 78.5% of our fuel costs and decreased 32.9% to 312.3 million from 465.5 million in 2002. This decrease in fuel costs reflects a decline in fuel utilization by EDP Produção associated with a lower use of thermal generation due to a wet year. In order to account for the variability of hydrological conditions in Portugal and its impact on the fuel costs, EDP uses the Hydrological correction account, or hydro account. The hydro account is an accounting mechanism we established pursuant to Portuguese law. The purpose of this account is to smooth the short-term effect on our earnings and customer prices that result from changes in hydrological conditions. In years with favorable hydrological conditions, there is an increase in hydroelectric generation and a decrease in variable costs of thermal generation. Conversely, in years with unfavorable hydrological conditions there is a decrease in hydroelectric generation and our expenditures on fuel and electricity imports increase substantially and the variable costs of thermal generation increase accordingly. We cannot modify the tariff we charge to take into account the changes in variable costs incurred due to hydrological conditions. In order to reduce major distortions in operating results due to changing hydrological conditions, the hydro account is reinforced in years of favorable hydrological conditions with a corresponding operating charge in the income statement, thereby eliminating the overstatement of its net income. In years of less favorable hydrological conditions we use the hydro account (with a corresponding credit to operating income) so as to reduce the negative impact on our net income arising from the increased expenditures on fuel and electricity imports. These upward or downward adjustments to the hydro account are made based upon the economic reference cost calculated on the basis of an average hydrological year.

Prior to REN's sale, all of the movements relating to the hydro account were considered as being of a non-cash nature on the grounds that they were made (in accounting terms) in our consolidated financial statements as an expense recorded to the hydro account in favorable hydrological years and as an income recorded to the hydro account in less favorable hydrological years. Following the sale of REN, cash movements take place between REN and us for reinforcing or drawing against the hydro account that, after REN's separation, is still carried on our balance sheet. At December 31, 2003 the hydro account amounted to 387.5 million, an increase of 63.4 million, which includes 71.9 million charged to REN. In 2002, the hydro account decreased by 63.4 million to 324.1 million. This difference was primarily a result of 2003 having been an exceptionally wet year (hydro

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coefficient of 1.33), while 2002 was a dry year (hydro coefficient of 0.76). To learn more about the effect of hydrological conditions on our business, you should read Information on the Company Portugal Generation.

The Portuguese government determines the level of reference of the hydro account based upon the least favorable period of hydrological conditions during the previous 30 years. In doing so, the government determines an amount expected to be adequate to withstand unfavorable hydrological conditions that may occur in the future. The government has determined that the hydro account must not exceed the level of reference. The level of reference of the hydro account was 387.5 million for 2003, 2002 and 2001. In 2003, the hydro account exceeded the reference level causing us to record the excess 19.4 million under non-operating income. In 2002, the hydro account did not exceed the reference level, hence we did not record an excess in non-operating income in 2002.

We record as an annual expense deemed interest credited to the hydro account corresponding to the average interest rate paid on our euro-denominated borrowings for the applicable year. The method of accounting for this deemed interest did not change with the sale of REN. For more information on the hydro account, you should read notes 2(p) and 21 to our audited consolidated financial statements.

Fuel costs in Spain at Hidrocantábrico amounted to 85.5 million in 2003 compared to 39.3 million in 2002, primarily due to the consolidation effects as noted above. In addition, fuel costs at Hidrocantábrico reflect the start of operations of Castejón's CCGT power plant (October 2002) noted above.

The major components of our costs for other materials are the costs of cables, meters, transformers and other goods for resale, included under the item Raw materials and consumables Other materials. These costs decreased to 162.7 million in 2003 from 216.0 million in 2002. A majority of these costs are credited to Own work capitalized and the remainder is applied to maintenance of the transmission and distribution networks. See Own work capitalized.

Costs for other materials from generation, distribution and supply activities in Portugal represent 70.5% of our costs for other materials. Costs of materials from our generation activity in Portugal decreased 21.1% in 2003 to 3.5 million. Regarding our distribution and supply activities in Portugal, these costs increased 39% to 111.3 million in 2003 from 80.1 million in 2002 because 2002 costs with materials were lower than normal due to stocks write-offs.

Costs of other materials in Spain from Hidrocantábrico increased 4.1 million to 6.3 million in 2003 compared with 2.2 million in 2002. This increase is the result of the consolidation effects noted above.

Costs from other materials in Brazil increased 6.2 million to 10.2 million in 2003 from 4.0 million in 2002. This increase is the result of the above mentioned consolidation effects of Escelsa and Enersul. In 2003, Escelsa and Enersul contributed 5.9 million to our costs with other materials, compared with 1.1 million in 2002.

Cost of sales for telecommunications decreased 46.8 million in 2003 to 6.6 million from 53.4 million in 2002, following the shut down of UMTS operations in December 2002. In addition, the decrease in the cost of sales reflects the completion of a major equipment supply contract in 2002.

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Raw materials and consumables relating to our information technology activities decreased 22.7% to 24.5 million in 2003 from 31.6 million in 2002, partially reflecting the economic slowdown of the Portuguese economy that, as mentioned above, affected the information technology revenues.

Personnel costs. Personnel costs, which consist mainly of wages and salaries and social security and pension fund contributions, increased 3.5% in 2003 to 646.6 million from 624.8 million in 2002, mainly as a result of the consolidation changes noted above.

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Personnel costs in the Portuguese electricity business increased 3.5% to 517.4 million in 2003 from 500.1 million in 2002 following the 2.7% average salary increase. As a percentage of total personnel costs, electricity business in Portugal remained stable in 2003 and 2002 at 80%. Personnel costs in generation in Portugal increased 0.7% to 120.3 million in 2003 from 119.6 million in 2002 as a result of an increase in average salaries, partially offset by a reduction of 111 employees toward the end of 2003. Personnel costs in distribution and supply increased 4.3% to 397.1 million in 2003 from 380.6 million in 2002 reflecting the increase of pension premiums and the average salary increase.

In Spain, personnel costs at Hidroantabrico were 37.1 million in 2003 compared to 18.3 million in 2002. This increase is primarily due to the proportional consolidation of twelve months in 2003 compared to seven months in 2002. Additionally, the inclusion of Naturcorp in Hidroantabrico's accounts since August 2003 also contributed to this increase.

Personnel costs in Brazil increased 61.6% to 64.0 million in 2003 from 39.6 million, primarily due to the full consolidation of Escelsa and Enersul for twelve months in 2003 compared to three months in 2002. In addition, the average salary increase in our Brazilian subsidiaries was approximately 10%, which also contributed to the increase. However, both of these effects were partly offset by the strong depreciation of the Brazilian real against the euro beginning in June 2002.

Personnel costs in our telecommunications activities decreased 43.2% to 51.0 million in 2003 from 89.7 million in 2002, reflecting the discontinuation of the UMTS project toward the end of 2002 and the reduction in the number of employees achieved primarily at the fixed line business in Portugal.

Personnel costs in our information technology activities decreased 12% to 66.4 million in 2003 from 75.5 million in 2002, due to the ongoing staff restructuring process and successful wage negotiations.

Depreciation and amortization. Depreciation and amortization in 2003 increased to 845.6 million from 739.5 million in 2002, primarily due to the consolidation changes noted above.

Depreciation and amortization charges in the Portuguese electricity business increased 3.8%, or 21.4 million, to 583.3 million in 2003 from 561.9 million in 2002 (and as a percentage of our total depreciation and amortization charges, it decreased 69.0% in 2003 compared to 76.0% in 2002). Depreciation and amortization charges in generation increased 2.7% to 234.4 million in 2003 from 228.2 million in 2002. Depreciation and amortization in distribution and supply activities increased 4.6% to 348.9 million in 2003 from 333.6 million in 2002, due to the transfer of an information technology system from our information technology services provider company, EDINFOR, to EDPD and greater investments made in the distribution network.

In Spain, Hidroantabrico's contribution to our depreciation and amortization charges increased to 60.1 million in 2003 from 26.9 million in 2002, primarily due to the proportional consolidation of Hidroantabrico for twelve months in 2003 compared to seven months in 2002. In addition, the inclusion of Naturcorp since August 2003 and the depreciation of the investment made in Castejon CCGT since October 2002 also contributed to this increase.

Depreciation and amortization charges in the Brazilian electricity business increased to 58.3 million in 2003 from 34.2 million in 2002 mainly due to the full consolidation of Escelsa and Enersul for twelve months in 2003 compared to three months in 2002. This increase was partly offset by the depreciation of the Brazilian real against the euro.

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Depreciation and amortization charges relating to telecommunication activities increased 8.8% to 72.7 million in 2003 from 66.9 million in 2002 as a result of the acquisition in Spain of cable access rights, primarily during 2002, and the investments made in Portugal in connection with the expansion of the network in 2002 and the acquisition of direct access infrastructure.

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In 2003, depreciation and amortization charges relating to information technology activities increased 28.4% to 24.3 million from 18.9 million in 2002, primarily due to the IT project ISU/Communications that began depreciating in 2003.

Supplies and services. These costs consist of supplies and services provided to us by external suppliers, and include external maintenance and repairs, specialized services, communication, rents, insurance and other services. External maintenance and repairs consists of work on our power plants, substations and transmission and distribution networks that we subcontracted to others. Other specialized services include technical services such as auditing, legal, consulting, and revenue collection. Communication services include telecommunications, postal, delivery and courier services. The cost of these external supplies and services decreased 6.3% to 632.5 million in 2003 from 675.1 million in 2002.

Supplies and services in the Portuguese electricity business increased 1.2% to 285.6 million in 2003 from 282.1 million, and as a percentage of our total supplies and services it increased to 45.2% in 2003 from 41.8% in 2002. Supplies and services relating to generation activity increased 2.0 million to 75.0 million in 2003, benefiting from a reduction in insurance costs, steady maintenance costs and tighter management discipline. Supplies and services relating to distribution and supply activity increased 0.7% to 210.6 million in 2003 due to the transfer of services, which were being performed internally by EDPD, to our shared services company, EDP Valor. This effect was offset by a decrease in maintenance costs due to both the renegotiation of contracts, which are no longer on a retainer basis, and a more efficient use of internal resources.

Supplies and services costs relating to Hidroantábrico decreased to 33.4 million in 2003 from 41.1 million in 2002, primarily due to the fact that in 2002 the electricity transmission and distribution tariffs paid by Hidroantábrico's supply unit were accounted under supplies and services, while in 2003 these tariffs started to be accounted under purchases of electricity.

Supplies and services relating to the electricity business in Brazil increased to 62.2 million in 2003 from 36.0 million in 2002 mainly due to the full consolidation of Escelsa and Enersul for twelve months in 2003 against three months in 2002. In addition, the full operations of the hydro power plant Lajeado beginning in November 2002 and the complete year of the cogenerator Fafen, also contributed to this increase.

Supplies and services in our telecommunications activities decreased 9.7% to 265.3 million in 2003 from 293.7 million in 2002 primarily due to the cost-cutting program. The major savings were in advertising costs, specialized works and fixed network costs.

Supplies and services related to our information technology activities decreased 6.7% to 70.1 million in 2003 from 75.1 million in 2002, mainly as a result of the effect of economic slowdown in the information technology business and the transfer of an information technology asset to our Portuguese electricity distribution unit.

Own work capitalized. Own work capitalized consists of amounts that correspond to costs related to our costs of personnel and materials and other external supplies and services incurred for projects under construction that are capitalized and will be amortized in future periods. These amounts generally consist of consumption of materials, direct internal costs, general administrative overheads and financial charges. Own work capitalized decreased 2.5% to 235.6 million in 2003 from 241.8 million in 2002.

Own work capitalized in the Portuguese electricity business represented 94.7% in 2003 of our total own work capitalized (against 77.7% in 2002). In 2003, it increased 18.7% to 223.0 million from 188.0 million in 2002. Own work capitalized in our generation activity in Portugal increased to 38.2 million in 2003 from 26.2 million in 2002 following the investments in TER CCGT and Venda Nova II hydro power plant.

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Own work capitalized in the distribution and supply activities in Portugal increased 14.2% to 184.8 million in 2003 from 161.8 million in 2002 primarily due to higher investments in the distribution grid.

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In 2003 and 2002 Hidrocontábrico contributed 4.0 million and 2.7 million to own work capitalized, respectively, primarily due to the proportional consolidation of twelve months in 2003 compared to seven months in 2002.

Own work capitalized in our telecommunication activities was almost non-existent in 2003 compared to 30.2 million accounted for in 2002. The 2002 figure is related to the UMTS project, which was discontinued by the end of 2003.

Own work capitalized relating to information technology decreased 33.5% to 8.4 million in 2003 due to the fact that 2002 figures reflect the capitalization of costs on the development of an information technology system for EDPD, that was completed in the end of 2002.

A table setting forth the components of own work capitalized for the past three years is provided in note 30 to our audited consolidated financial statements.

Concession and power-generation rents. Concession and power-generation rental costs, which consist mainly of rents paid by EDPD to municipalities for concessions to distribute low-voltage electricity, increased to 175.6 million in 2003 from 158.2 million in 2002. The amount of rents payable to municipalities for concessions is set by government regulation and is based on the amount of low-voltage electricity consumed in the respective municipal areas each year. The 11.0% increase in concession and power-generation rental costs between 2002 and 2003 is primarily due to the increase in the average concession fee paid by our generation activity to the Portuguese municipalities, from 7.00% to 7.25% of previous year's sales, and the 6.3% increase in low-voltage, special low-voltage and public lighting sales.

Provisions. Provisions decreased to 75.7 million in 2003 from 100.6 million in 2002, primarily due to a decrease in provisions for doubtful accounts charges and healthcare liabilities provision charges. This line item is discussed in note 31 to the audited consolidated financial statements.

We systematically record the provision for doubtful accounts receivable from third parties and municipalities based on the age of the receivables and our collection history. We do not record a provision with respect to accounts receivable from other public entities since historically we have not experienced a problem in collecting these receivables. Accounts receivable are written off when a customer is declared bankrupt by a court of law because we receive the tax benefit of the write-off only when the customer is actually declared bankrupt. Consequently, we have a significant amount of accounts receivable that are fully provided for but have not been written-off. For more information on this provision, you should read note 39(h) to the audited consolidated financial statements.

Until the end of 2002, increases in provisions for doubtful accounts were reflected in our consolidated statements of income in the line item Provisions and were included in the determination of operating income, while decreases were included in the line item Other non-operating expenses (income), net below the operating income. Beginning in 2003, at the electricity distribution activity in Portugal, both increases and decreases in provisions for doubtful accounts are included in the line item Provisions.

Provisions in the Portuguese electricity business decreased to 55.5 million in 2003 from 76.9 million in 2002 (and as a percentage of our total provisions, it decreased 73.4% in 2003 compared to 76.4% in 2002). Provisions in generation increased 1.1 million to 12.7 million in 2003. Provisions in distribution and supply activities decreased to 42.8 million in 2003 from 65.3 million in 2002, due to the accounting of the provision decreases in this line item since 2003, at the distribution business level, as noted above.

Other operating expenses/(income). This item includes primarily taxes other than income taxes and other operating income (net), which decreased to a 10.3 million expense in 2003 from 5.7 million income in 2002. This decrease is partly related to other operating expenses in Brazil, which increased to 18.6 million in 2003

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from 6.3 million in 2002 due to the regulatory contributions to the Energy Development Account in 2003, as well as the full consolidation of Escelsa and Enersul for twelve months in 2003 compared to three months in 2002. The Energy Development Account was created in Brazil largely to promote the competitiveness of some generation technologies, including wind farms, small hydro plants, biomass plants and thermal facilities using natural gas and domestic mineral coal.

Operating margin

As a result of the factors discussed above, our operating margin increased 39.6% to 905.7 million in 2003 from 648.7 million in 2002. Operating margin from our core electricity business in Portugal increased 12.5% to 731.7 million in 2003 from 650.3 million in 2002, primarily due to a successful costs control program. In Spain, Hidroantábrico contributed 82.2 million to our consolidated operating margin in 2003 compared to 38.1 million in 2002. In addition to the changes in consolidation noted above, Hidroantábrico benefited from the first-time consolidation of Naturcorp. Operating margin from Brazilian electricity activities increased 65.4 million to 126.8 million in 2003. This increase is partly due to the changes in consolidation related to Escelsa and Enersul noted above. These companies contributed 62.8 million to our operating margin in 2003 compared to 15.2 million in 2002. In addition, Brazilian electricity activities benefited from tariffs increases and recovery in Brazilian consumption. Operating margin from telecommunication activities improved by 86.2 million to a 68.7 million loss in 2003 from a 154.8 million loss in 2002, due to the discontinuation of UMTS operations, an increase in voice traffic, lower interconnection costs and rigorous cost cutting. Operating margin from information technology activities decreased 26.3 million to 9.3 million in 2003 from 35.6 million in 2002 due to the slowdown of the Portuguese economy.

Interest and related income/(expenses), net

Our net interest and related income/(expenses) consist of interest and related income and interest and related expenses. These net expenses increased to 359.0 million in 2003 from 222.8 million in 2002 (and increased as a percentage of our total revenues to 5.1% in 2003 compared to 3.5% in 2002). This variation was mainly influenced by the consolidation changes noted above. Hidroantábrico contributed a 62.4 million net expense in 2003 compared to a 37.7 million net expense in 2002, reflecting the 40% proportional consolidation of Hidroantábrico since June 2002. From January until May 2002, we accounted for 5.4 million income from the application of the equity method in respect of Hidroantábrico. Escelsa and Enersul contributed a 8.8 million income in 2003 compared with a 37.3 million income in 2002, reflecting full consolidation of the Escelsa and Enersul since October 2002. This was offset by a 102.9 million expense from the application of the equity method in respect of Escelsa and Enersul, which we accounted for in the period from January to September 2002.

During 2002, we recognized 56.4 million of positive foreign exchange differences on U.S. dollar assets that we acquired for the sole purpose of covering foreign exchange differences on the U.S. dollar debt of our Brazilian subsidiaries. By the end of 2002, we used these U.S. dollar assets in the purchase of approximately 83% of Escelsa's U.S. dollar bond issue. These Escelsa bonds were acquired at below par value, resulting in an 89.2 million financial gain. In 2003, we recognized negative foreign exchange differences of 65.0 million in respect of the Escelsa bonds as a result of the Brazilian real's increase in value against the U.S. dollar.

Net expense from interest on debt increased due to the consolidation changes and to the financial gain registered on Escelsa bonds in 2002, as noted above. This increase was partly offset by lower interest rates associated with our debt in 2003.

Contributions from equity method investees were positively influenced in 2003 as a result of higher contributions from REN and CEM. Investment income decreased 8.2% to a 36.7 million income in 2003 from a 40.0 million income in 2002, due to lower dividends received from BCP.

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Amortization of investments (goodwill) increased as a result of the consolidation changes, the acquisition of Naturcorp by Hidrocantábrico and, for the first time in 2003, amortization of a client portfolio acquired by Comunitel.

Other non-operating income/(expenses)

We had other non-operating expenses of 14.4 million in 2003, compared to other non-operating expenses of 138.9 million in 2002 (which reflected ONI Way's write-off), primarily due to a 56.7 million expense in 2003 related to non-operating provisions net of provision utilizations and a 47.8 million expense associated to costs with human resources rationalization in Portugal. These losses in 2003 were partially offset by non-operating income of 79.8 million related to the reversal of depreciation of fixed assets that were funded by third parties, mostly related to our Portuguese electricity distribution activity, and 19.4 million related to the hydrological correction mechanism explained above (we did not record such income in 2002).

We recorded a net expense of 56.7 million in 2003 related to non-operating provisions net of provision utilizations compared with a net income of 58.1 million recorded in 2002. The net expense recorded in 2003 reflects a 114.7 million provision for financial assets in order to cover for contingencies and possible devaluations in Brazil and Cape Verde and 72.5 million income related to the reduction of provisions for financial assets and other risks and contingencies. For more information on non-operating provisions net of utilizations you should read note 34 to the audited consolidated financial statements.

An income item of 79.8 million was registered in 2003, compared to 71.8 million in 2002, for the portion of depreciation due primarily to new electricity connections made in prior years that were financed largely with customer payments. We record the amount of these payments initially as deferred income and as the assets are depreciated over 30 years, a portion of the amount is taken into income and offset by a corresponding depreciation charge.

As the primary supplier of low-voltage electricity in Portugal, we have in the past been obliged to provide electricity to municipalities for street lighting and other public buildings even in situations where the recipient municipalities were not paying their bills on a timely basis. Although we have not encountered significant collection problems in recent years, prior to 1988 collection problems were encountered with certain municipalities and we still have on our books receivables from municipalities related to electricity and other services provided prior to 1988. These receivables consist of amounts receivable from a small number of municipalities that have not signed a concession agreement with us and with which a payment plan has not been agreed and amounts receivable from municipalities that have signed a concession agreement and have agreed to a deferred payment plan.

Provision for income taxes

Our provision for income taxes is determined on the basis of the estimated taxable income for the period. Income taxes provided for in 2003 were 239.3 million compared with 171.2 million in 2002. The reference income tax rate in Portugal was 30% in 2003 and 2002, compared with 32% in 2001. In addition, a municipal surcharge of up to 10% of the base rate is typically levied by the municipality in which the income is earned. Our effective tax rate is different from the reference income tax in Portugal each year due to permanent differences arising mainly from amortization of the goodwill and concession rights, amortization resulting from revaluation of fixed assets and tariff deviations in the electricity business that are not deductible for income tax purposes. Our effective tax rate was 44.8% in 2003, compared with 59.7% in 2002. The effective tax rate in 2003 reflects impairment charges relating to Brazil that were not tax deductible while the 2002 effective tax rate reflects higher charges relating to the write-off of our investment in ONI Way that were not tax deductible. For more information on provision for income taxes, you should read note 35 of our audited consolidated financial statements.

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Provision for deferred income taxes

Deferred income taxes are recognized in our audited consolidated financial statements in accordance with International Accounting Standard 12. Our provision for deferred income tax is determined, using the balance sheet liability method, on the temporary differences between the book values of assets and liabilities and their respective taxable bases. The taxable base of assets and liabilities is determined so as to reflect the consequences of taxation resulting from the way in which we expect, on the balance sheet date, to recover or to pay the recorded amount of our assets and liabilities. In determining deferred tax, the rate used is the one in effect or otherwise applicable on the balance sheet date. Recognized deferred tax assets are reduced to the recoverable amount that can be compensated against future expected profits. In 2003, our provision for deferred income taxes amounted to a 43.7 million benefit, whereas in 2002 the provision for deferred income taxes amounted to a 0.6 million charge. This difference is mainly explained by the fact that in 2002 we booked the deferred tax effect of a charge, in the amount of 29.6 million, related to the capital gain arising from the acquisition of the Escelsa U.S. dollar bonds below par value; and we also experienced a 5.6 million decrease in the deferred income tax charge related to tariff deviations in the electricity business in Portugal. This difference is also explained by the fact that in 2003 we booked the deferred tax effect of a benefit, in the amount of 8.3 million, related to an extraordinary provision for the investments in Brazil and Cape Verde and associated contingencies.

Consolidated net profit

As a result of the factors discussed above, our consolidated net income for 2003 increased 13.7% to 381.1 million from 335.2 million in 2002.

Year Ended December 31, 2002 Compared with Year Ended December 31, 2001

Revenues

Our total revenues in 2002 increased by 13% to 6,386.6 million from 5,650.4 million in 2001, due primarily to the beginning of the proportional (40%) consolidation of Hidroantábrico (since June 2002) and the full consolidation of Escelsa and Enersul (last three months of 2002). These companies were equity consolidated in 2001. Electricity sales represented approximately 92.0% of our total revenues in 2002 compared with 92.1% of total revenues in 2001.

Sales of electricity. Our total electricity sales in 2002 increased by 13.0% to 5,876.2 million from 5,201.3 million in 2001 mainly due to the consolidation effects mentioned above related to Hidroantábrico, Escelsa and Enersul and to higher sales from our Portuguese electricity activities.

Electricity sales in Portugal from generation and distribution and supply activities, which represented 83.9% of our total consolidated electricity revenues, increased 8.3% to 4,928.8 million in 2002 from 4,550.5 million in 2001.

Electricity sales revenues from our distribution and supply activities in Portugal increased 6.7% from 3,282.5 million in 2001 to 3,503.4 million in 2002, primarily due to a 2.5% increase in the Portuguese electricity system demand to 36,931 GWh in 2002 from 36,025 GWh in 2001. The

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2.5% increase in the Portuguese system demand was mainly due to a normal 3.1% increase in low-voltage consumption. Electricity distribution in the PES increased 1.3% to 35,973 GWh in 2002 from 35,505 GWh in 2001, whereas in the Non-Binding Sector, electricity distribution almost doubled to 958 GWh in 2002 from 520 GWh in 2001 due to the fact that some medium-voltage consumers opted to become Qualifying Consumers.

In 2002, the aggregate tariff adjustment was 70.5 million. This figure includes an adjustment of 50 million relating to the application of the new tariff regulation in 2002 and an adjustment of 20.5 million relating to the 2000 tariff adjustment reposition. In 2001, the aggregate tariff adjustment was 42.2 million. This figure includes an adjustment of 35.5 million relating to the sharing of EDPD's 1999 profit that is reflected in 2001 tariffs, and an adjustment of 6.7 million relating to a partial recovery of EDPD's 2001 profit as actual revenues were below those estimated in the fixing of 2001 tariffs.

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Electricity sales from our generation activity in Portugal increased 12.4% from 1,267.9 million in 2001 to 1,425.4 million in 2002. Approximately 93% of EDP Produção's generation revenues in 2002 were based on long-term PPAs between each of its binding system power plants and REN as the single buyer for the PES. The PPAs include an energy charge component that remunerates EDP Produção's plants operating in the PES for fuel consumption incurred in the production of electricity. Given that 2002 was a dry year when compared with 2001, EDP Produção's thermal power plants were more utilized, resulting in higher fuel consumption and thus higher revenues from the variable component of the PPAs.

The incorporation of seven months of electricity sales from Hidrocontábrico (40%) in 2002 amounted to 295.1 million. Electricity sales in Brazil increased to 668.6 million in 2002 from 690.5 million in 2001, reflecting the beginning of the consolidation of Escelsa and Enersul in 2002 (last three months of 2002), that mitigated the effect on Bandeirante's accounts of the real devaluation against the euro.

Other sales. Our other sales activities, including sales of steam, ash, information technology products, telecommunications equipment, fixed property and sundry materials, generated revenues of 112.0 million in 2002 compared with 98.0 million in 2001. Apart from the impact of the initial consolidation of Hidrocontábrico, which accounted for an extra 20.0 million in 2002, the biggest contributor to this line item was our telecommunications activities, which other sales increased 51.3% from 30.9 million in 2001 to 46.7 million in 2002, as ONI supplied equipment under a major contract. Other sales also include other sales from our generation activity in Portugal that increased 50.9% to 18.7 million in 2002 from 12.4 million in 2001 mainly due to Energin, a cogenerator that sells electricity and steam and that began industrial service in late 2001.

Services rendered. Our revenues from services increased 13.5% to 398.4 million in 2002 from 351.1 million in 2001. The primary reason for this increase was the increased contribution of our telecommunication subsidiaries due to a significant growth of both voice and data services that benefited from the gradual liberalization of short-distance calls (local traffic) in Portugal and from a significant growth in ISP traffic, respectively. The increase in revenues from services provided relating to our information technology activities was due to the continued participation of EDINFOR Group companies in the development and installation of SAP-related projects. Revenues from services provided by the electricity activity in Portugal increased 48.7% in 2002 to 51.3 million from 34.5 million in 2001, mainly due to an increase at EDP Energia resulting from the ongoing liberalization process in Portugal. Services provided in Spain by Hidrocontábrico contributed 6.2 million in 2002, following its initial seven-month 40% proportional consolidation of the company.

Operating costs and expenses

Our total operating costs and expenses amounted to 5,737.9 million in 2002, up 15.3% from 4,976.8 million in 2001. This increase was due to the consolidation of Hidrocontábrico, Escelsa and Enersul for the first time in 2002 and to higher electricity purchases from our Portuguese electricity distribution and supply activities.

Hidrocontábrico contributed 283.3 million in 2002 (seven months at 40% proportional consolidation), while Escelsa and Enersul contributed 85.6 million in 2002 (three months full consolidation).

In addition to consolidation effects relating to Hidrocontábrico, Escelsa and Enersul, the increase in total operating costs and expenses resulted from higher fuel costs at EDP Produção, following a dry year in which hydro generation was reduced in favor of thermal power, higher electricity purchases at EDPD, due to an increase in electricity demand, and higher costs at ONI due to an increase of the company's activity in 2002. These effects more than offset Bandeirante's lower operating costs that resulted from the Brazilian real depreciation against the euro.

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As a percentage of revenues, total operating costs and expenses increased to 89.8% in 2002 from 88.1% in 2001 due primarily to the increased costs of purchased electricity and fuel.

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Raw Materials and Consumables. Our raw materials and consumables costs increased by 19.8% to 3,687.1 million in 2002 from 3,078.9 million in 2001, due primarily to increased costs of purchased electricity. Raw materials and consumables in 2002 include contributions of 195.6 million from Hidrocantábrico and 58.6 million from Escelsa and Enersul, in addition to higher fuel costs, resulting from increased utilization of thermal generation, and to higher electricity purchases.

Our costs of purchased electricity increased 19.1% to 3,005.5 million in 2002 from 2,524.3 million in 2001 due to the initial consolidation of Hidrocantábrico, Escelsa and Enersul and to higher costs of electricity purchases from our distribution and supply activities, following an increase of the average tariff charged on power purchased from REN.

Costs of purchased electricity from our generation and distribution and supply activities in Portugal represent 81% of our total electricity purchases in 2002.

Costs of purchased electricity from our generation activity in Portugal increased 33.6 million to 37.3 million in 2002 due to an increase in electricity purchases by small hydro power plants operating in the Non-Binding Sector as 2002 was a dry year and these producers are permitted to purchase electricity, up to their installed capacity, in order to satisfy electricity procurements in the Non-Binding Sector.

Costs of purchased electricity from our distribution and supply activities increased 15.8% to 2,386.4 million in 2002 from 2,060.3 million in 2001 due both to a 13.6% increase in the average tariff charged on electricity purchased from REN, resulting from an increase in fuel prices, and a 2.5% increase in electricity consumption. For more information on these purchases of electricity, you should read Information on the Company Portugal Electricity System Overview The Independent Electricity System and Information on the Company Portugal Competition.

In Spain, cost of purchased electricity at Hidrocantábrico, which was fully consolidated for the first time in 2002, amounted to 154.1 million.

Electricity purchases in Brazil decreased 2.2% to 486.5 million in 2002 from 497.4 million in 2001. Escelsa and Enersul, which were fully consolidated for the first time in 2002, contributed 57.5 million to electricity purchases in Brazil in 2002. The decrease in electricity purchases in Brazil in 2002 partly resulted from the depreciation of the Brazilian real against the euro.

Our fuel costs increased by 23.4% to 465.5 million in 2002 from 377.2 million in 2001, reflecting, on the one hand, the general rise in fuel prices, the effects of which were felt to a lesser extent in 2001, and, on the other hand, higher fuel utilization associated with a greater use of thermal generation due to a dry year. Consequently, there was an increase in fuel oil (which is more expensive than coal) in the fuel consumption mix. In 2002, the hydro account decreased by 63.4 million to 324.1 million, which decrease includes 76.1 million charged by REN. In 2001 the hydro account increased by 22 million to 387.5 million. This difference was primarily a result of 2002 having been a dry year (hydro coefficient of 0.76), while 2001 was a wet year with a (hydro coefficient of 1.19). To learn more about the effect of hydrological conditions on our business, you should read Information on the Company Portugal Generation.

The level of reference of the hydro account was 387.5 million for 2002, 2001 and 2000. In 2002, the hydro account did not exceed the reference level, hence we did not record the excess in non-operating income in 2002. In 2001, the hydro account exceeded the reference level, causing a surplus of 47.5 million that was recorded by us as non-operating income in 2001.

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In 2002, Hidrocontábrico s fuel costs totaled 39.3 million, following the initial 40% proportional consolidation of the company.

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The major components of our costs for other materials are costs of cables, meters, transformers and other goods for resale, included under the item Raw materials and consumables Other materials. These costs increased 21.8% to 216.0 million in 2002 from 177.4 million in 2001. A majority of these costs are credited to Own work capitalized and the remainder is applied to maintenance of the transmission and distribution networks. See Own work capitalized.

Costs for other materials from generation, distribution and supply activities in Portugal represent 39.1% of our costs for other materials. Costs for other materials from our generation activity in Portugal increased 12.0% in 2002 to 4.4 million from 3.9 million in 2001. Costs for other materials from distribution and supply activities decreased 25.5% in 2002 to 80.1 million from 107.5 million in 2001 because costs with materials were abnormally low due to stocks write-offs.

Costs of other materials in Spain from Hidrocantábrico were 2.2 million in 2002, reflecting the effect of new consolidations in 2002.

In Brazil, considering only Bandeirante, costs of other materials remained stable at 2.9 million in 2002. Escelsa and Enersul contributed 1.1 million in 2002.

Costs of raw materials and consumables in our telecommunications activities represented 24.7% of our costs of other materials in 2002. These costs increased 32.7 million to 53.4 million in 2002 primarily due to increased costs at ONI Way.

Costs of raw materials and consumables in our information technology activities decreased 7.4% to 31.6 million in 2002 from 34.2 million in 2001, reflecting a 9.3% decrease in sales as EDINFOR focused its activity on services rather than equipment.

Personnel costs. Personnel costs, which consist mainly of wages and salaries and social security and pension fund contributions, increased 5.5% to 624.8 million in 2002 from 592.0 million in 2001. This increase was primarily due to the inclusion of seven months of Hidrocantábrico's personnel costs amounting to 18.3 million and, to a lesser extent, the consolidation of three months of Escelsa and Enersul personnel costs, amounting to 7.8 million.

Personnel costs in the Portuguese electricity business increased 3.7% to 500.1 million in 2002 from 482.1 million following the 3.4% average salary increase. As a percentage of total personnel costs, electricity business in Portugal decreased to 80.0% in 2002 from 81.4% in 2001. Personnel costs in generation increased 5.4% to 119.6 million in 2002 from 113.5 million in 2001. Personnel costs in distribution and supply activities increased 3.2% to 380.6 million in 2002 from 368.6 million in 2001.

In Brazil, considering only Bandeirante, personnel costs decreased 27.6% to 31.8 million in 2002 from 43.9 million primarily due to the depreciation of the real against the euro in 2002.

Personnel costs in our telecommunications activities in 2002 increased 18.0% to 89.7 million from 76.0 million, mainly due to costs incurred with the UMTS project, which was discontinued by the end of 2002.

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Personnel costs in our information technology activities increased 15.4% to 75.5 million in 2002 from 65.4 million following the increased demand for information technology services provided by EDINFOR.

Depreciation and amortization. Depreciation and amortization increased to 739.5 million in 2002 from 664.7 million in 2001. The consolidation of Hidroantábriico in 2002 contributed 26.9 million while Escelsa and Enersul contributed 7.9 million.

Depreciation and amortization in the Portuguese electricity business increased 1.6% to 561.9 million in 2002 from 553.0 million (as a percentage of our total depreciation and amortization charges, it decreased to

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76.0% in 2002 compared to 83.2% in 2001). In generation, there was an increase in depreciation and amortization of 1.4% to 228.2 million in 2002 from 225.2 million in 2001. In distribution and supply activities, the depreciation and amortization charges increased 1.8% to 333.6 million in 2002 from 327.8 million in 2001.

In Brazil, considering only Bandeirante, the depreciation and amortization charges decreased to 26.3 million in 2002 from 35.8 million in 2001 primarily due to the depreciation of the real against the euro in 2002.

Depreciation and amortization charges in telecommunication activities increased 36.8% in 2002 to 66.9 million from 48.9 million in 2001 following the increase in 2002 of the investment level associated with the fixed line business.

Depreciation and amortization charges in information technology activities increased 1.1 million to 18.9 million in 2002 from 17.8 million in 2001.

Supplies and services. The cost of supplies and services increased by 3.7% to 675.1 million in 2002 from 651.2 million in 2001, due primarily to the inclusion of seven months of Hidrocantábrico and three months of Escelsa and Enersul. Hidrocantábrico contributed 41.1 million while Escelsa and Enersul contributed 8.4 million.

External supplies and services in the Portuguese electricity business decreased 1.2% to 282.1 million in 2002 from 285.5 million in 2001 (and as a percentage of the consolidated supplies and services decreased to 41.8% in 2002 from 43.8% in 2001). Supplies and services in generation increased 4.8% to 73.0 million in 2002 from 69.6 million in 2001 mainly due to a non-recurring cost with SAP information system charged by EDINFOR and the invoice by our shared services company, EDP Valor, of services that were previously performed in EDP Produção.

Supplies and services in distribution and supply activities decreased 3.1% to 209.2 million in 2002 from 215.9 million in 2001 due to the positive results of the cost cutting program implemented at the beginning of 2002.

In Brazil, considering only Bandeirante, supplies and services decreased 23.9% to 27.7 million from 36.4 million primarily due to the depreciation of the real against the euro in 2002.

Costs of supplies and services in our telecommunication activities increased 34.1% to 293.7 million in 2002 from 219.1 million in 2001 due to an increase in ONI's activity. Despite this increase, supplies and services increased at much slower pace than revenues following the cost-cutting program implemented in late 2001.

Costs of supplies and services in our information technology activities increased 14.4% to 75.1 million in 2002 from 65.7 million in 2001 following the increased demand for information technology services provided by EDINFOR.

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Own work capitalized. Own work capitalized consists of amounts that correspond to costs related to our costs of personnel and materials and other external supplies and services incurred for projects under construction that are capitalized and will be amortized in future periods. These amounts generally consist of consumption of materials, direct internal costs, general administrative overheads and financial charges. Own work capitalized increased to 241.8 million in 2002 from 232.5 million in 2001.

Own work capitalized at the Portuguese electricity business represented 77.7% in 2002 of our total own work capitalized compared to 76.4% in 2001. In 2002, it increased 5.8% to 188.0 million from 177.7 million in 2001. Own work capitalized in generation increased to 26.2 million in 2002 from 23.9 million in 2001.

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following the investments in TER CCGT and Venda Nova II hydro power plant. Own work capitalized in distribution and supply activities increased 5.2% to 161.8 million in 2003 from 153.8 million primarily related to higher investments in the distribution grid.

The consolidation of the last seven months of Hidrocantábrico in 2002 contributed 2.7 million to our own work capitalized.

A table setting forth the components of own work capitalized for the past three years is provided in note 30 to the audited consolidated financial statements.

Concession and power-generation rents. Concession and power-generation rental costs increased in 2002 to 158.2 million from 149.1 million in 2001. The 6.1% increase in concession and power-generation rental costs between 2001 and 2002 is primarily due to the increase in the average concession fee paid to the Portuguese municipalities, from 6.75% to 7.00% on average on previous year's sales, and the 5.4% increase in low-voltage, special low-voltage and public lighting sales.

Provisions. Provisions decreased to 100.6 million in 2002 from 116.0 million in 2001, primarily due to a decrease in provisions for pension liabilities, which was partly offset by an increase in provisions for healthcare liabilities. This line item is discussed in note 31 to the audited consolidated financial statements.

Until the end of 2002, increases in provisions for doubtful accounts were reflected in our consolidated statements of income in the line item Provisions and were included in the determination of operating income while decreases were included in the line item Other non-operating expenses (income), net below the operating income. Provisions for doubtful accounts accounted for 24.4 million in 2002 and 20.5 million in 2001. These line items are discussed below and in notes 8, 31, and 34 to the audited consolidated financial statements.

Other operating expenses/(income). This item primarily includes taxes other than income taxes and other operating income (net), which decreased to a 5.7 million income in 2002 from a 42.5 million income in 2001. This decrease was due to a reduction in supplementary gains, which consists of reimbursements received for out-of-pocket expenses incurred and is charged to third parties related to information technology and telecommunications services. For more information on these expenses, you should read note 32 to the audited consolidated financial statements.

Operating margin

As a result of the factors discussed above, our operating margin decreased by 3.7% to 648.7 million in 2002 from 673.5 million in 2001. In our core electricity business in Portugal our operating margin decreased 8.6% to 650.3 million in 2002 from 711.6 million in 2001, primarily due to the regulator's tariff cuts on the use of the distribution grid and commercialization tariffs following the last regulatory review, which was effective as of January 2002. In 2002 Hidrocantábrico contributed 38.1 million to our operating margin. In Brazil, Bandeirante's operating margin decreased 28.6% to 46.1 million in 2002 from 64.6 million in 2001 mainly due to the depreciation of the real against the euro, while Escelsa and Enersul contributed 15.2 million in 2002 to our operating margin. In our telecommunication activities, operating margin decreased 14.0% to a loss of 154.8 million in 2002 from a loss of 135.9 million in 2001 due to costs incurred with the UMTS project. Operating margin in our information technology activities increased 14.2% to 35.6 million in 2002 from 31.1 million in 2001 following the increased demand for information technology services.

Interest and related income/(expenses), net

Our net interest expenses increased to 222.8 million in 2002 from 205.3 million in 2001 (but decreased as a percentage of our total revenues to 3.5% in 2002 compared to 3.6% in 2001). This increase was primarily due to a net expense related to interest of 283.1 million in 2002 compared to 214.7 million in 2001, due primarily to an increase in our average debt level that was partially offset by the lower interest rates.

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Other non-operating income/(expenses)

We had other non-operating expenses of 138.9 million in 2002 compared with other non-operating income of 126.0 million in 2001 primarily due to a 222.8 million net loss in 2002 related to net provisions movements. In 2001, we recorded non-operating income of 47.5 million related to the hydrological correction mechanism.

We recorded an income item of 71.8 million in 2002 compared to 63.9 million in 2001 for the portion of depreciation due primarily to new electricity connections made in prior years that were financed largely with customer payments. We record the amount of these payments initially as deferred income and as the assets are depreciated over 30 years, a portion of the amount is taken into income and offset by a corresponding depreciation charge.

We recorded a net loss of 222.8 million in 2002 related to net provisions movements compared to a net loss of 41.1 million recorded in 2001. The net loss recorded in 2002 reflects the write off of ONI Way, following the discontinuation of the UMTS project that ONI Way was developing. For more information on net movement of provisions you should read note 31 to the audited consolidated financial statements.

Provision for income taxes

Our provision for income taxes is determined on the basis of the estimated taxable income for the period. Income taxes provided for in 2002 were 171.2 million compared with 244.0 million in 2001. The reference income tax rate in Portugal was 30% in 2002, compared with 32% in 2001 and 2000. In addition, a municipal surcharge of up to 10% of the base rate is typically levied by the municipality in which income is earned. Our effective tax rate is different from the reference income tax in Portugal each year due to permanent differences arising mainly from amortization of the goodwill and concession rights, amortization resulting from revaluation of fixed assets and tariff deviations in the electricity business that are not deductible for income tax purposes. Our effective tax rate was 59.7% in 2002 compared with 41.1% in 2001, primarily due to the fact that the negative impact of the ONI Way write-off following the discontinuation of its UMTS operations in 2002 was not tax deductible. For more information on the provision for income taxes, you should read note 35 of our audited consolidated financial statements.

Provision for deferred income taxes

Deferred income taxes are recognized in our consolidated financial statements in accordance with International Accounting Standard 12. Our provision for deferred income tax is determined, using the balance sheet liability method, on the temporary differences between the book values of assets and liabilities and their respective taxable bases. The taxable base of assets and liabilities is determined so as to reflect the consequences of taxation resulting from the way in which we expect, on the balance sheet date, to recover or to pay the recorded amount of our assets and liabilities. In determining deferred tax, the rate used is the one in effect or otherwise applicable on the balance sheet date. Recognized deferred tax assets are reduced to the recoverable amount that can be compensated against future expected profits. In 2002, our provision for deferred income taxes amounted to a 0.6 million charge, whereas in 2001 the provision for deferred income taxes amounted to a 41.1 million benefit. This difference is mainly due to the additional charge, in 2002, of 13.3 million related to the tariff deviation of the electricity business and to the deferred tax effect of a charge, in the amount of 29.6 million, related to the capital gain arising from the acquisition of the Escelsa U.S. dollar bonds below par value. The remaining differences are mostly explained by tax losses brought forward regarding ONI and Brazil.

Consolidated net profit

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As a result of the factors discussed above, our consolidated net profit for 2002 decreased 25.6% to 335.2 million from 450.8 million in 2001.

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LIQUIDITY AND CAPITAL RESOURCES

We manage and control our funding and treasury activities centrally at the EDP, S.A. level, except with respect to ONI and our businesses in Spain and Brazil. At EDP, S.A., the account balances of our subsidiaries are netted in EDP, S.A.'s accounts and centralized payments are made for the entire EDP Group. In Portugal, there are no legal or economic restrictions on the ability of our subsidiaries to transfer funds to EDP, S.A. Our subsidiaries in Portugal do not enter into their own financing arrangements except for our cogeneration subsidiary, EDP Cogeração, which finances some of its own projects, ONI and EDINFOR.

Our primary source of liquidity is cash generated from operations. Net cash provided from operating activities was 1,773.6 million in 2003, compared with 897.7 million in 2002 and 1,221.2 million in 2001. Net cash provided from operating activities was 852.0 million in the six months ended June 30, 2004, compared with 791.4 million in the six months ended June 30, 2003.

Total cash and equivalents, net of bank overdrafts, at December 31, 2003 were an overdraft position of 308.4 million compared with an overdraft position of 407.3 million at December 31, 2002 and an overdraft position of 468.5 million at December 31, 2001. Cash and cash equivalents are held in euros.

Net cash used in investing activities was 529.1 million in 2003, compared with 1,141.4 million in 2002 and 1,243.0 million in 2001, representing a 53.6% decrease in 2003 and an 8.2% decrease in 2002. The decrease in 2003 compared with 2002 reflects our sale in 2003 of our investment in Iberdrola and Hidrocantábrico's acquisition of Naturcorp and, in 2002, our acquisition of Hidrocantábrico. The decrease in 2002 compared with 2001 reflects the fact that although investment in the acquisition of subsidiaries (mainly Hidrocantábrico) was higher than in the previous year, this was offset to a greater extent by the proceeds from divestments and income from investments and dividends. Net cash used in investing activities was 504.3 million in the six months ended June 30, 2004 compared with net cash used in investing activities of 270.2 million in the six months ended June 30, 2003, due primarily to increased investments in EDP generation activities, namely in the TER CCGT and Venda Nova II (hydro) facilities in Portugal and in the Peixe Angical (hydro) facility in Brazil. See Information on the Company Overview Capital Expenditures and Investments for further information on our capital expenditures and investments.

Net cash used in financing activities was 1,118.6 million in 2003 compared with net cash from financing activities of 297.2 million in 2002 and net cash used in financing activities of 96.1 million in 2001. The increase in net cash used in financing activities in 2003 was mainly due to debt reduction, partially resulting from the liquidity achieved by the sale of our investment in Iberdrola. The increase in net cash from financing activities in 2002 was due to the issuance of new medium- and long-term debt during 2002. Net cash used in financing activities was 485.7 million in the six months ended June 30, 2004 compared with net cash used in financing activities of 511.9 million in the six months ended June 30, 2003, due primarily to continued debt reduction in the first half of 2004, particularly at EDP, S.A. and Hidrocantábrico.

As of December 31, 2003, EDP, S.A. had available committed credit facilities of 1,446 million and a fully underwritten 350 million commercial paper program. As of June 30, 2004, available committed facilities and underwritten commercial paper totaled 2,257.4 million. Of these short-term credit facilities, 600 million corresponded to a syndicated revolving credit facility expiring in August 2004 and 700 million to a three-year credit line facility negotiated in March 2003, both to be used primarily as a back-up facility for our euro commercial paper program of 1,000 million, signed in April 2001, as well as general corporate purposes. In July 2004, both facilities were replaced by a 1,300 million five-year revolving credit facility, to be used for the same purposes. This credit line permits drawings of one, two, three and six months at agreed margins over the euro interbank offered rate, or Euribor, based on a rating grid. We believe that the combination of this negotiated credit line and commercial paper program provides an adequate source of liquidity for our operations. Our credit facility agreements do not impose financial ratio requirements and events of default clauses are not based on credit rating, so that their availability is not impacted by downgrades or declines in financial ratios or other measures of financial performance.

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Our consolidated indebtedness, including bonds, long-term bank loans, commercial paper and bank overdrafts, was 7,492.7 million at December 31, 2003 compared with 7,994.1 million at December 31, 2002

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and 5,799.1 million at December 31, 2001. As part of the strategy of extending the average life of our debt portfolio, in March 2003, we issued 150 million of bonds with a 10-year term, which was placed with a single domestic investor. As of December 31, 2003, debt at EDP, S.A. and EDP Finance B.V. amounted to 5,356.2 million, corresponding to 71.5% of our total debt. As at June 30, 2004, consolidated indebtedness had been reduced to 7,459.9 million, while debt at EDP, S.A. and EDP Finance BV totaled 5,319.8 million, corresponding to 71.3% of our total debt. Our debt management guidelines continue to be focused on controlling financial costs and reducing our exposure to foreign exchange risk.

In 2000, the reduction of the Portuguese government's ownership to less than a majority interest in our shares and the reduction of our ownership interest to less than a majority interest in REN's shares triggered provisions in some of our debt agreements that provide specified remedies for creditors including provisions in two of our domestic bond issues that permitted bondholders to seek our redemption of the bonds. Under one of these domestic bond issues, a provision was triggered giving bondholders the right to call a meeting of bondholders for the purpose of proposing modifications to the terms of the bond. A meeting was called and, because we did not accept the modifications proposed, bondholders had the right to, within 30 days, require redemption of their bonds. As a result, we were required to redeem 125 million of this 150 million issue at par on July 18, 2001. With respect to the other domestic bond issue, a provision was triggered giving bondholders the right to redeem their bonds at any time, and as of July 30, 2004 only 13.4 million of this 250 million issue was outstanding, with the remainder having been redeemed at par. We have effectively refinanced the portion of our debt represented by these domestic bonds through a bond issue in March 2001 under our MTN program. In 2000, our MTN program was amended to prevent the REN transaction from triggering any remedies for bondholders of the 1,000 million issue maturing in 2009. As a result of this amendment, the annual interest rate of this issue increased from 6.00% to 6.40%. We obtained or reached agreement on amendments to or waivers of applicable provisions in all of our other debt agreements.

At December 31, 2003, the weighted average interest rate of our indebtedness at EDP, S.A. and EDP Finance B.V. was 3.58%, compared with 3.67% at December 31, 2002. At December 31, 2003, total debt held by EDP, S.A. and EDP Finance B.V. was denominated in euros (or hedged using cross currency swaps), and we therefore do not have currency exchange rate risk relating to this debt. At December 31, 2003, approximately 68% of our total long-term indebtedness at EDP, S.A. and EDP Finance B.V. carried a floating rate, but was hedged against interest rate risk through collar structures. At December 31, 2002, approximately 72.7% of our total long term indebtedness carried a floating rate, the weighted average interest rate of which was 3.47%. At June 30, 2004, the weighted average interest rate of EDP, S.A. and of EDP Finance BV was 3.57%, compared with 3.58% at December 31, 2003 and with 3.67% at December 31, 2002. Total debt held by EDP, S.A. and EDP Finance BV was denominated in euros or hedged through cross-currency swaps. Accordingly, we do not have any cross-currency exchange risk related to its debt. At June 30, 2004, approximately 70% of our total long-term indebtedness was floating rate, but it is also hedged against interest rate risk through collar structures. For more information on our hedging practices, see Item 11 Quantitative and Qualitative Disclosures About Market Risk in our 2003 20-F.

Based on Hidrocarburo's net debt as of September 30, 2004, following our acquisition of an additional 56.2% interest in Hidrocarburo, we expect our consolidated net debt to increase by approximately 1.0 billion as a result of the consolidation of this additional stake in our financial statements.

Table of Contents**Tabular Disclosure of Contractual Obligations**

Our contractual obligations and commercial commitments consist primarily of credit facilities, as described above. The following table provides details regarding our contractual and commercial obligations subsequent to December 31, 2003:

Payments Due and Amount of Commitment by Expiration Period

(millions of EUR)

	<u>Total</u>	<u>December 31, 2004</u>	<u>December 31, 2005</u>	<u>December 31, 2006</u>	<u>December 31, 2007</u>	<u>December 31, 2008</u>	<u>Thereafter</u>
Long-term debt	5,913.6		606.1	924.6	903.5	721.9	2,757.5
Short-term debt	1,579.1	1,579.1					
Total contractual cash obligations	<u>7,492.7</u>	<u>1,579.1</u>	<u>606.1</u>	<u>924.6</u>	<u>903.5</u>	<u>721.9</u>	<u>2,757.5</u>
Guarantees	584.2	293.9	14.4	0	53.9	0	222.0
TOTAL	8,076.9	1,873.0	620.5	924.6	957.4	721.9	2,979.5

We believe that cash generated from operations and existing credit facilities is sufficient to meet present working capital needs. We currently expect that our planned capital expenditures and investments will be financed from internally generated funds, existing credit facilities and customer contributions, which may be complemented with medium- or long-term debt financing and equity financing as additional capital expenditure requirements develop. For more information on our planned capital expenditures you should read [Information on the Company Overview Group Capital Expenditures and Investments](#).

PENSIONS AND BENEFITS

We maintain a defined benefit pension plan for all our active and retired employees included in the Collective Labor Agreement, or the ACT, for Portuguese group companies created in 1994 with the restructuring of EDP. Pension benefits are based on the employees' years of service and the compensation level at the end of their employment period, less Portuguese social security benefits. The normal retirement age is 65. However, employees at least 60 years of age with 36 years of service, or employees of any age with 40 years of service, may elect early retirement. Employees electing early retirement are entitled to full pension benefits that are calculated on the same basis as that for employees retiring at the normal retirement age. Our policy has been to make contributions to the plan based on the availability of funds while making the minimum annual contributions required by applicable regulations. Some companies not a part of the A.C.T., such as the Brazilian and Spanish companies, also have complementary social benefits to their own social security systems, either as a defined benefit plan (Bandeirante, for example) or a defined contribution plan (Escelsa and Hidrocantábrico, for example).

We also provide comprehensive medical coverage, in addition to that provided by the Portuguese national health system, for retired employees, including those who have taken early retirement, and their dependents. Additionally, we provide a death benefit to retirees' survivors. We administer the program internally and assume the full cost of funding the program net of employee contributions, amounting to approximately 10% of the total medical expenses covered.

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At December 31, 2003, our accrued pension and medical benefit liabilities were 562.3 million compared with 608.2 million at December 31, 2002 and 683.9 million at December 31, 2001. The provisions for medical benefits and pensions in 2003 were 412.6 million and 149.6 million, respectively, amounting to 562.3 million in total, compared with 396.7 million and 211.5 million, respectively, in 2002, amounting to 608.2 million in total, and 377.9 million and 305.9 million, respectively, in 2001, amount to 683.9 million in total. We expect to fund pension fund liabilities from our internal resources.

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INFLATION

Inflation in Portugal, as measured by changes in the Portuguese CPI, averaged 3.3%, 3.6% and 4.4% in 2003, 2002 and 2001, respectively. During the period from 1993 through 2003, changes in the Portuguese CPI averaged 3.7% per annum, ranging from a high of 6.7% in 1993 to a low of 2.2% in 1997.

To reflect the impact of inflation, Portuguese GAAP and regulations permit companies to revalue their fixed assets. Accordingly, we revalued our assets in 1992 based on an assessment of the remaining useful life and modern equivalent asset value of the assets at December 31, 1992. In accordance with Portuguese GAAP, depreciation of fixed assets is computed on the revalued amounts, with depreciation in respect of the original acquisition cost and 60% of the revaluation increment being deductible for corporate income tax purposes. Under U.S. GAAP, fixed assets may not be stated at more than their historical acquisition cost.

PORTUGUESE GAAP COMPARED WITH U.S. GAAP

Our financial statements have been prepared in accordance with Portuguese GAAP, which varies in certain significant respects from U.S. GAAP. The principal differences between Portuguese GAAP and U.S. GAAP as they relate to us concern:

the revaluation of fixed assets, as discussed above under Inflation ;

the capitalization of overheads and foreign exchange differences in connection with the construction of fixed assets;

the capitalization of research and development costs, advertising costs, maintenance and repair, and reorganization costs;

the hydrological correction account;

the deferral of certain costs, profit distributions to management and employees and employee termination benefits;

the accounting for employee retirement benefits;

the reversal of allowances for certain doubtful accounts;

the capital treatment of contracts for the purchase of capacity and electricity;

the accounting for investments, including REN;

the accounting for the sale proceeds from the disposal of REN;

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the accounting for joint venture returns, namely Hidrocantábrico;

the accounting for derivative instruments;

the depreciation of goodwill;

the tariff adjustments and other regulatory assets;

guarantees; and

income taxes.

We include in the cost of assets constructed for our own use a portion of our general and administrative overhead. Assets constructed prior to 1995 also include the net foreign exchange differences, both gains and losses, which resulted from loans denominated in non-escudo currencies contracted to fund the capital expenditures. Under U.S. GAAP, these amounts are included in income in the period incurred.

We capitalize and amortize research and development costs, advertising costs, major maintenance and repair costs, and reorganization costs. Under U.S. GAAP, these amounts are included as expenses in the period incurred.

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As required by government regulation, we record a provision in the hydrological correction account to smooth the effect on our earnings that results from changes in hydrological conditions. Under U.S. GAAP, the effect of future changes in hydrological conditions would be viewed as a general business risk and accrual would not be permitted.

As part of our profit sharing plan, we customarily distribute a portion of net profit to management and employees. Under Portuguese GAAP, this distribution is reflected in the period in which formal shareholder approval is obtained and is recorded as a reduction of retained earnings or other reserves. U.S. GAAP requires that these distributions be recorded as compensation expense in the period they are earned.

We and some of our subsidiaries have pension obligations, in connection with both defined benefit and defined contribution plans, and also have medical benefits for retired employees. Costs for defined contribution plans are expensed when incurred. Accumulated obligations and annual expenses for medical benefits and defined benefit pension plans are determined on actuarial basis. We adopted this policy by implementing IAS 19 in 1999. For the U.S. GAAP reconciliation, we use SFAS 87 and SFAS 106 as from 1995. Thus, differences in accounting for these obligations generally originate from the date of determination of the transition obligation (1989 for U.S. GAAP purposes and 1996 for Portuguese GAAP purposes) and the assumptions relating the adherence rate to the early retirement plan for the period 1999-2003, as well as for the recognition of the additional pension minimum liability.

We reached agreements with several municipalities on the terms for the future settlement of various old accounts receivable, which under Portuguese GAAP and U.S. GAAP were fully provided in the past. We reversed a portion of the allowance for doubtful accounts related to these old accounts receivable in 1999 and 2000, but not after those periods. Under U.S. GAAP, the benefit from the recovery of these accounts receivable may only be recorded when the amounts are actually received.

We constructed and sold the Pego and Tapada de Outeiro power plants in 1993 and 1998, respectively. Before 1999, at the time of the sales, REN signed PPAs with the producers in the Binding Sector by which the capacity and electricity of the plants were fully contracted to the Binding Sector represented by REN. Under the PPAs, REN is required to make specified minimum payments whether or not it is able to take delivery of the electricity. As permitted under Portuguese GAAP, REN recorded the sales of the power plants and it also recorded the minimum contracted payments as an expense of the respective periods. U.S. GAAP would require the sales to be treated as sale lease-back transactions and the power purchase agreements to be recorded as capital leases. Prior to the sale of REN to the Portuguese government, the contracts with Tejo Energia and Turbogás were recorded in this manner. Currently, the most relevant PPAs are those that REN has entered into with CPPE power plants.

Under Portuguese GAAP, we carry investments in publicly traded equity securities, other than those of subsidiaries and those that are accounted for under the equity method, at market. Changes in the carrying value other than those resulting from permanent impairment are reflected in equity. Under U.S. GAAP, these securities would be stated at fair value and the changes therein, net of income taxes, would be recorded in a separate component of shareholders' equity and included in the determination of comprehensive income. Our investment in REN and equity in earnings of REN are affected by certain accounting differences between U.S. GAAP and Portuguese GAAP. The differences affecting our investment in REN and equity in earnings of REN include: revaluation of fixed assets, overheads capitalized, deferred costs, employee termination benefits, distribution to management and employees, power purchase agreements and deferred income taxes.

Under Portuguese GAAP, since the sale proceeds from the disposal of our 70% interest in REN were equal to the net book value of the interest sold, no gain or loss was recorded on the transaction. Under U.S. GAAP, the net book value of the interest sold would be reduced as a result of the accounting differences between Portuguese GAAP and U.S. GAAP; therefore, the proceeds received from the disposal of REN would exceed the net book value of the interest disposed, resulting in a gain on disposal and the remaining investment in REN would be reduced accordingly. The gain on the disposal, in the amount of 342,045,810, and the related deferred tax in the amount of 120,400,126, would be charged directly to shareholders' equity (with a net effect of 221,645,684).

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Our 39.5% holdings in the voting rights of Hidrocontábrico plus the existing shareholders' agreement allowed the investment to be consolidated as a joint venture on a proportionate basis under Portuguese GAAP. Under U.S. GAAP this investment would be accounted for under the equity method. Hidrocontábrico's shareholders' equity and net income have been adjusted to U.S. GAAP before applying the equity method to our accounts.

Until 2002, derivative financial instruments were not recognized in the financial statements under Portuguese GAAP. Under U.S. GAAP, derivative financial instruments would be recognized in the balance sheet at market value. For instruments that do not qualify for hedge accounting under FAS 133, as implemented on January 1, 2001, the movements in the market value are included in our net profit. Upon adoption of FAS 133 on January 1, 2001, no transition adjustment was recorded as all derivatives existing at that date were previously recorded at fair market value in the balance sheet for U.S. GAAP. The derivative financial instruments held by us at December 31, 2000, 2001 and 2002 were not designated hedges and thus movements in their fair value would be recognized in net income. As of the date of our adoption of IAS 39 in 2003, in our Portuguese GAAP consolidated financial statements derivative financial instruments are recognized in our consolidated balance sheet at market value, and those that do not qualify for hedge accounting are included in our net profit. IAS 39-compliant hedge relationships were designated and documented from January 1, 2004.

From January 1, 2002, U.S. GAAP requires that goodwill, including previously existing goodwill, and intangible assets with indefinite useful lives are not amortized but are tested for impairment annually. Concession rights continue to be amortized, as these are intangible assets with finite lives. Goodwill amortization charged to the consolidated profit and loss account was adjusted for U.S. GAAP purposes in the amount of 11.9 million in 2002 and 54.4 million in 2003.

Prior to 1999, the sales price of electricity in Portugal was based upon a negotiated price between the government and us. Tariffs were generally based on operating costs incurred during a year associated with average hydrological conditions. However, there were no specific guidelines in place that ensured that we would recover actual costs incurred. On January 1, 1999, and again on January 1, 2002, new tariff regimes were introduced that established formulae for the calculation of the selling price of electricity in Portugal. These tariffs at current market conditions allow us to recover actual costs incurred. However, not all of the criteria necessary to adopt the U.S. GAAP accounting for regulated industries exist. Therefore, U.S. GAAP requirements applicable to regulated industries have not been applied. On January 1, 2002, the regulator implemented alternative revenue programs that allow us to increase tariffs in future periods to recover allowable revenues. Future tariff increases have been recorded in the current year for Portuguese GAAP and are reversed under U.S. GAAP.

Guarantees related to our operations with bank loans and other operational activities that have no accounting recording under Portuguese GAAP must be adjusted and presented as liabilities for U.S. GAAP purposes. These adjusted amounts are related to the purchase of electricity and the receipt of some subsidies from the government.

Under Portuguese GAAP, prior to 1999, it was acceptable to recognize income tax expense based upon the estimated current income tax liability on the current year's earnings. When income and expense recognition for income tax purposes does not occur in the same period as income and expense recognition for financial reporting purposes, the resulting temporary difference was not considered in the computation of the income tax expense for the period. Under U.S. GAAP, income taxes are provided using the liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences attributable to differences between the financial statement carrying amount of assets and liabilities and their tax bases. A valuation allowance is provided based on the expected realization of these deferred tax assets.

In 1999, we implemented International Accounting Standard 12 (Revised), *Income Taxes*, which requires income taxes to be provided for using the liability method and is substantially consistent with the method under U.S. GAAP.

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Our net profit in 2003 under U.S. GAAP amounted to 498.0 million and 299.9 million in 2002 compared with 381.1 million in 2003 and 335.2 million in 2002, respectively, under Portuguese GAAP. Our shareholders' equity under U.S. GAAP was 3,497.3 million at December 31, 2003 and 3,886.3 million at December 31, 2002, compared with 5,298.0 million and 5,494.2 million, respectively, under Portuguese GAAP.

See note 39 to our audited consolidated financial statements for the significant adjustments to net income and shareholders' equity that would have been required if U.S. GAAP rather than Portuguese GAAP had been applied in the financial statements.

IMPACT OF RECENTLY ISSUED U.S. ACCOUNTING STANDARDS

In January 2003, the FASB issued FASB Interpretation No. 46, (FIN 46), *Consolidation of Variable Interest Entities*. FIN 46 was revised in December 2003 and has been interpreted in various FASB staff positions. FIN 46 is effective immediately for all variable interests in variable interest entities (VIE) created after January 31, 2003. For VIEs created before that date, the requirements are effective for us from January 1, 2004. FIN 46 requires certain transitional disclosures to be made immediately if it is reasonably possible that an entity will consolidate or disclose information about VIEs when FIN 46 becomes effective. FIN 46 defines a VIE as an entity where either the total equity investment at risk is not sufficient to permit the entity to finance its activities, without additional subordinated financial support; or the equity investors lack any one of the following: (1) the ability to make decisions about an entity's activities; (2) the obligation to absorb losses of the entity; or (3) the right to receive residual returns of the entity. VIEs are required to be consolidated by the primary beneficiary, which is the party that absorbs the majority of the entity's expected losses, expected gains, or both. Adoption of this statement has not had a material impact on our U.S. GAAP financial statements.

In April 2003, the FASB issued SFAS 149 *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, Accounting for In April 2003, the FASB issued SFAS 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. This statement is effective prospectively for contracts entered into or modified after June 30, 2003 and prospectively for hedging relationships designated after June 30, 2003. Adoption of this statement has not had a material impact on our U.S. GAAP financial statements.

In May 2003, the FASB issued FAS 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. FAS 150 is effective prospectively for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. FAS 150 requires that certain financial instruments, previously accounted for as equity, be classified as liabilities. This statement must be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the statement and still existing at the beginning of the interim period of adoption. Following adoption of this statement, certain financial instruments have been reclassified from minority interests to liabilities. Adoption of this statement has not had a material impact on our U.S. GAAP financial statements.

In December 2003, the FASB issued a revision to SFAS No. 132, *Employers' Disclosures about Pensions and Other Retirement Benefits*, which requires enhanced disclosures about our defined benefit pension plans. The revised standard will become effective for our U.S. GAAP financial statements for 2004. Adoption of this statement has not had, and is not expected to have, a material impact on our U.S. GAAP financial statements, although additional disclosures have been added.

In November 2003, the Emerging Issues Task Force (EITF) reached a consensus on certain additional disclosure requirements in connection with holding losses on investment securities (EITF 03-1 *The Meaning of Other-Than-Temporary Impairment and its Application to Certain*

Investments). This standard is not expected to have a material impact on our U.S. GAAP financial statements.

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Table of Contents**MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****MAJOR SHAREHOLDERS**

The Portuguese government, directly or through Parpública a corporation wholly-owned by the Portuguese government, which was formed in 1991 for the purposes of holding the Republic's interest in a number of enterprises in various industries, as of the date of this prospectus supplement, owned approximately 26.1% of our outstanding ordinary shares. Through Caixa Geral de Depósitos S.A., a state-owned bank, the Portuguese government owns an additional 4.84% of our ordinary shares. The Portuguese government's ownership of EDP ordinary shares declined from approximately 70% in 1997 to the current level as a result of the offering of our ordinary shares in successive stages of our privatization.

The following table sets forth information concerning the ownership of our ordinary shares as of our general meeting held on October 7, 2004 by the Portuguese government and by our officers and directors as a group (not including ordinary shares held by any entity with which any such officers or directors are affiliated). Other than as set out in the following table, we are not aware of any shareholder owning more than 5.0% of our ordinary shares.

Name of owner	Number of Ordinary Shares owned	Percentage of Outstanding Ordinary Shares
Portuguese Republic	783,074,076	26.1%
Banco Comercial Português	151,635,713	5.05%
All directors and executive officers as a group	230,000*	<1%

* Approximate.

The Portuguese government has special rights that all other holders of our ordinary shares do not have. To learn more about the special rights of the Portuguese government you should read [Risk Factors](#) [Other Risks](#) [Restrictions on the exercise of voting rights](#), as well as special rights granted to the Portuguese government, may impede an unauthorized change in control and may limit our shareholders' ability to influence company policy.

In addition to the shareholders listed above and Caixa Geral de Depósitos, which owns 145,087,830, or approximately 4.84%, of our ordinary shares, other significant EDP shareholders include Iberdrola, which in May 2002 announced that it had acquired additional ordinary shares and, as of our general meeting held on October 7, 2004, owns 150,000,000, or 5%, of our ordinary shares and Brisa, which indirectly owns 60,002,297, or approximately 2%, of our ordinary shares.

As of October 1, 2004, approximately 0.055% of the ordinary shares were represented by ADSs that were held by three holders of record, including The Depository Trust Company. The number of ADSs outstanding was 1,643,145 as of October 21, 2004.

RELATED PARTY TRANSACTIONS

Mr. Jardim Gonçalves, a director of EDP until May 2003, is presently the Chairman of BCP's board of directors. Following the departure of Mr. Jardim Gonçalves, Mr. Paulo de Azevedo Pereira da Silva, the general manager of BCP and a director of various companies of the BCP group, became a member of our board of directors. In March 2000, we and BCP entered into a strategic alliance, pursuant to which Mr. Gonçalves was elected to our board of directors as a non-executive director, we acquired 4.25% of BCP's outstanding shares and BCP acquired approximately 5% of our outstanding shares. In March 2003, we subscribed to a share capital increase of BCP, bringing our stake to 4.36%. In the ordinary course of business, we and BCP enter into customary commercial banking transactions, such as deposits and loans.

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Mr. Luis Fernando de Mira Amaral, a director of EDP following the departure of Mr. António de Sousa, is the former CEO and Chairman of the executive committee of Caixa Geral de Depósitos' board of directors. However, Mr. Mira Amaral has retired from his position as an EDP director, with effect from October 31, 2004 (or earlier, if a new director is appointed in his place). Mr. Vitor Martins, also a director of EDP, has also retired from that position with effect from October 31, 2004 (or earlier, if a new director is appointed in his place). Mr. Martins was appointed CEO and Chairman of Caixa Geral de Depósitos' board of directors on October 1, 2004. Caixa Geral de Depósitos owns 4.84% of our ordinary shares and is acting as an underwriter of this offering. See Underwriting. In the ordinary course of business, we and Caixa Geral de Depósitos enter into customary commercial banking transactions, such as deposits and loans.

On May 9, 2001, we entered into an agreement for a strategic alliance in the telecommunications sector with BCP, GALP and Brisa. Brisa became a shareholder of ONI in exchange for its 100% stake in Brisatel, which owned 4% of ONI Way. As a result of the agreement, EDP holds 56% of the share capital of ONI and Brisa holds 17%, while BCP and GALP hold the remaining 22.8% and 4.2%, respectively. Within the context of the strategic alliance, Brisa proposed two members of ONI's board of directors and they were subsequently elected by the shareholders of ONI. Mr. José Manuel Gonçalves de Morais Cabral, a director of EDP, is a director of various companies within the José de Mello Group, which owns a significant interest in Brisa. Brisa owns approximately 2% of our ordinary shares.

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Table of Contents**DIVIDENDS AND DIVIDEND POLICY**

We have declared dividends each year since 1991, when we became a limited liability corporation. The following table shows our dividends per share based on 3,000,000,000 ordinary shares outstanding in the years indicated:

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Dividends per ordinary share (in euro) ⁽¹⁾	0.14	0.14	0.11	0.09	0.09
Dividends per ordinary share (in U.S. dollars) ⁽²⁾	0.13	0.12	0.10	0.11	0.11

(1) For 1999 and 2000, escudos are translated into euro at the fixed rate of exchange established at the commencement of the third stage of European Monetary Union on January 1, 1999 by the European Council of Ministers between the euro and escudo of PTE 200.482 = 1.00.

(2) Translated at the prevailing rate of exchange at the date of payment, which for 2003 was \$1.1975 = 1.00.

The payment and amount of dividends are subject to the recommendation of our board of directors and the consent by our shareholders at a general meeting. It is the current intention of the board of directors, subject to our financial condition and 2004-2006 strategic business plan, to increase our annual total dividend distribution during the 2004-2006 period by 7% to 8% annually.

In the first year in which dividends are distributed after this share capital increase, the total amount of dividends shall be adjusted by the technical effect resulting thereof. For this purpose, the total amount of dividends to be distributed by EDP and its future variations shall be determined taking into account the proportional impact of the share capital increase on the market capitalization of EDP, based on the closing price of EDP shares on Euronext Lisbon on the last day in which such shares are traded with rights.

Pursuant to Portuguese law, dividends are paid to shareholders of record as of the date established for payment. These payments are effected by means of Portugal's book-entry clearance and settlement system.

Dividends received by a holder of ordinary shares or ADSs will, under current law and practice, be subject to taxation. The effective rate of Portuguese withholding tax has changed periodically in recent years and may change again in the future. For more information regarding taxation of dividends, you should read "Taxation" in the attached base prospectus. Dividends received by holders of ADSs will be paid in U.S. dollars, net of conversion expenses of the depository.

Table of Contents**TRADING MARKETS**

In Portugal, our ordinary shares trade on the *Mercado de Cotações Oficiais*, or the Official Market, of Euronext Lisbon. In the United States, our ordinary shares trade in the form of ADSs represented by ADRs issued by Citibank, N.A., as depository. Our ADSs are listed on the NYSE and our ordinary shares are listed on Euronext Lisbon. Our ADSs and our ordinary shares are also listed on the Frankfurt Stock Exchange, and our ordinary shares are quoted on SEAQ International.

The tables below set forth, for the periods indicated, the reported high and low sales prices* of our ADSs on the NYSE and of our ordinary shares on Euronext Lisbon, based on the 3,000,000,000 ordinary shares outstanding after giving effect to the 5-for-1 stock split approved at our May 12, 2000 general meeting:

	Per ADS		Per Ordinary Share	
	High	Low	High	Low
	(U.S. Dollars)		(Euro)	
1999	50.04	29.00	4.36	2.82
2000	39.50	25.81	4.22	3.10
2001	34.31	20.90	3.64	2.29
2002				
First Quarter	22.19	19.28	2.50	2.18
Second Quarter	21.73	19.45	2.45	1.92
Third Quarter	19.75	14.78	1.99	1.47
Fourth Quarter	17.25	14.56	1.72	1.49
Full Year	22.19	14.56	2.50	1.47
2003				
First Quarter	18.50	15.10	1.69	1.38
Second Quarter	23.27	17.32	1.98	1.57
Third Quarter	24.40	21.30	2.14	1.85
Fourth Quarter	26.50	22.33	2.10	1.94
Full Year	26.50	15.10	2.14	1.38
2004				
First Quarter	31.15	21.15	2.52	2.01
Second Quarter	29.49	26.40	2.41	2.25
Third Quarter	29.80	27.30	2.41	2.25
Month of				
April 2004	29.49	27.15	2.44	2.28
May 2004	28.48	26.17	2.36	2.16
June 2004	28.46	26.91	2.32	2.21
July 2004	29.80	26.65	2.41	2.21
August 2004	28.70	27.05	2.32	2.22
September 2004	29.42	27.32	2.38	2.23
October 2004	30.09	28.60	2.39	2.27

* The prices reflect high and low intra-day prices, as applicable, for the periods specified.

Table of Contents**EXCHANGE RATES**

The following table shows, for the periods and dates indicated, information concerning the exchange rate between the U.S. dollar and the euro. These rates are provided solely for your convenience. We do not represent that the escudo could have been, or that the euro could be, converted into U.S. dollars at these rates or at any other rate.

The column of averages in the table below shows the averages of the relevant exchange rates on the last business day of each month during the relevant period. The high and low columns show the highest and lowest exchange rates, respectively, on any business day during the relevant period.

U.S. dollar per euro ⁽¹⁾		
Year ended		
December 31,	End of Period	Average
1999	U.S.\$ 1.01	U.S.\$ 1.06
2000	0.94	0.92
2001	0.89	0.89
2002	1.05	0.95
2003	1.26	1.13

U.S. dollar per euro ⁽¹⁾		
Period	High	Low
2004		
January	U.S.\$ 1.29	U.S.\$ 1.24
February	1.28	1.24
March	1.24	1.21
April	1.24	1.18
May	1.23	1.18
June	1.23	1.20
July	1.24	1.20
August	1.24	1.20
September	1.24	1.21
October	1.28	1.23

⁽¹⁾ Euro amounts are based on the Noon Buying Rate.

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THE PORTUGUESE SECURITIES MARKET

The Portuguese equity market, which had experienced significant increases in liquidity and trading volumes until 2001, registered a slowdown in 2002 and 2003, consistent with the worldwide economic situation. Since November 1997, Portugal's status in the Morgan Stanley Capital International, or MSCI, indices has changed from emerging market to developed market. In particular, Portugal joined the MSCI Europe and World indices and left the MSCI Emerging Market index.

The integration of the former Lisbon and Oporto Stock Exchange in Euronext, N.V. (under the name Euronext Lisbon Stock Exchange, or Euronext Lisbon) on January 30, 2002, has allowed Euronext Lisbon to participate in a wider European capital market, which also includes Euronext Paris Stock Exchange, Euronext Amsterdam Stock Exchange and Euronext Brussels Stock Exchange. This integration process is intended to create a European common capital market, in order to allow investors to have access to a single equity and derivatives trading platform, common netting, clearing and settlement services and harmonized market rules and procedures.

A single equity and derivatives trading platform was recently implemented by migration of several platforms of the Euronext Stock Exchanges. The migration of both the equity and derivatives markets platforms managed by Euronext Lisbon SGMR to a single equity and derivatives trading platform common to all Euronext Stock Exchanges occurred in November 2003 for the equity market and in March 2004 for the derivatives market.

This migration involved the adoption by Euronext Lisbon *Sociedade Gestora de Mercados Regulamentados, S.A.*, or Euronext Lisbon SGMR, of the Euronext Market Model, which consists of the harmonization of rules applicable to the markets, members and transactions of Euronext Stock Exchanges. For this purpose, Euronext Lisbon SGMR approved a number of rules, which entered into force on November 7, 2003, in order to accommodate the Euronext Market Model, respecting, where necessary, the requirements of Portuguese regulation on these matters. Currently, there are Harmonized Rules, accommodating the Euronext Market Model, and Non-Harmonized Rules, where the requirements of the Portuguese regulation are safeguarded.

As of December 31, 2003, the market capitalization of equity securities listed on Euronext Lisbon was 91,180 million, compared with 72,998 million as of December 31, 2002, representing 58.1% and 51.6%, respectively, of the total market capitalization of Portuguese listed securities. As of December 31, 2003, 158 Portuguese companies' financial assets were listed on Euronext Lisbon (representing a total of 522 different issues), of which 57 were in the form of equity securities (61 issues), 83 in the form of bonds (255 issues), 7 in the form of warrants (182 issues) and 11 in the form of other listed funds and certificates (24 issues). On the basis of euro value, the ten most actively traded equity securities in ordinary sessions of Euronext Lisbon in 2003 represented approximately 94.6% of total trading volume of equity securities on Euronext Lisbon compared with 93% in 2002. Turnover of equity securities was 19,024 million in 2003 compared with 21,688 million in 2002.

In 2003, our ordinary shares represented approximately 14.8% of total trading volume of equity securities on the Euronext Lisbon. As of September 13, 2004, our ordinary shares accounted for 18.8% of total market turnover since January 1, 2004. As of September 15, 2004, our ordinary shares weighted 10.3% in the PSI General Index, 15.8% in the PSI 20 Index and 0.5% in the Euronext 100 Index, each as defined below.

The Official Market, created in July 1991, is the market on which most significant Portuguese equity and derivative securities are listed. The Official Market index, or the PSI General Index, published since February 1991, is a weighted average price of all shares listed on the Official Market, other than preferred shares without voting rights. The exact number of companies in the PSI General Index's portfolio may change each day as a result of new admissions, exclusions, suspensions and the absence of quotations. This index essentially reflects the Official Market's

global profitability.

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Euronext Lisbon calculates an index called the PSI 20, which includes the 20 largest and most actively traded stocks listed on the Official Market. This index was created for the purpose of acting as the Portuguese stock market benchmark and as an underlying reference for futures and options contracts. Market operators also use the PSI 20 as an underlying index for structured financial products whose performance depends on the performance of the Portuguese stock market. The methodology for the composition and calculation of this index was changed in May 2001 and was implemented on October 1, 2001. The weight of the index components, which before this revision was based on the 20 companies with the largest market capitalization listed in the Official Market, now also takes in consideration the free float of these companies and introduces a maximum limit of 20% of the weight that a given company can have in the index.

Pursuant to the integration of the former Portuguese stock market with Euronext, some Portuguese listed companies are now also included in Euronext indices. We, along with six other Portuguese companies, are included in the Euronext 100 Index, which is a market capitalization weighted price index comprised of the 100 largest and most actively traded stocks on Euronext Stock Exchanges. Each stock participating in the Euronext 100 Index must experience turnover of over 20% of its issued shares over the course of a rolling one-year analysis period.

Euronext Lisbon is supervised by the Ministry of Finance and the Portuguese Securities Market Commission, or CMVM, and operated by the Euronext Lisbon SGMR.

TRADING

Since March 1, 1999, all shares currently listed on the Official Market of Euronext Lisbon are traded through a continuous trading system, which is designed to provide automatic execution and trading through LIST, a computerized trading system. The principal feature of the continuous trading system is the computerized matching of buy and sell orders based, first, on matching sales price and, second, on the time of entry of the order. Each order is executed as soon as a matching order is entered, but can be modified or revoked up to its execution. Between 7.30 a.m. and 8.00 a.m. on each trading day, from Monday to Friday excluding public holidays, the daily opening market clearing price is established for each security on the continuous trading system based on the bids and offers outstanding. During the last five minutes of this pre-opening period it is possible to immediately present purchase and sale orders, which may not, however, be modified or revoked. On any trading day, the opening price may not change more than 15% from a reference price, which is the closing price of the last session or the price resulting from an automatic roll-call held during the session in order to reset the reference price. Computer-matched trading then proceeds on the continuous trading system from 8.00 a.m. until 4.30 p.m.

An automatic trading procedure by roll-call auction will be used if there is an interruption in the continuous trading system. In trading through a roll-call auction, all the orders to buy or sell the same security are processed together. Each roll-call auction originates one single price for the security and is followed by the matching of trades according to the priority of each of the orders, which is established according to the respective prices. Sell orders below and buy orders above the auction price will not be matched.

At present there are no official market makers or independent specialists in the continuous trading system and therefore orders to buy or sell shares in excess of corresponding orders to sell or buy shares are not executed.

According to the Cod.VM, which entered into force on March 1, 2000, transactions on Euronext Lisbon may only be performed by its members. There are two categories of members of Euronext Lisbon: negotiator members and clearance members. Negotiator members may perform stock exchange transactions but are not allowed to execute their clearance and are therefore required to enter into an agreement with one or more clearance members for clearance of the operations they negotiate. Only financial institutions authorized to buy and sell securities for their own accounts, such as banks and dealers, may become clearance members. Clearance members can clear stock exchange transactions and negotiate

transactions.

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Any trading of stocks listed on the continuous trading system that takes place off-market must be cleared through financial institutions and physically settled through the Portuguese Clearing House (*Central de Valores Mobiliários*), or CVM, where those stocks are registered or deposited. Stock prices are quoted in euro per share.

CLEARANCE AND SETTLEMENT

All securities traded on Euronext Lisbon, either in certificated form or in book-entry form, must be deposited or registered in the CVM. The CVM provides a system for the registration and control of securities, including custody of certificated securities and registration of book-entry securities. The CVM is managed by *Interbolsa Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A.*, or Interbolsa, a company wholly-owned by Euronext Lisbon SGMR that also manages the Clearing and Settlement System for stock exchange transactions.

The Clearing and Settlement System is currently the most widely used clearing and settlement system in Portugal. Under this system, the member of the stock exchange inputs trade information on LIST, the nation-wide computerized trading system. The clearance member, which also has to be a participant of the Clearance and Settlement System, accepts the trade, at the latest, one day after the date of the trade, becoming the legal counterparty to the transaction until it settles. By the third business day after the trade, the electronic book-entry for the transfer of the securities takes place in the books of the CVM. This physical settlement is provisional until the financial settlement takes place after the end of the market daily process of the same third business day after the trade. In the business day following the settlement of the trade, the participants are informed of the volume of securities and cash amounts that were settled and those that failed to be settled.

Our ordinary shares have been accepted for trading on Euroclear and Clearstream and settle and trade with Euroclear and Clearstream in accordance with standard settlement procedures for internal clearances and with external counterparties through the CVM. Our ordinary shares are subject to such rules and regulations as Euroclear and Clearstream may from time to time determine.

Under Portuguese law, the acquisition of shares through a stock exchange transaction allows the owner to immediately sell those shares in the same market, without awaiting the physical and financial settlement of the transaction. However, the clearance member related to that transaction is primarily responsible for its physical settlement. In case of default in the physical settlement, Interbolsa must immediately initiate the substitution procedures necessary for good settlement of the transaction. These procedures involve an automatic lending and borrowing system, or if there are no securities available, an automatic buy-in system, in relation to the short positions on the closing date.

To hold our ordinary shares directly in book-entry form through the facilities of the CVM, an entity that is a non-resident of Portugal must, prior to the execution of the transaction, open a special share portfolio account with a financial intermediary located in Portugal and duly licensed to act as a financial intermediary pursuant to applicable legislation. The investor may then buy and sell listed securities with some restrictions and repatriate the proceeds. Persons who hold ordinary shares through Euroclear and Clearstream will not be required to open a special share portfolio account with a financial intermediary located in Portugal in order to hold the ordinary shares.

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TRADING BY US IN OUR SECURITIES AND OUR SHARE CAPITAL

Except in specified circumstances, under Portuguese law companies may not, at any time, hold more than 10% of their own share capital and may purchase or otherwise trade in their own equity securities only with shareholder authorization. Under our Articles of Association, the shareholders may, at a general meeting, grant us the authority to purchase our own shares.

At our general meeting held on March 30, 2004, the shareholders renewed the authorization for our board of directors and the management bodies of our subsidiaries to purchase our shares under the following conditions: (1) the number of shares to be acquired cannot exceed 10% of our share capital (a limit that already includes any shares to be acquired under the stock options plans); (2) the acquisition can only be done within the regulated markets where we are listed; and (3) the acquisition price shall have as maximum and minimum limits 115% and 85%, respectively, of the weighted average of the closing quotations of our shares in the last ten sessions of Euronext Lisbon preceding the date of the acquisition.

The shareholders also renewed the authorization for our board of directors and the management bodies of our subsidiaries to sell our shares under the following conditions: (1) the number of sales and shares to be sold will be defined by our board of directors and by the management bodies of our subsidiaries, which shall include any shares to be granted under the stock options plans; (2) the sale of shares can only be done within the regulated markets where we are listed, without prejudice of obligations to be satisfied within the stock options plans whose creation has been duly approved by the general meeting; and (3) the sale price cannot be lower than 90% of the weighted average of the closing quotations of our shares in the last ten sessions of Euronext Lisbon preceding the date of the sale, except if the sale is executed to fulfill the stock options plans whose creation has been duly approved by the general meeting.

This general meeting resolution has renewed the authorization for our board of directors to purchase and sell our own shares for an additional period of 18 months, which had already been granted in previous identical resolutions passed at the general meetings held since 1999.

In addition, at our general meeting held on October 7, 2004, our shareholders approved an authorization to purchase EDP shares from the Portuguese state, Parpública or another entity that may be designated in the context of the fifth privatization phase of EDP for an acquisition price between 85% and 115% of the volume-weighted average price of EDP's shares during the six months prior to July 28, 2004 (2.2862 per share), adjusted for the dilution effect resulting from the rights offering. Our shareholders also authorized the use, on the same terms, of such treasury stock as consideration for the acquisition of Hidrocantábrico shares from Cajastur.

We buy and sell EDP shares on the market or otherwise as and when we believe it appropriate. As of October 15, 2004, we held 16,445,207 of our own ordinary shares, 1,750,000 of which we purchased in 1999, 650,000 of which we purchased in 2000, 9,326,209 of which we purchased in 2001, 5,702,717 of which we purchased in 2002, 4,002,038 of which we purchased in 2003 and 4,985,757 of which we sold in 2004. Ordinary shares held by us will be deemed to be outstanding under Portuguese law but are not entitled to any dividends, voting rights or preemptive rights, except the right to receive ordinary shares upon increases of share capital by incorporation of reserves.

At our general meeting held on October 7, 2004, our shareholders also approved an amendment to our Articles of Association granting authorization to the board of directors to increase our share capital. This authorization provided the board of directors with the ability to effect a one-time increase of our nominal share capital by a maximum of 1.2 billion on or before March 31, 2005. Our nominal share capital is presently 3 billion. The amendment was enacted by public deed dated October 21, 2004, and has been registered at the *Conservatória do Registo Comercial de Lisboa*.

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Following this amendment to our Articles of Association, our board of directors decided, with the prior favorable opinion of the Single Auditor, on October 26, 2004, on the increase of our share capital pursuant to the rights offering. This increase reflects the fifth privatization phase of EDP, as contemplated by Decree law no. 218-A/2004 of October 25, 2004.

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TAXATION

This section supplements, and should be read in conjunction with, the discussion contained in the attached base prospectus of certain Portuguese and U.S. federal income tax consequences of the ordinary shares or ADSs.

The statements regarding Portuguese and U.S. tax laws set forth below are based on the laws in force on the date of this prospectus supplement, which are subject to change.

You should consult your own tax advisers as to the tax consequences of the receipt, exercise, disposition and lapse of the rights in the light of your particular circumstances, including the effect of any state, local, or other national laws.

PORTUGUESE TAXATION

The following is a summary of the principal Portuguese tax considerations that are likely to be material to the purchase, ownership and disposition of ordinary shares or ADSs and to the receipt, exercise, disposition, and lapse of the rights if a holder is a non-resident of Portugal for Portuguese tax purposes, does not hold 10% or more of any class of our stock and does not hold our ordinary shares or ADSs through a permanent establishment in Portugal.

Resident holders for purposes of Portuguese taxation include collective entities having their registered office or effective place of management in Portugal and individuals having remained in Portuguese territory more than 183 days in any given calendar year or having the use of a dwelling in Portuguese territory at the end of any given calendar year which may imply their intention of using it as their habitual residence.

A non-resident holder may be broadly defined as any collective entity or individual not satisfying the above criteria. However, non-resident holders having a permanent establishment or a fixed installation in Portugal to which Portuguese-source income may be attributed will be taxed on such income under rules applicable to resident holders.

This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to non-resident holders, and does not address tax rules applicable to special classes of holders.

Furthermore, this summary is based on the tax laws of Portugal in effect on the date of this prospectus supplement, including the Convention between the United States of America and the Portuguese Republic for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income that together with the related Protocol is referred to in this prospectus supplement as the Treaty, and is subject to changes to those laws and practices or the Treaty subsequent to that date, which changes could be made on a retroactive basis.

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Prospective purchasers should consult their own advisers as to the tax consequences of the acquisition, ownership and disposition of ordinary shares or ADSs and of the receipt, exercise, disposition, and lapse of the rights in light of their particular circumstances, including the effect of any other national laws.

For purposes of the Treaty and for Portuguese tax purposes, a U.S. person holding ADSs will be treated as a beneficial owner of our ordinary shares represented by such ADSs.

Rights

The receipt, exercise, and lapse of rights are not taxable events under Portuguese tax legislation. However, the capital gains deriving from the disposition of the rights are subject to Portuguese tax, at a rate of 10%, when realised by resident individual holders, and at a rate of 25% (together with a possible local surcharge of up to 10%, thus leading to a maximum rate of 27.5%), when realised by resident corporate holders.

In general, capital gains realized by non-resident holders on the disposition of the rights are subject to tax at the rate of 10% when realized by non-resident individual holders, and at a rate of 25%, when realized by non-resident corporate holders.

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Non-resident corporate holders and non-resident individual holders of the rights to subscribe for ordinary shares or ADS are not subject to tax on the capital gains realised from their sale or other disposition, if (i) no more than 25% of the non-resident entity is owned, directly or indirectly, by resident entities, and (ii) the non-resident entity does not have as its place of residence a state or jurisdiction identified in a list of tax havens published by the Portuguese Ministry of Finance.

Under the Treaty, unless EDP is a Portuguese Real Property Holding Company (as defined below), capital gains derived from the sale of the rights to subscribe to ordinary shares or ADS, by a holder who is eligible for Treaty benefits will not be subject to Portuguese tax.

Dividends

Dividends paid in respect of shares or ADSs to non-residents generally are subject to a Portuguese withholding tax of 25% of the gross amount of the dividends.

Under article 59 of the Portuguese Tax Incentives Statute (*Estatuto dos Benefícios Fiscais*), only 50% of the dividends arising from shares acquired in a privatization process executed prior to December 31, 2002, including those resulting from share capital increases, are subject to taxation. This tax benefit is applicable up to five years after the date of the conclusion of the privatization process.

Pursuant to article 39 of Law no. 32-B/2002, of December 30, known as the Portuguese State Budget Law for 2003, dividends from shares of companies undergoing a privatization process, although not acquired within such process, may be, by ministerial order of the Minister of Finance, following a written request by an interested party, subject to taxation on only 50% of the gross amount distributed, as long as the following conditions are fulfilled:

evidence is shown of sector and general advantages resulting from the listing of the relevant shares;

payment by an interested party, by the end of the month following receipt of such ministerial order, of a tax amount corresponding to a 25% rate in respect of 50% of the dividends to be distributed until the end of the period during which dividends of privatized shares benefit from article 59 of the Portuguese Tax Incentives Statute (with this calculation being based on the amount of dividends most recently distributed); and

payment by an interested party of the tax differential between the amount determined in accordance with the previous condition and the amount of dividends actually distributed, if these are higher than those used for the provisional calculation.

Pursuant to article 39 of the Portuguese State Budget Law for 2003, we filed a request with the Minister of Finance and Public Administration for such an order to be granted. This request was approved by a ministerial order of the Minister of Finance and Public Administration dated November 4, 2004.

As a consequence, all the shares subject to the 5th privatization phase of EDP approved by the Reprivatization Decree Law shall benefit from the current regime applicable to EDP's shares currently listed on Euronext Lisbon.

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As such, only 50% of dividends (net of other income tax benefits) that are paid with respect to EDP shares prior to the end of fiscal year 2007 will be subject to Portuguese tax.

Whenever a shareholder benefits from a total or partial exemption of income taxes, withholding at the source with respect to the exempted amount will not take place upon presentation of proof by the interested party, before the paying entity, of the exemption that they benefit from.

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Under the Treaty, the rate of withholding tax on dividends distributed to U.S. residents eligible for Treaty benefits will not exceed 15%. Since Portuguese effective rates are at or below the Treaty rates, according to the Portuguese Tax Authority, at the present time it is not necessary for U.S. residents to claim Treaty benefits with respect to dividends paid on ordinary shares or ADSs.

Pro rata distributions of ordinary shares or rights to subscribe for ordinary shares are not treated as dividends for Portuguese tax purposes, and, therefore, are not subject to Portuguese withholding tax or the Portuguese substitute gift and inheritance tax. The Portuguese tax consequences of *pro rata* distributions of ordinary shares or rights to subscribe for ordinary shares may be subject to change.

Capital Gains

In general, capital gains realized by non-resident individuals on the transfer of ordinary shares or ADSs are subject to tax at the rate of 10% if those ordinary shares or ADSs were held for 12 months or less, and are not subject to tax if those ordinary shares or ADSs were held for more than 12 months. Capital gains realized by non-resident corporate holders on the transfer of ordinary shares or ADSs are subject to tax at the rate of 25%. Regardless of the length of time ordinary shares or ADSs have been held, however, non-resident corporate holders and non-resident individual holders of ordinary shares and ADSs are not subject to tax on capital gains in Portugal if the following three conditions are met:

no more than 25% of the non-resident entity is owned, directly or indirectly, by resident entities;

the non-resident entity does not have as its place of residence a state or jurisdiction identified in a list of tax havens published by the Portuguese Ministry of Finance; and

the capital gains do not arise from the transfer for consideration of shares or other participations in a Portuguese resident company the assets of which primarily are comprised (more than 50%) of immovable property located in Portugal or in a Portuguese resident company that controls such a company (a Portuguese Real Property Holding Company).

Under the Treaty, unless EDP is a Portuguese Real Property Holding Company, capital gains derived from the sale or other disposition of ordinary shares, including deposits of ordinary shares in exchange for ADSs, by an individual holder who is eligible for Treaty benefits will not be subject to Portuguese capital gains tax, regardless of the length of time our ordinary shares are held.

Gift and Inheritance Taxes

Gift and inheritance tax was abolished and as it relates to free transfers was substituted by (i) stamp duty, if the beneficiary is an individual, and (ii) corporate income tax, if the beneficiary is a corporate entity. Nonetheless, transfers by a non-resident of ordinary shares or ADSs by gift or at death will not be subject to Portuguese Stamp Duty provided the beneficiary is also a non-resident or otherwise if the beneficiary is the respective spouse, parents or children.

Portuguese Transaction Costs

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Pursuant to Decree law no. 183/2003 of August 19, 2003, which revoked Regulation no. 1303/2001 of November 22, 2001, as amended by Regulation no. 323/2002 of March 27, 2002, both issued by the Ministry of Finance, and pursuant to Regulation no. 913-I/2003 of August 30, 2003, also issued by the Ministry of Finance, fees applicable to securities transactions performed in a stock exchange, on other regulated securities markets or off-market were abolished and replaced by supervision fees that are paid by the entities subject to the supervision of the CMVM in connection with the performance of services in relation to securities, such as clearance and settlement services, registration or custodian services or portfolio management.

A stamp tax of 4.0% is payable on brokerage fees, bank settlement fees and bank commissions.

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Under current laws and practice, no Portuguese transfer fees, taxes or other charges are levied on the transfer of ADSs, other than the deposit or the withdrawal of ordinary shares, unless the transfer is made through a financial intermediary domiciled or established in Portugal. If the transfer is made through a financial intermediary domiciled or established in Portugal, the transfer may be regarded as a transfer of ordinary shares over the counter with the consequences stated above.

The status of Portuguese law with respect to transfer fees, taxes and other charges applicable to deposits and withdrawals of ordinary shares for ADSs is uncertain. Under current law and practice, a negotiable bank settlement fee and a stamp tax of 4.0% of the fee may apply to deposits and withdrawals of ordinary shares. However, Portuguese brokerage fees, bank commissions and stock exchange fees will not be levied on a deposit of ordinary shares in exchange for ADSs or a withdrawal of ordinary shares in exchange for the cancellation of ADSs, unless the deposit or withdrawal is made through a financial intermediary domiciled or established in Portugal. If a deposit or withdrawal of ordinary shares is made through a financial intermediary, the deposit or withdrawal may be regarded as a transfer of ordinary shares over the counter with the consequences stated above. Current practice with respect to the applicability of Portuguese transfer fees, taxes or other charges to deposits and withdrawals of ordinary shares is subject to change.

As a general matter, no transfer fees, stamp taxes, or other charges will be applicable to the receipt, exercise, disposition or lapse of the rights.

UNITED STATES TAX CONSIDERATIONS

The following discussion summarizes certain U.S. federal income tax considerations that may be relevant to you if you are a U.S. holder. You will be a U.S. holder if you are an individual who is a citizen or resident of the United States, a U.S. domestic corporation, or any other person that is subject to U.S. federal income tax on a net income basis in respect of an investment in our securities.

This summary is based on U.S. tax laws, regulations, rulings and decisions currently in effect, all of which may change. Any change could apply retroactively and could affect the continued validity of this summary.

You should consult your tax adviser about the tax consequences of the receipt, exercise, disposition and lapse of the rights, including the relevance to your particular situation of the considerations discussed below, as well as the relevance to your particular situation of state, local or other tax laws.

Receipt of Rights

A U.S. holder will not be subject to U.S. federal income taxation upon the receipt of the rights.

Basis

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If, as we expect, the value of the rights received by the U.S. holder does not equal or exceed 15% of the fair market value of the shares and ADSs in respect of which the rights were distributed, the holder's basis in the rights will be zero. A U.S. holder may elect, however, to allocate its basis in its existing shares and ADSs between those shares and ADSs and the rights based on their respective fair market values as of the date of distribution. A U.S. holder that wishes to make this election must attach a statement to this effect to its U.S. federal tax return for the taxable year in which the rights are received. The election will apply to all the rights received by the holder pursuant to the rights offering and, once made, will be irrevocable. A U.S. holder should consult its tax adviser regarding the advisability of and specific procedures for making such an election.

If on the date the rights are distributed, the fair market value of the rights equals or exceeds 15% of the fair market value of the shares and ADSs in respect of which the rights were distributed, the holder will be required to allocate its basis in its existing shares and ADSs between those shares and ADSs and the rights based on their respective fair market values.

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For these purposes, holders should use a reasonable method for computing the fair market value of the rights on the date of distribution, which may, in certain circumstances, include calculating the average value based on the highest and lowest trading values of the rights on the date of distribution.

The allocation of basis to rights will affect the measurement of gain or loss on a subsequent sale of rights or shares. The allocation will be disregarded if such U.S. holder allows the rights to expire. A U.S. holder will not recognize loss, and the holder's basis in existing shares and ADSs will not change, when a right expires unexercised.

Holding Period

A U.S. holder's holding period with respect to rights will be the same as its holding period for the shares or ADSs with respect to which the rights were received.

Exercise of Rights

The exercise of a right will not be a taxable transaction for U.S. federal income tax purposes. The basis of shares or ADSs acquired by exercising rights will equal the sum of the U.S. dollar equivalent of the share or ADS subscription price and the U.S. holder's basis (determined as described above), if any, in the rights. The holding period of the shares or ADSs acquired by exercising the rights will begin on the date such U.S. holder exercises the rights.

Sale of Rights

A U.S. holder generally will recognize capital gain or loss if the holder (or the ADS rights agent acting on its behalf) sells rights. The amount of this gain or loss will be based on the difference between the amount realized and the holder's tax basis, if any, in the rights. Any capital gain or loss will be U.S. source, and will be treated as long-term capital gain or loss if the holding period for the rights (which includes the holding period for the shares to which such rights are attributable) exceeds one year. If the U.S. holder is an individual, any long-term capital gain generally will be subject to U.S. federal income taxation at preferential rates. The deductibility of capital losses is subject to significant limitations.

Information Reporting and Backup Withholding

Proceeds from the sale of rights may be subject to information reporting to the Internal Revenue Service in the same circumstances (and subject to the same rules) as other assets. In addition, a U.S. backup withholding tax at a current rate of 28% may be imposed on specified payments to persons that fail to furnish required information. Backup withholding will not apply to a holder who furnishes a correct taxpayer identification number or certificate of foreign status and makes any other required certification, or who is otherwise exempt from backup withholding. Any U.S. persons required to establish their exempt status generally may do so by furnishing Internal Revenue Service Form W-9, entitled Request for Taxpayer Identification Number and Certification. Backup withholding is not an additional tax, and any amounts withheld as backup

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withholding may be credited against a holder's U.S. federal income tax liability. A holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the Internal Revenue Service in a timely manner and furnishing any required information.

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THE RIGHTS OFFERING

GENERAL INFORMATION

We are offering our shareholders the right to subscribe for offered shares pursuant to transferable subscription rights granted to them under Portuguese law. We have also arranged with Citibank, N.A., the depository for our ADSs, and accordingly the holder of record of the ordinary shares underlying the ADSs, to make available to holders of our ADSs ADS rights granted to them under contractual agreement. Holders of our ordinary shares will receive one share right evidencing the right to subscribe for 0.22 offered shares for each ordinary share that they own on the share record date. Holders of our ADSs will receive one ADS right evidencing the right to subscribe for 0.22 offered ADSs for each ADS that they own on the ADS record date. The rights include oversubscription rights to subscribe, at the relevant subscription price, for an additional number of offered shares or offered ADSs, as applicable, subject to certain limitations as described below.

Each eligible registered holder of ADSs will be sent a non-transferable ADS rights certificate evidencing ADS rights, instructions relating to the exercise of these ADS rights and the prospectus. Each eligible beneficial owner of ADSs will receive a book-entry credit of non-transferable ADS rights in their DTC participant accounts, instructions relating to the exercise of these ADS rights and the prospectus.

Each eligible certificated holder of ordinary shares whose registered address is in the United States will be sent a non-transferable provisional allotment letter evidencing share rights and containing instructions regarding acceptance and payment procedures and the prospectus. Each holder of ordinary shares in Portugal will receive a credit to its stock account in respect of its entitlement to share rights.

If all the rights are exercised, 656,537,715 new ordinary shares, including ordinary shares represented by ADSs, will be issued by us. We expect to have 3,656,537,715 ordinary shares, outstanding after the rights offering.

Further information about the rights, the procedures for exercising the rights and the transfer of the share rights, is summarized below.

RESTRICTIONS ON PARTICIPATION IN THE OFFERING BY CERTAIN ADS HOLDERS AND SHAREHOLDERS

The rights offering is only addressed to persons to whom it may lawfully be made. The distribution of the prospectus, and the exercise of any of the rights, may be restricted by law. Persons into whose possession the prospectus comes or who wish to exercise any of the rights must inform themselves about and observe any such restrictions. Any failure to comply with any of those restrictions may constitute a violation of the securities laws of any such jurisdiction. In particular, due to the restrictions under the securities laws of certain countries, shareholders resident in such countries, including Australia and South Africa, may not exercise rights.

SUBSCRIPTION BY HOLDERS OF ADSs

Timetable

The timetable below lists certain important dates relating to the rights offering. All time references are to New York City time.

Announcement of rights offering	November 4, 2004
ADS cum-rights date	November 4, 2004
ADS ex-rights date	Expected to be November 9, 2004
ADS record date	Close of business on November 12, 2004
Notice to ADS holders of ADS rights to which they are entitled	On or around November 12, 2004
Notice to brokers/dealers of terms of ADS rights offering	On or around November 12, 2004
Notice to ADS holders of terms of ADS rights offering	November 12, 2004
ADS subscription period commences	November 13, 2004
ADS subscription period ends	3.00 p.m. on November 23, 2004
Expected date for issuance and delivery of the offered ADSs and commencement of trading of offered ADSs on the NYSE ⁽¹⁾	On or around December 7, 2004

⁽¹⁾ No assurance can be given that the issuance and delivery of the offered shares will not be delayed.

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Citibank, N.A., the depositary for our ADSs, will act as ADS rights agent in respect of the offered ADSs offered hereby. The following is a summary of the important provisions of the rights agency agreement between us and the ADS rights agent, pursuant to which holders of ADSs will be entitled to subscribe for the offered ADSs.

ADS Rights

Holders of our ADSs will receive one ADS right for each ADS they held on the record date. Holders of ADS rights will be entitled to subscribe at the ADS subscription price for a number of ADSs determined by multiplying the number of ADS rights they own by the factor 0.22. Fractions of ADSs will not be issued and any fractions arising through the exercise of ADS rights will be rounded down to the nearest whole ADS. Subscriptions will be accepted for a whole number of ADSs only, although holders may exercise their rights to subscribe for offered ADSs in whole or in part.

Oversubscription Rights

ADS rights include oversubscription rights entitling holders of record on the record date to subscribe, at the ADS subscription price, for an additional number of offered ADSs, in the event that any offered shares (including offered ADSs) are not subscribed for pursuant to the initial exercise of rights.

In the event that the rights offering is oversubscribed pursuant to the exercise of oversubscription rights, the further offered ADSs available will be allocated to holders of ADS rights who have exercised their oversubscription rights. Such allocation will be prorated among oversubscribing ADS rights holders in proportion to their initial exercise of ADS rights in the event that the number of ADSs subscribed for pursuant to the exercise of oversubscription rights is greater than the number of offered shares, if any, (divided by ten) that the depositary is entitled to pursuant to the exercise of the oversubscription rights associated with the ordinary shares underlying the ADSs, and subject to any maximum limit specified by each oversubscribing holder.

Applications for offered ADSs pursuant to the exercise of oversubscription rights must be made together with subscriptions for offered ADSs pursuant to the initial exercise of ADS rights.

ADS Cum-Rights Date, ADS Ex-Rights Date and ADS Record Date

The ADSs began trading with ADS rights on the NYSE following our board meeting on November 4, 2004.

The ADS ex-rights date for the ADSs is expected to be November 9, 2004. The ADSs will begin trading on the NYSE without any rights on and after that date.

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The ADS record date for the purpose of determining entitlement to ADS rights is expected to be the close of business on November 12, 2004. The ADS rights will be credited through the book-entry system of DTC to the accounts of persons who held ADSs on the record date and certificates evidencing the ADS rights were sent via first class mail to holders of ADSs on the record date.

The ADS record date and the share record date are not the same. Therefore, the ADS facility for which Citibank, N.A. is the depository will be closed to both deposits of ordinary shares and cancellation of ADSs and withdrawal of underlying ordinary shares from the open of business on November 8, 2004 until the close of business on November 12, 2004 (or such other date as may be set for the ADS record date).

ADS Subscription Period

The ADS rights may be exercised during the period from 9.00 a.m. (New York City time) on November 13, 2004 to 3.00 p.m. (New York City time) on November 23, 2004, referred to as the ADS subscription period. **ADS rights that are not exercised by the end of the ADS subscription period will expire valueless without any compensation.**

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Any exercise of ADS rights will be irrevocable upon exercise and may not be canceled or modified after such exercise.

ADS Rights Agent

Citibank, N.A., which is the ADS depository under our deposit agreement, is acting as the ADS rights agent.

ADS Subscription Price

The ADS subscription price is U.S.\$23.70 per offered ADS subscribed. The ADS subscription price is the U.S. dollar equivalent of the share subscription price, using an exchange rate of U.S.\$1.2883 per Euro, multiplied by ten to reflect that each ADS represents ten ordinary shares. A subscriber of the offered ADSs must tender U.S.\$24.89 per offered ADS subscribed, which represents 105% of the ADS subscription price, upon the exercise of each ADS right. This is to increase the likelihood that the ADS rights agent will have sufficient funds to pay the ADS subscription price in light of possible U.S. dollar to euro exchange rate fluctuations.

The ADS rights agent expects to make the conversion from U.S. dollars into euros on November 24, 2004 at a market-based rate to pay the share subscription price for the offered shares underlying the offered ADSs (excluding any offered ADSs subscribed for pursuant to the exercise of oversubscription rights), and, if necessary, to make an additional conversion at a market-based rate on a subsequent date to purchase any offered ADSs subscribed for pursuant to the exercise of oversubscription rights. If there is any excess in U.S. dollars as a result of such conversion or conversions, the ADS rights agent will refund the excess U.S. dollar subscription price to the subscribing ADS holder without interest. However, if the U.S. dollar to euro exchange rate on the relevant date or dates is more than 5% lower than on such dates, the ADS rights agent will not issue and deliver the offered ADSs to such subscribing ADS holder until it has received payment of the deficiency.

ADS Subscription Procedures

You may exercise your ADS rights to subscribe for offered ADSs as follows:

Subscription by DTC participants.

If you hold ADSs through DTC, you can exercise your ADS rights by delivering completed subscription instructions for offered ADSs through DTC's PSOP Function on the agent subscriptions over PTS procedure and instructing DTC to charge your applicable DTC account for the ADS subscription price for the offered ADSs and to deliver such amount to the ADS rights agent. DTC must receive the subscription instructions and the payment of the ADS subscription price for the offered ADSs so as to allow DTC sufficient time to transmit the subscription instructions and payment of the ADS subscription price to the ADS rights agent prior to the expiration of the ADS subscription period. If the subscription instructions and payment are not received by the ADS rights agent by the end of the ADS subscription period, the ADS rights agent will not be authorized to and consequently will not, accept any delivery or exercise of subscription instructions with respect to ADS rights to which an owner is entitled.

Subscription by beneficial owners.

If you are a beneficial owner of ADSs and wish to subscribe for offered ADSs but are neither a DTC participant nor a registered holder of ADSs, you should timely contact the financial intermediary through which you hold ADSs and ADS rights to arrange for their exercise and to arrange for payment of the ADS subscription price.

Subscription by registered ADS holders.

If you are a holder of ADSs registered directly with the depositary, you can exercise your ADS rights by delivering to the ADS rights agent a properly completed ADS rights certificate and paying in full the estimated ADS subscription price for the offered ADSs. Payment must be made by certified check or bank draft payable to Citibank, N.A. EDP ADS Rights Offering, as ADS rights agent.

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The properly completed ADS rights certificate and payment should be delivered to:

By Mail:
Citibank, N.A.
Corporate Actions
P.O. Box 859208
Braintree, Massachusetts 02185-9208

By Hand:
Citibank, N.A.
c/o Securities Transfer
and Reporting Services, Inc.
Attn: Corporate Actions
100 Williams Street Galleria
New York, New York 10038

By Overnight Courier:
Citibank, N.A.
Corporate Actions
161 Bay State Drive
Braintree, Massachusetts 02184

The ADS rights agent must receive the ADS rights certificate and payment of the ADS subscription price on or before the end of the ADS subscription period. Deposit in the mail will not constitute delivery to the ADS rights agent. The ADS rights agent has discretion to refuse to accept any improperly completed or unexecuted ADS rights certificate.

You will elect the method of delivering the ADS rights certificate and paying the ADS subscription price to the ADS rights agent and you will bear any risk associated with it. If you send the ADS rights certificate and payment by mail, you should use registered mail, properly insured, with return receipt requested, and allow sufficient time to ensure delivery to the ADS rights agent.

For additional information regarding the completion of the ADS rights certificate, contact:

Georgeson Shareholder Communication Inc.

17 State Street 10 Floor

New York, New York 10004

(212) 440-9800

Toll-free: (800) 457-0179

The ADS rights agent will determine all questions about the timeliness, validity, form and eligibility of exercising the right to subscribe for offered ADSs. In our sole discretion, we may waive any defect or irregularity, or permit you to correct a defect or defects and irregularity within the time we determine. ADS rights certificates will not be considered received or accepted until we have waived all irregularities or you have cured them in time. Neither we nor the ADS rights agent has to notify you of any defect or irregularity in submitting an ADS rights certificate. We and the ADS rights agent will not incur any liability for failing to do so.

Partial Exercise of ADS Rights

Subject to the requirements for the exercise of ADS rights contained herein,

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in the event that you are a registered holder of ADS rights and you wish to exercise only a portion of your total ADS rights, you will need to deliver the applicable ADS rights certificate to the ADS rights agent along with the completed subscription instructions, and the ADS rights agent will employ commercially reasonable efforts to re-issue to you an ADS rights certificate evidencing the remaining balance of ADS rights not exercised held by you following the exercise; and

in the event that you are a beneficial owner of ADS rights and you wish to exercise only a portion of your total ADS rights, you will need to instruct the financial intermediary through which you hold your ADS rights to debit the ADS rights from the applicable book-entry account and deliver the ADS rights to the ADS rights agent and further instruct the ADS rights agent to subscribe only for the applicable number of ADS rights.

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Delivery of Offered ADSs

The offered ADSs will rank equally in all respects with existing ADSs. The ADS depositary will issue and deliver the offered ADSs as soon as practicable after the delivery of the underlying offered shares to the depositary's custodian by credit to its book-entry account with a financial intermediary registered in the CVM and admission of the offered shares to listing and trading on Euronext Lisbon.

Non-transferability of ADS Rights

The ADS rights are non-transferable. ADS rights that are not exercised by the end of the ADS subscription period will expire valueless without any compensation.

Trading of Offered ADSs

We have applied to list the offered ADSs on the NYSE. Trading of the ADSs subscribed for in the rights offering will commence on the NYSE under the symbol "EDP" after the registration of the resulting share capital increase with the Portuguese Commercial Registry in Lisbon, expected to be on or around December 7, 2004.

SUBSCRIPTION BY HOLDERS OF ORDINARY SHARES

Timetable

The timetable below lists certain important dates relating to the rights offering. All time references are to Lisbon time.

Announcement of rights offering	November 4, 2004
Share cum-rights date	November 4, 2004
Notice to shareholders of share rights	November 5, 2004
Notice to shareholders of terms of share rights offering	November 8, 2004
Share record date ⁽¹⁾	4.30 p.m. on November 8, 2004
Share ex-rights date	November 9, 2004
Share subscription period for exercise of rights commences	November 12, 2004
Trading of share rights commences on Euronext Lisbon	November 12, 2004
Trading of share rights ceases on Euronext Lisbon	4.30 p.m. on November 19, 2004
Exercises of share rights become irrevocable	Close of business on November 22, 2004
Expiration of subscription period	3.00 p.m. November 25, 2004
Expected date of issue of all offered shares	On or around December 2, 2004
Expected date for commencement of trading on Euronext Lisbon ⁽²⁾	On or around December 7, 2004

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- (1) If you acquire ordinary shares on an over-the-counter market, and such ordinary shares are delivered, between November 9, 2004 and November 11, 2004, the record date in respect of such ordinary shares is 7.00 p.m. on November 11, 2004.
- (2) No assurance can be given that the issuance and delivery of the offered shares will not be delayed.

Share Rights

Holders of our ordinary shares will receive one share right for each ordinary share they held on the record date. Holders of share rights will be entitled to subscribe at the share subscription price for a number of offered shares determined by multiplying the number of rights they own by the factor 0.22. Fractions of offered shares will not be issued and any fractions arising through the exercise of share rights will be rounded down to the nearest whole offered share. Purchases will be accepted for a whole number of offered shares only, although holders of ordinary shares may exercise their right to subscribe for offered shares in whole or in part.

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Oversubscription Rights

Share rights include oversubscription rights entitling holders of record on the record date to subscribe, at the share subscription price, for an additional number of offered shares, in the event that they are not subscribed for pursuant to the initial exercise of rights.

In the event that the rights offering is oversubscribed pursuant to the exercise of oversubscription rights, the further offered shares available will be allocated to holders of share rights who have exercised their oversubscription rights. Such allocation will be prorated among oversubscribing share rights holders in proportion to their initial exercise of share rights in the event that the number of shares subscribed for pursuant to the exercise of oversubscription rights is greater than the number of offered shares not initially subscribed for pursuant to the exercise of rights, if any, and subject to any maximum limit specified by each oversubscribing holder. The oversubscription right is not separable from the share right.

Share Cum-Rights Date, Share Record Date and Ex-Rights Date

The ordinary shares commenced trading with share rights on Euronext Lisbon following our board meeting on November 4, 2004.

The share record date for the purpose of determining entitlement to rights will be 4.30 p.m. (Lisbon time) on November 8, 2004, which will be the last day that the ordinary shares will trade with rights on Euronext Lisbon. At the start of business on November 12, 2004, the share rights will be credited through the book-entry system of the CVM to the accounts of persons who held ordinary shares on the record date.

The share ex-rights date for the ordinary shares will be November 9, 2004. The ordinary shares will begin trading on Euronext Lisbon without any rights on and after that date.

Share Subscription Period

The share rights may be exercised during the period from 8.30 a.m. (Lisbon time) on November 12, 2004 to 3.00 p.m. (Lisbon time) on November 25, 2004, referred to as the share subscription period. Share rights that are not exercised prior to the end of the subscription period will expire valueless without any compensation.

Any exercise of rights will become irrevocable after the close of business on November 22, 2004.

Share Subscription Price

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The share subscription price is 1.84 per offered share subscribed, which was the equivalent of U.S.\$2.37 on November 4, 2004. The share subscription price will be settled in accordance with instructions given by the CVM on or around November 30, 2004 in respect of offered shares subscribed for pursuant to the initial exercise of share rights and on or around December 2, 2004 in respect of offered shares subscribed for pursuant to the exercise of oversubscription rights.

Exercise of Share Rights

Each holder of share rights may exercise all or only part of its share rights, and may elect to exercise its oversubscription rights. Fractions of offered shares will not be issued and any fractions arising through the exercise of share rights will be rounded down to the nearest whole offered share. Each holder of rights can subscribe for offered shares pursuant to the exercise of share rights (including oversubscription rights) by delivering a duly executed subscription form to an authorized financial intermediary or by any other means approved by such authorized financial intermediary through whom the subscription is made. Subscription forms will be available during the subscription period at the rights offering coordinators' branches in Portugal.

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The authorized financial intermediary through whom the subscription was made may require any person exercising share rights to pay or block the share subscription price for the offered shares being subscribed for in a deposit account as a condition to accepting the relevant subscription.

Subscriptions must be received prior to 3.00 p.m. (Lisbon time) on November 25, 2004. Any persons exercising share rights will bear any risk associated with the delivery of their subscriptions and the payment of the share subscription price for the offered shares being subscribed for. Deposits in the mail will not constitute delivery. Each holder of share rights who wishes to exercise such rights should consult with the financial intermediary through which it holds its ordinary shares and such share rights as to the manner, timing and form of exercise documentation, method of payment of the share subscription price and other related matters required to effect such exercise.

Following the end of the subscription period and the receipt from the CVM of details of all subscriptions, the rights offering coordinators, will determine the aggregate number of offered shares subscribed for pursuant to the exercise of rights. The rights offering coordinators will publish a notice in the Euronext Lisbon bulletin, giving details of the number of offered shares (excluding any remaining offered shares) subscribed for pursuant to the exercise of share rights and oversubscription rights in the rights offering.

Transfer of Rights

Subject to compliance with relevant securities laws, the share rights are freely transferable and are expected to trade on Euronext Lisbon under the symbol EDPDS from 8.30 a.m. (Lisbon time) on November 12, 2004 to 4.30 p.m. (Lisbon time) on November 19, 2004.

The Depository will not issue ADS rights in exchange for share rights.

Delivery of Offered Shares

Upon due exercise of any share rights and payment of the share subscription price, the authorized financial intermediary with whom the subscription was made will register with the CVM such holder's name or such holder's nominee's name and the amount of the exercised share rights. We expect to issue the offered shares on or around December 2, 2004. Following the registration of the resulting share capital increase with the Portuguese Commercial Registry in Lisbon, the issued offered shares will be delivered to subscribers by credit of such offered shares to each subscriber's individual book-entry securities account. This is expected to take place on or around December 7, 2004. However, we can give no assurance that such issuance and delivery will not be delayed.

The offered shares will rank equally in all respects with existing ordinary shares. The offered shares will confer other rights, including voting rights, from their date of issuance; however, these are, in practice, exercisable by their holders only from the date of the registration of the relevant resulting share capital increase with the Portuguese Commercial Registry in Lisbon and credit of the relevant offered shares to the subscriber's individual book-entry securities account with a financial intermediary registered with the CVM.

Trading of Share Rights and Offered Shares

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We have applied to list the offered shares on Euronext Lisbon. Trading of the offered shares subscribed for in the rights offering is expected to commence on or around December 7, 2004 on Euronext Lisbon under the symbol EDP after the registration of the resulting share capital increase with the Portuguese Commercial Registry in Lisbon, expected to be on or around December 6, 2004.

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Underwriting

The underwriters have severally agreed, subject to certain conditions, to procure subscribers, or otherwise themselves to subscribe, for, and we have agreed to issue to the subscribers procured by the underwriters or to the underwriters, as the case may be, at the share subscription price, any remaining offered shares. See Underwriting.

Rights Offering Coordinators

BCP Investimento Banco Comercial Português de Investimento, S.A., or Millennium bcp investimento, and Caixa Banco de Investimento, S.A., or CaixaBI, are acting as rights offering coordinators with respect to the rights offering. In their roles as rights offering coordinators, Millennium bcp investimento and Caixa BI are responsible for the preparation of, and the coordination of the process for registering the rights offering and obtaining the approval of the Portuguese language prospectus by the CMVM.

Corporate Authorizations

At our extraordinary general meeting held on October 7, 2004, the shareholders approved an amendment to our Articles of Association granting authorization to the board of directors to increase our share capital. This authorization provided the board of directors with the ability to effect a one-time increase of our nominal share capital through the receipt of cash by a maximum of 1.2 billion on or before March 31, 2005. Our nominal share capital is presently 3 billion. The amendment was enacted by public deed dated October 21, 2004, and has been registered at the *Conservatória do Registo Comercial de Lisboa*.

Table of Contents**UNDERWRITING**

We and the underwriters for the rights offering named below have entered into an underwriting agreement, dated July 29, 2004, with respect to the offered shares not subscribed for pursuant to the exercise of the rights including the oversubscription rights. The underwriters have severally agreed to procure subscribers, or otherwise themselves to subscribe, for, and we have agreed to issue to the subscribers procured by the underwriters or to the underwriters, as the case may be, at the share subscription price, any remaining offered shares in the percentages specified below. See The Rights Offering.

<u>Underwriter</u>	<u>Percentage to be Subscribed for</u>
Goldman Sachs International	20%
Morgan Stanley & Co. International Limited	20%
UBS Limited	20%
Caixa Geral de Depósitos, S.A.	18%
Caixa Banco de Investimento, S.A.	2%
Banco Comercial Português, S.A.	20%
Total	100%

The underwriting agreement is subject to the fulfillment of certain conditions, and may be terminated upon the occurrence of certain events, including certain events of force majeure, the termination of our agreements to acquire Hidrocantábrico and the breach of representations and warranties by us under the underwriting agreement. Should the underwriting agreement be terminated, if there are any remaining offered shares, holders who have exercised their rights would effectively be unable to subscribe for the offered ADSs or offered shares, as the case may be, as the share capital increase will not be effective unless the offering is fully subscribed.

We have agreed to pay the underwriters (i) a commitment fee of \$ 8.5 million, which represents 0.05% of the aggregate subscription price for the offered shares (including offered ADSs) subscribed for pursuant to the rights offering, or the aggregate subscription price, for each full week from the date of the underwriting agreement until the pricing date (as defined in the underwriting agreement being November 4, 2004), and (ii) a selling commission of \$ 9.1 million, which represents 0.75% of the aggregate subscription price, together with an incremental fee based on the extent of the discount to the theoretical ex-rights price of our ordinary shares in connection with the offering of \$ 13.9 million, which represents 1.15% of the aggregate subscription price. In addition, we have agreed to pay the joint global coordinators a management commission of \$ 9.1 million, which represents 0.75% of the aggregate subscription price and may, in our discretion, pay the joint global coordinators an additional discretionary commission of \$ 4.2 million, which represents 0.35% of the aggregate subscription price. In the event that all of the offered shares are subscribed for pursuant to the exercise of rights, the underwriters will have no obligation to subscribe for any offered shares under the underwriting agreement, but will be entitled to receive their commission.

In the event that the underwriters are required to pay us the share subscription price and subscribe for or procure subscribers for any remaining offered shares, any resale of such offered shares (or offered ADSs, as the case may be) by the underwriters will be for their own account and not on our behalf or on behalf of any non-exercising holders. The underwriters may enter into arrangements with certain investors to sub-underwrite a portion of the obligations of the underwriters described above. Any such sub-underwriter will receive a portion of the commission we pay to the underwriters.

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We have agreed that during the period beginning from July 29, 2004 and continuing to and including the date 180 days after the date of delivery of the offered shares and the offered ADSs, we will not (a) offer, sell, contract to sell or otherwise dispose of any of our ordinary shares or any of our other securities that are substantially similar to our ordinary shares or offered ADSs (except for offered shares or offered ADSs offered in connection with this rights offering and in connection with the agreements relating to the acquisition by us of an additional interest in the share capital of Hidrocantábrico), including, but not limited to, any securities that are

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convertible into or exchangeable for, or that represent the right to receive of our ordinary shares or ADSs, or any such substantially similar securities (other than pursuant to employee stock option plans existing on July 29, 2004), and (b) take any action to permit the waiver of or consent to the release of restrictions imposed on resales of offered shares subscribed for in the rights offering, in each case without the prior written consent of the joint global coordinators.

Subscribers for offered shares may be required to pay taxes and other charges in accordance with the laws and practices of their country in addition to the initial subscription price.

Subject to applicable laws and regulations, the joint global coordinators may engage in transactions that stabilize the price of the ordinary shares and the ADSs. These transactions consist of bids or purchases for the purpose of preventing or retarding a decline in the market price of the ordinary shares and ADSs. If the joint global coordinators create a short position in the ordinary shares or the ADSs in connection with the global offering that is, if they sell more ordinary shares or ADSs than are set forth on the cover page of this prospectus supplement the joint global coordinators may reduce that short position by purchasing ordinary shares or ADSs in the open market.

In addition, subject to compliance with applicable law, the underwriters may engage in trading activity for the purpose of hedging the underwriters' commitments under the underwriting agreement. Such activity may include purchases and sales of securities of the Company and related or other securities and instruments, including ordinary shares, ADSs, rights and ADS rights.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the shares or the ADSs. In addition, neither we nor any of the underwriters make any representation that the joint global coordinators will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Other than with respect to the admission to listing, trading and/or quotation by Euronext Lisbon and the NYSE, no action has been or will be taken in any country or jurisdiction by us or the underwriters that would permit a public offering of the offered shares or offered ADSs, or possession or distribution of the prospectus or any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands the prospectus comes are required by us and the underwriters to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver the offered shares or have in their possession or distribute the prospectus or such other offering material, in all cases at their own expense.

Sales of offered shares or offered ADSs in the United States are being made only through each underwriter's respective NASD-registered broker-dealer affiliates in the United States.

For Investors in Spain

The rights have not been and will not be marketed, offered or delivered and the offered shares have not been and will not be marketed, offered or sold to persons in Spain other than to holders of existing shares, except as permitted by Spanish law. This prospectus has not been verified by or registered in the administrative registries of the Spanish *Comisión Nacional del Mercado de Valores* and, therefore, it is not intended to be used for any marketing, offering, delivery or sale of the rights or the offered shares to the public in Spain.

For Investors in the United Kingdom

In the United Kingdom, the offered shares will only be available for purchase pursuant to the offering to a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses. The underwriters (i) have not offered or sold and, prior to

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the expiry of a six-month period from the closing date of the offering, will not offer or sell any offered shares to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which do not constitute an offer to the public in the United Kingdom within the meaning of Public Offers of Securities Regulations 1995; (ii) have only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (FSMA)) received by any of them in connection with the offering of the offered shares in circumstances in which section 21(1) of the FSMA does not apply to them or us; and (iii) have each complied and will comply with all applicable provisions of the FSMA with respect to anything done by them in relation to the offered shares in, from or otherwise involving the United Kingdom.

For Investors in France

No prospectus (including this prospectus or any amendment, supplement or replacement thereto) subject to the approval (visa) of the *Autorité des marchés financiers* has been prepared in connection with the offering. The offered shares may not be offered or sold to the public in France and neither this prospectus, nor any other offering material or information contained therein relating to the offered shares may be released, issued or distributed or caused to be released, issued or distributed to the public in France, or used in connection with any offering in respect of the offered shares to the public in France. The offering shall be made in France only to qualified investors (*investisseurs qualifiés*) acting for their own account as defined in article L. 411-2 of the French *Code Monétaire et Financier* and Décret no. 98-880 dated October 1, 1998. The direct or indirect resale to the public in France of any offered shares acquired by such qualified investors may be made only as provided by articles L. 412-1 and L. 621-8 of the French *Code Monétaire et Financier* and applicable regulations thereunder. Persons into whose possession this prospectus or any amendment, supplement or replacement thereto come must inform themselves about and observe any such restrictions. The offering does not constitute a solicitation by anyone not authorized to so act and this prospectus may not be used for or in connection with the offering to solicit anyone to whom it is unlawful to make the offering.

For Investors in Italy

Neither the rights nor the offered shares will be offered, sold or delivered, nor copies of this prospectus or any other document relating to the rights or the offered shares will be distributed, in Italy other than (i) to no more than 200 persons resident in Italy who will have been individually identified, will receive a personalized copy of the prospectus, and will be allowed to participate in the rights offering exclusively on their own account, and/or (ii) to professional investors (*operatori qualificati*) as defined in Article 31, paragraph 2 of CONSOB Regulation No. 11522 of July 1, 1998, as amended (Regulation No. 11522) who will be allowed to participate in the rights offering exclusively on their own account or on the account of other persons who qualify as professional investors. Further, any such permitted offer, sale or delivery of rights or offered shares or distribution of copies of this prospectus or any other document relating to the rights or the offered shares offered in Italy shall be: (i) made by investment firms, banks or financial intermediaries permitted to conduct such activities in Italy in accordance with Legislative Decree No. 385 of September 1, 1993, Legislative Decree No. 58 of February 24, 1998, Regulation No. 11522, and any other applicable laws and regulations; and (ii) made in accordance with Italian securities, tax and exchange control laws and regulations, and in compliance with any other applicable notification requirement or limitation which may be imposed upon the offer of the rights or the offered shares in Italy by CONSOB.

For Investors in Japan

Neither the rights nor the offered shares have been or will be registered under the Securities and Exchange Law of Japan, and, accordingly, will not be offered or sold directly or indirectly in Japan or to, or for the benefit of, any Japanese Person or to others for re-offering or resale directly or indirectly in Japan or to any Japanese

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Person except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities in effect at the relevant time. For purposes of this paragraph, "Japanese Person" means any person resident in Japan, including any corporation or other entity organized under the laws of Japan.

Any investor purchasing rights or the offered shares in the rights offering is solely responsible for ensuring that any offer or resale of the rights or the offered shares it purchased occurs in compliance with applicable laws and regulations. The offering documents and the information contained therein are intended only for the use of their recipient and are not to be distributed to any third party resident or located in Italy for any reason. No person resident or located in Italy other than the original recipient of this document may rely on it or its content.

The underwriters and their respective affiliates have performed and may in the future perform investment banking services for us in the ordinary course of their business.

We estimate that the total expenses of the rights offering, excluding underwriting commissions, will be approximately 3.1 million. See "Expenses" below.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act. In addition, we have agreed to reimburse the underwriters for certain of their expenses.

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The table on the following page sets forth the estimated expenses to be paid by us in connection with the issuance and distribution of the securities being registered.

Securities and Exchange Commission registration fee	U.S.\$84,500
Legal fees and expenses	1,800,000
Accounting fees and expenses	1,300,000
Printing and engraving expenses	140,000
Miscellaneous	640,000
	<hr/>
Total	U.S.\$3,964,500
	<hr/>

EXPERTS

Our audited consolidated financial statements as of December 31, 2003 and 2002 and for each of the three years in the three-year period ended December 31, 2003 incorporated in the prospectus by reference to our Annual Report on Form 20-F for the year ended December 31, 2003 have been so included in reliance on the audit report of PricewaterhouseCoopers, independent registered public accounting firm, given on the authority of said firm as experts in accounting and auditing. PricewaterhouseCoopers is registered with the *Ordem dos Revisores Oficiais de Contas*.

LEGAL MATTERS

Morais Leitão, Galvão Teles, Soares da Silva & Associados (new name following merger process currently under way) will pass upon certain matters of Portuguese law for us. Cleary, Gottlieb, Steen & Hamilton will pass upon the validity of the offered ADSs and certain matters of New York law for us. Cleary, Gottlieb, Steen & Hamilton may rely upon Morais Leitão, Galvão Teles, Soares da Silva & Associados (new name following merger process currently under way) with respect to certain matters of Portuguese law. Uría & Menéndez, Portuguese counsel for the underwriters will pass upon certain matters of Portuguese law for the underwriters. Shearman & Sterling LLP will pass upon the validity of the offered ADSs and certain matters of New York law for the underwriters.

ENFORCEABILITY OF CIVIL LIABILITIES

We are a limited liability company (*sociedade anónima*) organized under the laws of the Portuguese Republic. All of our directors and executive officers, as well as certain experts named in the prospectus or in documents incorporated by reference, are resident outside the United States, and all or a substantial portion of our assets and the assets of such persons are located outside the United States, namely in Portugal. As a result, it may be difficult for you to effect service of process within the United States upon these persons or to enforce against them judgments obtained in U.S. courts predicated upon civil liabilities under the U.S. federal securities laws. Therefore, you may need to enforce U.S. courts' judgments in the Portuguese courts. Based on the opinion of Morais Leitão, Galvão Teles, Soares da Silva & Associados, our Portuguese counsel, there is doubt as to the enforceability in Portugal, whether in original actions or in actions for enforcement of judgments of U.S. courts, of liabilities

predicated solely upon the U.S. federal securities laws.

WHERE YOU CAN FIND MORE INFORMATION ABOUT EDP

We have filed with the SEC a registration statement on Form F-3 under the Securities Act of 1933. The prospectus does not contain all of the information included in the registration statement, certain parts of which have been omitted in accordance with the rules and regulations of the SEC. For further information about EDP

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and our ADSs and ordinary shares, you should refer to our registration statement and its exhibits. The prospectus summarizes the contents of contracts and other documents that we refer you to. Since the prospectus may not contain all of the information that is important to you, you should review the full text of these documents. We have included copies of these documents as exhibits to our registration statement.

We file reports, including annual reports on Form 20-F, and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any materials filed with the SEC at its Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. As a foreign private issuer, we have been required to make filings with the SEC by electronic means since November 2002. Any filings we make electronically are available to the public over the Internet at the SEC's web site at www.sec.gov and at our web site at www.edp.pt.

We provide Citibank, N.A., as depositary, under the deposit agreement between us, the depositary and registered holders of the ADRs evidencing our ordinary shares, with annual reports in English, including a review of operations, and annual audited consolidated financial statements prepared in conformity with generally accepted accounting principles in Portugal, or Portuguese GAAP, together with a reconciliation of operating income, net income and total stockholders' equity to generally accepted accounting principles in the United States, or U.S. GAAP. We also furnish the depositary with unaudited semi-annual consolidated financial statements prepared in accordance with Portuguese GAAP. Upon receipt of these reports, the depositary promptly mails them to all record holders of ADSs. We also furnish to the depositary in English all notices of meetings of holders of shares and other reports and communications that are made generally available to holders of shares. The depositary will mail to all holders of ADSs a notice containing the information (or a summary of the information) contained in any notice of a shareholders' meeting received by the depositary and will make available to all holders of ADSs such notices and all other reports and communications received by the depositary in the same manner as we make them available to holders of shares.

WHERE YOU CAN FIND MORE INFORMATION ABOUT THE RIGHTS OFFERING

The terms and procedures of the rights offering are described in this prospectus supplement under "Summary The Rights Offering" and "The Rights Offering." You may refer any questions regarding the rights offering to the ADS information agent or the rights offering coordinators, as applicable, and questions regarding the completion of the ADS rights certificate to the ADS information agent:

<i>ADS Information Agent</i>	<i>Rights Offering Coordinators</i>	
Georgeson Shareholder Communication, Inc.	BCP Investimento Banco Comercial	
17 State Street 10th Floor New York, New York 10004 (212) 440-9800 Toll-free: (800) 457-0179	Português de Investimento, S.A. Av José Malhoa, 1686 1070-157 Lisbon, Portugal Telephone: + 351 21 721 8000	Caixa Banco de Investimento, S.A. Rua Barata Salgueiro, 33 1269-057 Lisbon, Portugal Telephone: +351 21 313 7300

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PROSPECTUS

U.S.\$2,000,000,000

EDP Energias de Portugal, S.A.

Debt Securities and Ordinary Shares

EDP Energias de Portugal, S.A., or EDP Energy of Portugal, may offer securities pursuant to this prospectus from time to time with an aggregate initial offering price of up to U.S.\$2,000,000,000 (or the equivalent amount in other currencies, currency units or composite currencies). One or more accompanying prospectus supplements will specify the terms of the securities and the manner in which they will be offered.

Our ordinary shares trade in the form of ADSs which are listed on the New York Stock Exchange under the symbol EDP . The last reported sale price of our ADSs on the New York Stock Exchange on October 20, 2004 was U.S.\$29.70 per ADS.

We may sell these securities directly or to or through underwriters or dealers, and also to other purchasers or through agents. The names of any underwriters or agents will be set forth in an accompanying prospectus supplement.

*Investing in these securities involves certain risks. See **Risk Factors** on page 3.*

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

October 27, 2004

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the U.S. Securities and Exchange Commission (which we refer to as the SEC) utilizing a shelf registration process. Under this shelf process, EDP may sell or issue securities in one or more offerings with an aggregate initial offering price of up to U.S.\$2,000,000,000 (or the equivalent amount in other currencies, currency units or composite currencies).

This prospectus provides you only with a general description of the securities that we may offer. Each time we offer securities pursuant to this prospectus, we will attach a prospectus supplement to the front of this prospectus that will contain specific information about the particular offering and the terms of those securities. The prospectus supplements may also add, update or change other information contained in this prospectus. The registration statement that we filed with the SEC includes exhibits that provide more detail on the matters discussed in this prospectus. Before you invest in any securities offered by this prospectus, you should read this prospectus, any related prospectus supplements and the related exhibits filed with the SEC, together with the additional information described under the headings *Where You Can Find More Information* and *Incorporation of Certain Documents by Reference*.

Our consolidated financial statements are published in euro. As used in this prospectus and in any prospectus supplement, the terms *EDP*, *we*, *us* and *our* refer to EDP Energias de Portugal, S.A. (formerly known as EDP Electricidade de Portugal, S.A.) and, as applicable to its consolidated subsidiaries. Unless we specify otherwise or the context otherwise requires, references to *U.S.\$*, *\$*, and *U.S. dollars* are to United States dollars and references to *or euro* are to the euro, the single European currency established pursuant to the European Economic and Monetary Union.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. We may from time to time make forward-looking statements in our reports to the SEC on Form 20-F and Form 6-K, in our annual report to shareholders, in offering circulars and prospectuses, in press releases and other written materials, and in oral statements made by our officers, directors or employees to analysts, institutional investors, representatives of the media and others.

These forward-looking statements, including, among others, those relating to our future business prospects, revenues and income, wherever they may occur in this prospectus, the documents incorporated by reference in this prospectus and the exhibits to this prospectus, are necessarily estimates reflecting the best judgment of our senior management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. As a consequence, you should consider these forward-looking statements in light of various important factors, including those set forth in this prospectus. Important factors that could cause actual results to differ materially from estimates or projections contained in the forward-looking statements include, without limitation:

the effect of, and changes in, regulation and government policy, including, in particular, Portuguese government and municipal concessions and environmental regulations;

the effect of, and changes in, macroeconomic, social and political conditions in countries in which we operate;

the effects of competition, including competition that may arise in connection with the development of an Iberian electricity market;

our ability to reduce costs;

hydrological conditions and the variability of fuel costs;

anticipated trends in our business, including trends in demand for electricity;

our success in developing our telecommunications business;

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our success in new businesses, such as gas;

future capital expenditures and investments;

the timely development and acceptance of our new services;

the effect of technological changes in electricity, telecommunications and information technology; and

our success at managing the risks of the foregoing.

Forward-looking statements speak only as of the date they are made. We do not undertake to update such statements in light of new information or future developments.

EDP

We are the largest generator and distributor of electricity in Portugal. In addition, we own 30% of REN, the sole transmitter of electricity in Portugal, and we have significant electricity operations in Spain and Brazil. We also have investments, notably in gas utilities, which we regard as complementary to our core electricity business. In 2000, we expanded our business to include telecommunications and information technology.

Our principal executive offices are located at Praça Marquês de Pombal, 12, 1250-162 Lisbon, Portugal. Our telephone number at this location is +351-21-001-2500.

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RISK FACTORS

In addition to the other information included and incorporated by reference in this prospectus, you should carefully consider the following factors. There may be additional risks that we do not currently know of or that we currently deem immaterial based on information currently available to us. Our business, financial condition or results of operations could be materially adversely affected by any of these risks, resulting in a decline in the trading price of our ordinary shares or ADSs.

RISKS RELATED TO OUR CORE ELECTRICITY BUSINESS

The competition we face in the generation and supply of electricity is increasing, which may affect our electricity sales and operating margins.

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

In Portugal, while we currently face limited competition from independent power producers in generation, we expect that this competition will increase as the industry further liberalizes. Portuguese law requires that contracts for the construction of future power plants in Portugal in the Binding Sector be awarded through competitive tender processes, in which we expect to participate. In a competitive tender process, we may lose opportunities to generate electricity in the Binding Sector in Portugal. For further information on the Binding Sector and the structure of the Portuguese electricity market, see Information on the Company Portugal Electricity System Overview.

In addition, the Portuguese government has implemented selected measures to encourage the development of various forms of electricity production, including auto production (entities generating electricity for their own use that may sell surplus electricity to the national transmission grid), cogeneration, small hydroelectric production (under 10 MVA installed capacity) and production using renewable sources. As an incentive from the Portuguese government, the electricity generated by these producers has been granted priority of sale in the Binding Sector. In 2003, the installed capacity of these producers was 1,885 MW, which represents 17% of the total installed capacity in Portugal. Through its subsidiaries, EDP participates in this generation area with an installed capacity of 272 MW.

The Portuguese regulatory structure now allows for competition in the supply of electricity, which could adversely affect our sales of electricity. In particular, as more electricity consumers elect to participate in the market-based Non-Binding Sector in Portugal, more electricity will be sold in the competitive markets, where prices may be lower than existing tariffs. The effects of this increased competition have not yet been fully determined, as full liberalization in the supply of electricity was only achieved on August 18, 2004.

Despite the complete liberalization of the Spanish generation and wholesale market since January 1, 2003, the majority of consumers have not changed their electricity supplier. Until now, this liberalization has mainly produced effects among medium- and high-voltage consumers. Although fixed rate tariffs are expected to predominate, at least in the short and medium term, among Spanish electricity consumers, especially low voltage consumers, there could be a more pronounced move to contractually-agreed prices in the future and these prices could be lower than regulated tariffs.

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In the context of liberalization of the electricity market within the European Union, since the end of 2001, the Portuguese and Spanish governments have entered into several agreements for the creation of an Iberian electricity market, referred to as MIBEL, the main principles of which are free competition, transparency, objectiveness and efficiency. The stated intent of MIBEL is to guarantee Portuguese and Spanish consumers access to electricity distribution and to create interconnections with third countries on equal conditions applicable to Portugal and Spain. In addition, it is intended that the production of electricity by producers in Portugal and

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Spain be subject to similar regulation, thereby allowing producers in one country to execute bilateral agreements for electricity distribution to consumers in the other country and facilitating the creation of an Iberian common electricity pool.

The scope of increased competition and any adverse effects on our operating results and market share resulting from the full liberalization of the European electricity markets, and in particular the Portuguese and Spanish electricity markets, combined with the opening of MIBEL, (which is expected to occur by June 30, 2005) will depend on a variety of factors that cannot be assessed with precision and that are beyond our control. Accordingly, we cannot anticipate the risks and advantages that may arise from this market liberalization. When further implemented, the organizational model and resulting competition may materially and adversely affect our business, results of operations and financial condition.

Our core electricity operating results are affected by laws and regulations, including regulations regarding the prices we may charge for electricity.

As an electricity public service, we operate in a highly regulated environment. An independent regulator appointed by the Portuguese government, the *Entidade Reguladora dos Serviços Energéticos*, referred to as ERSE, or the regulator, regulates the electricity industry through, among other things, a tariff code that defines the prices we may charge for electricity services in the Binding Sector. In attempting to achieve an appropriate balance between, on the one hand, the interests of electricity customers in affordable electricity and, on the other hand, our need and the needs of other participants in the electricity sector to generate adequate profit, the regulator may take actions that adversely impact our profitability.

The final tariff collected by EDP Distribuição, or EDPD, our distribution company in Portugal, is calculated on the basis of a unitary tariff by level of electricity tension defined by ERSE, subject to a yearly adjustment on the basis of the Portuguese consumer price index, or CPI, less an efficiency factor. During the current regulatory period (2002-2004), the efficiency factor has increased from 5% (applicable during the 1999-2001 regulatory period) to approximately 7%. In addition, on the basis of this formula, net tariffs charged by EDPD have decreased in 2004 compared to 2003, which could adversely affect our profitability in 2004. In light of the expected implementation of the agreements creating MIBEL, we estimate that a new regulatory period will be established with a duration of only one year. The tariffs set for that period or any new regulations promulgated in that period may adversely affect our business, results of operations and financial condition.

The current and future legislation contemplating the early termination of the PPAs could eventually adversely affect our revenues.

Following the Resolution of the Council of Ministers no. 63/2003 of April 28, 2003 relating to the promotion of liberalization of the electricity and gas markets in furtherance of the organizational structure of MIBEL, the Portuguese government enacted Decree law no. 185/2003 of August 20, 2003, which contemplates the eventual early termination of existing power purchase agreements, or PPAs, in accordance with conditions to be set out in a separate decree law not yet enacted. Decree law no. 185/2003 of August 20, 2003 provides for the creation of compensation measures ensuring electricity generating companies an economic benefit equivalent to that of the PPAs and the EU Commission announced, on September 20, 2004, that the stranded cost compensation mechanism notified by the Portuguese government is not contrary to the state aid rules of the European Union. However, the amount of, and the criteria for determining, the compensation have not yet been defined and our generation revenues could otherwise be adversely affected if our generation sales are not made on terms substantially similar to those previously made to REN, the sole transmitter of electricity in Portugal. In addition, our operating margins may be adversely affected by new costs that are currently compensated through PPAs.

If our concessions from the Portuguese government and municipalities were terminated, we could lose control over our fixed assets.

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Most of our revenues currently come from the generation and distribution of electricity. We conduct these activities pursuant to concessions and licenses granted by the Portuguese government and various municipalities.

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These concessions and licenses are granted for fixed periods ranging in most cases from 20 to 75 years, but are subject to early termination under specified circumstances. The expiration or termination of concessions or licenses would have an adverse effect on our operating revenues. Upon expiration of licenses or termination of concessions, the fixed assets associated with licenses or concessions will, in general, revert to the Portuguese government or a municipality, as appropriate. Although specified compensatory amounts would be paid to us with respect to these assets in these circumstances, the loss of these assets may adversely affect our operations.

Our operational cash flow is affected by variable hydrological conditions.

Hydroelectric plants, which are powered by water, account for approximately 54% of our generation capacity in mainland Portugal. Our hydroelectric generation in Portugal is dependent on the amount and location of rainfall and river flows from Spain, all of which vary widely from year to year. Consequently, there is a high degree of variation in levels of hydroelectric production.

In years of less favorable hydrological conditions, we generate less hydroelectricity and must rely more heavily on thermal production to meet demand for electricity. Thermal generation, which is fired by coal, fuel oil, natural gas or a combination of fuels, is more expensive in terms of variable costs than hydroelectric generation. Our total variable production costs and costs of purchased electricity in a very dry year can vary from those in a very wet year by approximately 200 million. These increased costs in a dry year could have an adverse impact on our operational cash flow but not our results of operations, due to the effects of the hydrological correction account, which is a legally mandated mechanism that adjusts for variation in hydrological conditions across different years. For further information on the hydrological correction account, see Operating and Financial Review and Prospects Critical Accounting Policies Revenue Recognition Hydrological Account.

Our electricity business is subject to numerous environmental regulations that could affect our results of operations and financial condition.

Our electricity business is subject to extensive environmental regulations. These include regulations under Portuguese law, laws adopted to implement EU regulations and directives and international agreements on the environment. Environmental regulations affecting our business primarily relate to air emissions, water pollution, waste disposal and electromagnetic fields. The principal waste products of fossil-fueled electricity generation are sulfur dioxide, or SO₂, nitrogen oxides, or NO_x, carbon dioxide, or CO₂, and particulate matters such as dust and ash. A primary focus of environmental regulation applicable to our business is to reduce these emissions.

We incur significant costs to comply with environmental regulations requiring us to implement preventive or remediation measures. For example, we expect to make approximately 40 million of capital expenditures in 2004 to comply with applicable environmental laws and regulations to minimize the impact of our operations on the environment. Environmental regulatory measures may take such forms as emission limits, taxes or required remediation measures, and may influence our policies in ways that affect our business decisions and strategy, such as by discouraging our use of certain fuels.

Under the EU Directive relating to the emission of pollutants from Large Combustion Plants, Portuguese environmental authorities are currently creating a plan, called the National Emissions Reduction Plan, to reduce SO₂ and NO_x emissions. This plan is expected to be formally approved at the end of 2004. Additionally, with regard to CO₂ emissions, new proposals defining greenhouse gas emission reduction measures were put forward for public comment in 2003, and are expected to be implemented in Portugal later this year. Although we expect to be in timely compliance with these new requirements, such requirements could necessitate additional licenses or the acquisition of emission rights and result in higher electricity costs.

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We also have an interest in a nuclear power plant through Hidroantábriico, which holds a 15.5% interest in the Trillo nuclear power plant in Spain. Nuclear operations use and generate radioactive and hazardous substances that have the potential to seriously impact human health and the environment.

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There are particular risks associated with the operation of nuclear power stations, including accidents, the breakdown or failure of equipment or processes or human performance, including safety controls, and other catastrophic events that could result in the dispersal of radioactive material over large areas, thereby causing injury or loss of life and extensive property or environmental damage. Liabilities we may incur in connection with these risks could significantly reduce our revenues and increase our expenses and result in negative publicity and reputational damage. In addition, insurance proceeds may not be adequate to cover all liabilities incurred, lost revenue or increased expenses.

For further information on environmental matters, see [Information on the Company Environmental Matters](#) below.

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RISKS RELATED TO OUR OTHER BUSINESSES

Our involvement in international activities subjects us to particular risks that could affect our profitability.

Our investments in Brazil and in other countries present a different or greater risk profile than that of our electricity business in Portugal and Spain. Risks associated with our investments outside of Portugal and Spain include, but are not limited to:

economic volatility;

exchange rate fluctuations and exchange controls;

strong inflationary pressures;

government involvement in the domestic economy;

political uncertainty; and

unanticipated changes in regulatory or legal regimes.

We cannot assure you that we will successfully manage our operations in Brazil and other international operations.

Exchange rate instability and, in particular, fluctuations in the value of the Brazilian real against the value of the U.S. dollar (depreciation of 52% during 2002 and appreciation of 18% during 2003) may result in uncertainty in the Brazilian economy, which may affect the results of our Brazilian operations. In addition, we are exposed to translation risk when the accounts of our Brazilian businesses, denominated in Brazilian reais, are translated into our consolidated accounts, denominated in euro. We cannot predict movements in Brazil's currency, and, since long-term Brazilian currency hedges are not available, a major devaluation of the real might adversely affect our results of operations and financial condition.

Regulatory, hydrological and infrastructure conditions in Brazil may adversely affect our Brazilian operations.

We hold interests in Brazilian distribution companies and have invested in Brazilian generation projects. In the past, our distribution activities and generation projects in Brazil have been adversely affected by regulatory, hydrological and infrastructure conditions in Brazil. These conditions could have a similar adverse effect on our Brazilian generation and distribution operations in the future.

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

The Brazilian electricity rationing program started in June 2001 and ended in February 2002 had an adverse effect on electricity consumption and on consumption habits in affected areas. Current consumption levels have not yet recovered to pre-rationing levels. This lower consumption has affected, and is expected to continue to affect, the demand for electricity supply with our distribution companies in Brazil. Consequently, in 2002 and 2003, our Brazilian operations could only dispose of surplus electricity at depressed prices.

In 2004, laws regarding the so-called New Model for the Brazilian electric utility sector were approved. As the regulations for the New Model have not yet been implemented, there is a risk that the new regulations may not be favorable for us. In addition, the New Model contemplates significant control by the Brazilian government, creating uncertainty regarding competition and further investments in the private sector.

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Tariffs of distribution companies in Brazil currently consist of two components: non-manageable costs and manageable costs. The main purpose of this split is the maintenance of an adjusted tariff for inflation and the sharing of efficiency gains with consumers. The aim of distribution tariffs is to pass non-manageable costs through and to index manageable costs to inflation. Although it is expected that the New Model will maintain the pass-through of non-manageable costs, there might be delays in readjustment of the tariffs in the event of large macro-economic fluctuations (e.g., inflation and exchange rates). We cannot assure you that regulations implementing the New Model will fully mitigate the risk of delayed tariff adjustments.

We face various risks in our telecommunications business, including increasing competition from various types of service providers.

The telecommunications sector is highly competitive within Portugal and Spain and across the EU, and we expect competition to remain vigorous and even increase in the future.

In the fixed line telephone area, we compete for market share primarily with Portugal Telecom, or PT, which historically held a monopoly on fixed line services in Portugal and continues to hold a dominant position in this market. We also face competition from other fixed line operators in Portugal.

Our fixed line telephone business also faces strong indirect competition from cellular telephone service providers, particularly those in the voice segment. Mobile subscriptions have already overtaken the number of fixed line connections in Portugal and we expect this growth to continue.

We also face significant competition from numerous existing operators in the Internet and data services areas, both of which we have targeted, and we expect that new competitors will emerge as these markets continue to evolve.

We face managerial, commercial, technological and regulatory risks, as well as other risks, related to our telecommunications activity. Our ability to develop and successfully achieve profitability in this area may be affected if we are not able to manage these risks and this business efficiently in a competitive market. In 2003, our telecommunications activity generated a loss before taxes of 148.7 million.

We face new risks and uncertainties related to our activities in the gas sector.

We intend to develop an Iberian gas business as complimentary to and strategically aligned with our electricity business, as described in more detail in Strategy Iberian Energy Developing an Iberian Gas Business. The development of a significant position in the Portuguese gas sector depends on the closing of the acquisition provided for in the agreement we entered in March 2004 to purchase, together with Eni and REN, the entire share capital of GDP, the largest gas distribution company in Portugal. The completion of the agreement and related transactions is subject, among other conditions, to approval of the relevant competition authorities, which has been requested and in connection with which the EU Commission has decided to initiate proceedings under article 6.1(c) of Commercial Regulation (EC) no. 139/2004 of January 20, 2004 on the control of concentrations between undertakings. We may also face difficulties integrating this business with our current activities and the development of the business will expose us to new risks, including governmental and environmental industry regulation and economic risks relating to the fluctuations in the price of energy, currencies and time-lags between purchase and sale prices. We cannot assure you that we will successfully manage the development of our gas business, and a failure to do so could have an adverse effect on our business, results of operations or financial condition.

OTHER RISKS

The value of our ordinary shares and/or ADSs may be adversely affected by future sales of substantial amounts of ordinary shares by the Portuguese government or the perception that such sales could occur.

According to the enacted, but not published, decree law, known as the Reprivatization Decree Law, the Portuguese government may, after a period of 180 days following the verification of the results of the rights offering, sell all or a portion of its shareholding in us. Sales of substantial amounts of our ordinary shares by the Portuguese government, or the perception that such sales could occur, could adversely affect the market prices of

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our ordinary shares and ADSs and could adversely affect our ability to raise capital through subsequent offerings of equity.

Restrictions on the exercise of voting rights, as well as special rights granted to the Portuguese government, may impede an unauthorized change in control and may limit our shareholders' ability to influence company policy.

Under our articles of association, no holder of ordinary shares, except the Portuguese Republic and equivalent entities, may exercise voting rights that represent more than 5% of our voting share capital. In addition, specific notification requirements are triggered under our articles of association when shareholders purchase 5% of our ordinary shares and under the Portuguese Securities Code when purchases or sales of our ordinary shares cause shareholders to own or cease to own specified percentages of our voting rights.

Pursuant to article 10 of the Reprivatization Decree Law, special rights granted to the Portuguese government by Decree law no. 141/2000 of July 15, 2000 are to be maintained for so long as the Portuguese government is an EDP shareholder. These rights provide that, without the favorable vote of the government, no resolution can be adopted at our general meeting of shareholders relating to:

amendments to our by-laws, including share capital increases, mergers, spin-offs or winding-up;

authorization for us to enter into group/partnership or subordination agreements; or

waivers of, or limitations on, our shareholders' rights of first refusal to subscribe to share capital increases.

The Portuguese government may also appoint one member of our board of directors whenever the government votes against the list of directors presented for election at our general meeting of shareholders.

Table of Contents**RATIO OF EARNINGS TO FIXED CHARGES**

The following table sets forth our consolidated ratios of earnings to fixed charges for each year in the five-year period ended December 31, 2003, and for the six-month period ended June 30, 2004, in accordance with Portuguese GAAP and U.S. GAAP. The ratio of earnings to fixed charges is computed by dividing earnings by fixed charges. Earnings represents pre-tax income from continuing operations before minority interests or income or loss from equity investees, fixed charges, amortization of capitalized interest and distributed income of equity affiliates, less capitalized interest. Fixed charges includes interest expense (including amortized premiums, discounts and capitalized expenses related to indebtedness).

	<u>Year ended December 31,</u>					<u>Six-month</u>
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>period</u> <u>ended</u> <u>June 30,</u>
						<u>2004</u>
Portuguese GAAP	8.26	5.05	3.37	3.31	2.45	3.28
U.S. GAAP	9.95	4.38	3.55	3.28	2.97	5.20

Table of Contents**CAPITALIZATION AND INDEBTEDNESS**

The table below sets forth our capitalization and indebtedness as of June 30, 2004. You should read this table in conjunction with the consolidated financial statements and notes.

	<u>As of June 30, 2004</u>
	<u>(In thousands)</u>
Short term debt and current portion of medium and long term debt	1,649,066
Medium and long term debt:	
Bank loans	2,197,415
Bonds	3,513,451
Commercial paper	100,000
Total debt	7,459,932
Shareholders equity:	
Authorized and issued share capital (nominal value of shares)	3,000,000
Treasury stock	(55,577)
Reserves and retained earnings	2,144,946
Consolidated net profit	274,852
Total shareholders equity	5,364,221
Total capitalization (1)-(4)	12,824,153

- (1) The issued share capital is fully paid.
- (2) As of June 30, 2004, no undertaking within the EDP Group, either individually or collectively, had any guarantees or other contingent liabilities outside the EDP Group, which were material in the context of the EDP Group.
- (3) As of June 30, 2004, the indebtedness of the EDP Group was unsecured, except for 5.7 million of the total medium long-term debt of EDP Group which was guaranteed.
- (4) There has been no material change to the consolidated capitalization and indebtedness, contingent liabilities or guarantees of EDP since June 30, 2004.

USE OF PROCEEDS

Unless otherwise indicated in an accompanying prospects supplement, we intend to use the net proceeds from the sale of the securities for general corporate purposes, including funding working capital and capital expenditures and repaying debt.

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LEGAL OWNERSHIP OF DEBT SECURITIES

In this prospectus and any prospectus supplement, we refer to those who have securities we are offering registered in their own names, on the books that we or the trustee maintain for this purpose, as the holders of those securities. Those persons are the legal holders of those securities. We refer to those who, indirectly through others, own beneficial interests in securities that are not registered in their own names as indirect holders of those securities. As we discuss below, indirect holders are not legal holders, and investors in debt securities issued in book-entry form or in street name will be indirect holders.

Book-Entry Holders

We will issue these debt securities in book-entry form. This means the debt securities will be represented by one or more global debt securities registered in the name of a financial institution that holds them as depositary on behalf of other financial institutions that participate in the depositary's book-entry system. These participating institutions, in turn, hold beneficial interests in the debt securities on behalf of themselves or their customers.

Under the indenture, only the person in whose name a debt security is registered is recognized as the holder of that debt security. Consequently, for debt securities issued in global form, we will recognize only the depositary as the holder of the debt securities and we will make all payments on the debt securities to the depositary. The depositary passes along the payments it receives to its participants, which in turn pass the payments along to their customers who are the beneficial owners. The depositary and its participants do so under agreements they have made with one another or with their customers; they are not obligated to do so under the terms of the debt securities.

As a result, investors will not own debt securities directly. Instead, they will own beneficial interests in a global debt security through a bank, broker or other financial institution that participates in the depositary's book-entry system or holds an interest through a participant. As long as the debt securities are issued in global form, investors will be indirect holders, and not holders, of the debt securities.

Street Name Holders

If in the future we terminate the global debt securities, investors may choose to hold their debt securities in their own names or in street name. Debt securities held by an investor in street name would be registered in the name of a bank, broker or other financial institution that the investor chooses, and the investor would hold only a beneficial interest in those debt securities through an account he or she maintains at that institution.

For debt securities held in street name, we will recognize only the intermediary banks, brokers and other financial institutions in whose names the debt securities are registered as the holders of those debt securities and we will make all payments on those debt securities to them. These institutions pass along the payments they receive to their customers who are the beneficial owners, but only because they agree to do so in their customer agreements or because they are legally required to do so. Investors who hold debt securities in street name will be indirect holders, not holders, of those debt securities.

Legal Holders

Our obligations, as well as the obligations of the trustee and those of any third parties employed by us or the trustee, run only to the holders of the debt securities. We do not have obligations to investors who hold beneficial interests in global debt securities, in street name or by any other indirect means. This will be the case whether an investor chooses to be an indirect holder of a debt security or has no choice because we are issuing the debt securities only in global form.

For example, once we make a payment or give a notice to the holder, we have no further responsibility for the payment or notice even if that holder is required, under agreements with depositary participants or customers or by law, to pass it along to the indirect holders but does not do so. Similarly, if we want to obtain the approval of the holders for any proposal for example, to amend the indenture or to relieve us of the consequences of a

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default or of our obligation to comply with a particular provision of the indenture we would seek the approval only from the holders, and not from the indirect holders, of the debt securities. Whether and how the holders contact the indirect holders is up to the holders.

When we refer to you, we mean those who invest in the debt securities being offered by this prospectus, whether they are the holders or only indirect holders of those debt securities. When we refer to your debt securities, we mean the debt securities in which you hold a direct or indirect interest.

Special Considerations for Indirect Holders

If you hold debt securities through a bank, broker or other financial institution, either in book-entry form or in street name, you should check with your own institution to find out:

how it handles securities payments and notices;

whether it imposes fees or charges;

how it handles voting, if applicable;

whether and how you can instruct it to send you debt securities registered in your own name so you can be a direct holder of debt securities, if that is permitted in the future;

how and when you should notify it to exercise on your behalf any rights or options that may exist under the debt securities;

how it would pursue rights under the debt securities if there were a default or other event triggering the need for holders to act to protect their interests; and

if the debt securities are in book-entry form, how the depository's rules and procedures will affect these matters.

We Will Issue the Debt Securities in Global Form

Any debt securities we issue in book-entry, or global, form will be represented, at least initially, by one or more global debt securities.

What Is a Global Debt Security

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A global debt security is a debt security that we deposit with and register in the name of a financial institution, or its nominee, that we select. The financial institution that we select for this purpose is called the depository. We have selected The Depository Trust Company of New York, New York, known as DTC, to be the depository for the debt securities, at least initially.

A global debt security may not be transferred to or registered in the name of anyone other than the depository or its nominee, unless special termination situations arise. We describe those situations below under **Special Situations When a Global Debt Security Will be Terminated**. As a result of those arrangements, the depository, or its nominee, will be the sole registered owner and holder of all the debt securities, and investors will be permitted only to own beneficial interests in a global debt security. Beneficial interests must be held by means of an account with a broker, bank or other financial institution that in turn has an account with the depository or has an account with another institution that does. Thus, an investor whose debt security is represented by a global debt security will not be a holder of the debt security, but only an indirect holder of a beneficial interest in the global debt security.

The debt securities will be represented by one or more global debt securities, except in certain limited circumstances. We describe these situations below under **Special Situations When a Global Debt Security Will be Terminated**. If termination occurs, we may issue the debt securities through another book-entry clearing system or decide that the debt securities may no longer be held through any book-entry clearing system.

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Special Considerations for Global Debt Securities

As an indirect holder, an investor's rights relating to a global debt security will be governed by the account rules of the investor's financial institution and of the depositary, as well as general laws relating to securities transfers. We do not recognize this type of investor as a holder of debt securities and instead deal only with the depositary that holds the global debt security.

Because the debt securities will be issued only in the form of global debt securities, an investor should be aware of the following:

An investor cannot cause the debt securities to be registered in his or her own name, and cannot obtain non-global certificates for his or her interest in the debt securities, except in the special situations we describe below.

An investor will be an indirect holder and must look to his or her bank or broker for payments on the debt securities and protection of his or her legal rights relating to the debt securities, as we describe above under **Legal Ownership of Debt Securities**.

An investor may not be able to sell interests in the debt securities to some insurance companies and other institutions that are required by law to own their securities in non-book-entry form.

An investor may not be able to pledge his or her interest in a global debt security in circumstances where certificates representing the debt securities must be delivered to the lender or other beneficiary of the pledge in order for the pledge to be effective.

The depositary's policies, which may change from time to time, will govern payments, transfers, exchanges and other matters relating to an investor's interest in a global debt security. We and the trustee have no responsibility for any aspect of the depositary's actions or for its records of ownership interests in a global debt security. We and the trustee also do not supervise the depositary in any way.

The depositary will require that those who purchase and sell interests in a global debt security within its book-entry system use immediately available funds.

Financial institutions that participate in the depositary's book-entry system, and through which investors hold their interests in the global debt securities, may also have their own policies affecting payments, notices and other matters relating to the debt securities. There may be more than one financial intermediary in the chain of ownership for an investor. We do not monitor and are not responsible for the actions of any of those intermediaries.

Special Situations When a Global Debt Security Will Be Terminated

In a few special situations described below, a global debt security will be terminated and interests in it will be exchanged for certificates representing the debt securities previously represented by the global debt security. After that exchange, the choice of whether to hold the debt securities directly or in street name will be up to each investor. Investors must consult their own banks and brokers to find out how to have their interests in a global debt security transferred on termination to their own names, so that they will be holders. We have described the rights of holders and street name investors above under **Legal Ownership of Debt Securities**.

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The special situations for termination of the global debt securities are:

if the depositary notifies us that it is unwilling or unable to continue as depositary and we fail to appoint a successor depositary within a certain amount of time;

if we notify the trustee that we elect to terminate the global debt securities; or

if an event of default has occurred and is continuing; we discuss defaults below under Default, Remedies and Waiver of Default.

If a global debt security is terminated, only the depositary, and not we or the trustee, is responsible for deciding the names of the institutions in whose names the debt securities represented by the global debt security will be registered and, therefore, who will be the holders of those debt securities.

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You Can Hold Interests in Global Debt Securities Through Euroclear or Clearstream, Luxembourg, as Indirect Participants in DTC

As long as DTC is the depository for the global debt securities, you may hold an interest in a global debt security through any organization that participates, directly or indirectly, in the DTC system, including Euroclear and Clearstream, Luxembourg. If you are a participant in either of those systems, you may hold your interest directly in that system. If you are not a participant, you may hold your interest indirectly through organizations that are participants in that system.

Euroclear and Clearstream, Luxembourg are securities clearance systems in Europe, and they participate indirectly in DTC. Euroclear and Clearstream, Luxembourg will hold interests in the global debt securities on behalf of the participants in their systems, through securities accounts they maintain in their own names with their depositories for their customers. Those depositories, in turn, are participants in DTC and hold those interests in securities accounts they maintain in their own names with DTC. Euroclear and Clearstream, Luxembourg clear and settle securities transactions between their participants through electronic, book-entry delivery of securities against payment.

DTC Rules Will Also Apply to Debt Securities Held Through Euroclear and Clearstream, Luxembourg

If you hold an interest in a global debt security through Euroclear or Clearstream, Luxembourg, that system will credit the payments we make on your debt security to the account of your Euroclear or Clearstream, Luxembourg participant in accordance with that system's rules and procedures. The participant's account will be credited only to the extent that the system's depository receives these payments through the DTC system. Payments, notices and other communications or deliveries relating to the debt securities, if made through Euroclear or Clearstream, Luxembourg, must comply not only with the rules and procedures of those systems, but also with the rules and procedures of DTC, except as described below.

Trading in the debt securities between Euroclear participants or between Clearstream, Luxembourg participants will be governed only by the rules and procedures of those systems. We understand that, at present, those systems' rules and procedures applicable to trades in conventional eurobonds will apply to trades in the debt securities, with settlement in immediately available funds.

Special Considerations for Cross-Market Transfers

Subject to the transfer restrictions applicable to the debt securities described above, cross-market transfer of debt securities *i.e.*, transfers between investors who hold or will hold their interests through Euroclear or Clearstream, Luxembourg, on the one hand, and investors who hold or will hold their interests through DTC but not through Euroclear or Clearstream, Luxembourg, on the other hand will be governed by DTC's rules and procedures in addition to those of Euroclear or Clearstream, Luxembourg. If you hold your debt security through Euroclear or Clearstream, Luxembourg and you wish to complete a cross-market transfer, you will need to deliver transfer instructions and payment, if applicable, to Euroclear or Clearstream, Luxembourg, through your participant, and that system in turn will need to deliver them to DTC, through that system's depository.

Because of time-zone differences between the United States and Europe, any debt securities you purchase through Euroclear or Clearstream, Luxembourg in a cross-market transfer will not be credited to your account at your Euroclear or Clearstream, Luxembourg participant until the business day after the DTC settlement date. For the same reason, if you sell debt securities through Euroclear or Clearstream, Luxembourg in a cross-market transfer, your cash proceeds will be received by the depository for that system on the DTC settlement date but will not be credited

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to your participant's account until the business day following the DTC settlement date. In this context, "business day" means a business day for Euroclear or Clearstream, Luxembourg.

The description of the clearing and settlement systems in this section reflects our understanding of the rules and procedures of DTC, Euroclear or Clearstream, Luxembourg as currently in effect. Those systems could change their rules and procedures at any time. We have no control over those systems, and we take no responsibility for their activities.

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DESCRIPTION OF DEBT SECURITIES

*In this section, references to we, us and our refer to EDP Electricidade de Portugal, S.A. only and do not include our consolidated subsidiaries. References to holders mean those who have debt securities registered in their own names, on the books that we or the trustee maintain for this purpose, and not those who own beneficial interests in debt securities issued in book-entry form through the Depository Trust Company or in debt securities registered in street name. Owners of beneficial interests in the debt securities should read the subsection entitled *Legal Ownership of Debt Securities*. The specific terms of any series of debt securities issued under this prospectus will be described in the prospectus supplement applicable to the particular issuance.*

The Debt Securities Will Be Issued Under an Indenture

Any debt securities we offer will be governed by an indenture. An indenture is a contract between a trustee and us. The trustee has two main roles.

First, the trustee can enforce your rights against us if we default. There are some limitations on the extent to which the trustee acts on your behalf, which we describe below under [Default, Remedies and Waiver of Default](#).

Second, the trustee performs administrative duties for us, such as sending you interest payments and notices.

Unless otherwise specified in the applicable prospectus supplement we will issue debt securities under an indenture between us and the trustee named therein. The indenture and its associated documents, including the debt securities we are offering, contain the full legal text of the matters summarized in this section. We have filed a copy of the indenture with the SEC as an exhibit to the registration statement of which this prospectus forms a part. Upon request, we will provide you with copies of the indenture. See [Where You Can Find More Information](#) below for information on how to obtain copies.

This Description is Only a Summary

The following section summarizes material terms of the debt securities that are common to all series, unless otherwise indicated in this section or in the prospectus supplement relating to a particular series.

Because this section is a summary, it does not describe every aspect of the debt securities. This summary is subject to and qualified in its entirety by reference to all the provisions of the indenture, including the definition of various terms used in the indenture. For example, we describe the meanings for only the more important terms that have been given special meanings in the indenture.

The indenture and the debt securities are governed by New York law. We have consented in the indenture to the non-exclusive jurisdiction of any U.S. federal and state courts sitting in the borough of Manhattan in the City of New York.

How the Debt Securities Rank Against Other Debt

The debt securities will not be secured by any of our property or assets or any property or assets of any of our subsidiaries. Thus, by owning these debt securities, you are one of our unsecured creditors. These debt securities will rank equally with all of our other unsecured and unsubordinated indebtedness, except as required by law. This means that, in a bankruptcy or liquidation proceeding against us, these debt securities would rank equally in right of payment with all our other unsecured and unsubordinated debt.

Stated Maturity and Maturity

The day on which the principal amount of the debt securities is scheduled to become due is called the stated maturity of the principal. The principal may become due sooner, by reason of redemption or acceleration after a default. The day on which the principal actually becomes due, whether at the stated maturity or earlier, is called the maturity of the principal.

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We also use the terms *stated maturity* and *maturity* to refer to the dates when interest payments become due. For example, we may refer to a regular interest payment date when an installment of interest is scheduled to become due as the *stated maturity* of that installment. When we refer to the *stated maturity* or the *maturity* of the debt securities without specifying a particular payment, we mean the stated maturity or maturity, as the case may be, of the principal.

Payment of Additional Amounts

We are required to make all our payments under or with respect to the debt securities 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) (hereinafter *taxes*) imposed or levied by or on behalf of the relevant tax jurisdiction, unless we are required to withhold or deduct taxes by law or by the interpretation or administration thereof.

If we are so required to withhold or deduct any amount for or on account of taxes imposed by a relevant tax jurisdiction from any payment made under or with respect to the debt securities, we will be required to pay such additional amounts (*additional amounts*) as may be necessary so that the net amount received by any holder (including additional amounts) after such withholding or deduction will not be less than the amount you would have received if such taxes had not been withheld or deducted; provided, however, that the foregoing obligation to pay additional amounts does not apply to, or with respect 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 beneficial owner of a debt security (or between a fiduciary, settlor, beneficiary or member, or possessor of power over the relevant holder, if the relevant holder is an estate, nominee or trust) and the relevant tax jurisdiction (other than the mere receipt of such payment or the ownership or holding outside of the relevant tax jurisdiction of such debt security);

(2) any estate, inheritance, gift, sales, excise, transfer, personal property tax or similar tax, assessment or governmental charge;

(3) any tax that is imposed, deducted or withheld by reason of the failure by the holder or the beneficial owner of a debt security to comply with any requirement or provision under a statute, treaty, regulation, or administrative practice of the relevant tax jurisdiction requiring or allowing such holder or beneficial owner to establish entitlement to exemption from or reduction of all or part of such tax;

(4) any tax that is payable otherwise than by deduction or withholding from a payment of, or in respect of, principal of (or premium, if any, on), or any interest on, a debt security;

(5) any tax imposed in connection with a debt security presented for payment by or on behalf of a holder or beneficial owner who would have been able to avoid such tax by presenting the relevant debt security to, or otherwise accepting payment from, another payment agent;

(6) any taxes that are required to be withheld or deducted on a payment to an individual pursuant to any European Union Council Directive regarding taxation of savings income (including European Council Directive 2003/48/EC) or pursuant to any law implementing or complying

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with, or introduced in order to conform to any such Directive;

(7) any payments that could have been made without such deduction or withholding if the beneficiary of the payment had presented the debt security for payment within 30 days after the date on which such payment or such debt security became due and payable or the date on which payment thereof is duly provided for, whichever is later (except to the extent that such beneficiary would have been entitled to additional amounts had the debt security been presented on the last day of such 30-day period);

(8) any payment of principal of (or premium, if any, on) or interest on such debt security to any holder who is a fiduciary or partnership or any person other than the sole beneficial owner of such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the

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beneficial owner of such payment would not have been entitled to the additional amounts had such beneficiary, settlor, member or beneficial owner been the actual holder of such debt security; or

(9) any combination of items (1) through (8) above.

As used in this section:

tax jurisdiction means the Portuguese Republic or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax in which EDP becomes tax resident; and

the relevant date means the date on which such payment first becomes due or funds become available for payment.

Optional Redemption

We will not be permitted to redeem the debt securities we are offering before their stated maturity, except as we describe below. The debt securities will not be entitled to the benefit of any sinking fund that is, we will not deposit money on a regular basis into any separate custodial account to repay your debt securities. In addition, you will not be entitled to require us to buy your debt securities from you before their stated maturity except as described below under Repurchase at the Option of Holders.

Unless otherwise indicated in the applicable prospectus supplement, we will be entitled, at our option, to redeem some or all of the outstanding debt securities of any series from time to time at the redemption price set forth in the applicable prospectus supplement. If the debt securities of any series are redeemable only on or after a specified date or upon the satisfaction of additional conditions, the prospectus supplement will specify the date or describe the conditions. In each case we will also pay you accrued and unpaid interest, if any, through the redemption date. Debt securities will stop bearing interest on the redemption date, even if you do not collect your money.

Tax Redemption

If, as a result of any amendment to, or change in, the laws (or any rules or regulations thereunder) of Portugal or any political subdivision or taxing authority thereof or therein affecting taxation, or any amendment to or change in or official interpretation or application of such laws, rules or regulations, which amendment to or change of such laws, rules or regulations becomes effective on or after the date on which a series of debt securities is issued, we would be obligated, after taking such measures as we may consider reasonable to avoid this requirement, to pay additional amounts in excess of amounts that would be payable as of the date hereof (see Additional Amounts and Taxation Portuguese Tax Considerations), then, at our option, all, but not less than all, of the debt securities of such series may be redeemed at any time on giving not less than 30 nor more than 60 days' notice at a redemption price equal to 100% of the outstanding principal amount, plus accrued and unpaid interest and any additional amounts due thereon, up to but not including the date of redemption (subject to the right of holders on the relevant record date to receive interest due (if any) on the relevant interest payment date); *provided, however*, that (1) no notice of redemption for tax reasons may be given earlier than 90 days prior to the earliest date on which we would be obligated to pay these additional amounts if a payment on the debt securities of such series were then due, and (2) at the time such notice of redemption is given such obligation to pay such additional amounts remains in effect.

Prior to the publication of any notice of redemption pursuant to this provision, we will deliver to the trustee:

a certificate signed by one of our duly authorized representatives stating that we are entitled to effect the redemption and setting forth a statement of facts showing that the conditions precedent to our right to redeem have occurred, and

an opinion of Portuguese legal counsel (which may be our counsel) of recognized standing to the effect that we have or will become obligated to pay such additional amounts as a result of such change or amendment.

This notice, once delivered by us to the trustee, will be irrevocable.

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We will give notice to DTC pursuant to the provisions described under Notices of any redemption we propose to make at least 30 days (but not more than 60 days) before the redemption date.

Repurchase at the Option of Holders

In the event of any change in control (as defined below) occurring prior to the maturity date of the debt securities, each holder of debt securities will have the right, at the holder's option, to require us to repurchase all or any portion (*provided that* such portion is U.S.\$1,000 or an integral multiple thereof) of the principal amount of the holder's debt securities on the date that is 60 days after the date we provide notice of the change in control, at a cash price equal to the sum of

100% of the principal amount of, and any premium on, the debt securities being repurchased,

accrued and unpaid interest thereon to but not including the holder repurchase date,

any original issue discount applicable to such security, and

any additional amounts that would otherwise be payable.

Within seven business days after the occurrence of a change in control, we are obligated to mail to the trustee and to all holders of debt securities at their addresses shown in the register of the registrar a notice regarding the change in control, stating, among other things:

the date and time on which the repurchase right must be exercised,

the applicable repurchase price,

the repurchase date,

the procedures that holders of debt securities must follow to exercise the repurchase right,

the conversion rate then in effect, if applicable, and the procedures that holders of debt securities must follow to exercise the right to convert the principal amount of the securities to be repurchased, and

the place that debt securities must be surrendered for redemption and payment of the repurchase price.

To exercise this right, the holder must deliver written notice to the trustee or to any other office or agency maintained for that purpose of the exercise of the repurchase right prior to the close of business on the repurchase date. The repurchase notice must state among other things:

the portion of the principal amount at maturity of debt securities to be repurchased, and

a statement that an election to exercise the repurchase right is being made.

Any repurchase notice may be withdrawn by the holder by a written notice of withdrawal delivered to the trustee or to any other office or agency maintained for that purpose on or prior to the holder repurchase date. The notice of withdrawal shall state the principal amount at maturity to which the withdrawal notice relates and the principal amount at maturity, if any, that remains subject to the original repurchase notice.

Payment of the repurchase price for debt securities for which a repurchase notice has been delivered and not withdrawn is conditioned upon delivery of the debt securities to the trustee or to any other office or agency maintained for that purpose, at any time (whether prior to, on or after the repurchase date) after delivery of the holder repurchase notice. Payment of the repurchase price for the debt securities will be made promptly following the later of the repurchase date or the time of delivery of the debt securities. If the trustee holds in accordance with the indenture, money sufficient to pay the repurchase price of the debt securities on the repurchase date, on and after the repurchase date, the debt securities will cease to be outstanding and interest thereon will cease to accrue, whether or not the debt securities are delivered to the trustee or to any other office or agency maintained for that purpose, and all other rights of the holders of such debt securities shall terminate, other than the right to receive the repurchase price upon delivery of such debt securities.

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A change in control will be deemed to have occurred if, at any time after the date of the indenture, any person (including any group deemed to be a person under Section 13(d)(3) of the Exchange Act), together with any affiliates or related persons will beneficially own (determined in accordance with Rule 13d-3 under the Exchange Act, as in effect on the date of original execution of the indenture), directly or indirectly, shares of our capital stock entitling that person to exercise 50% or more of the total voting power of all of our shares of capital stock entitled to vote generally in elections of directors.

As used herein, affiliate of any person means any other person directly or indirectly controlling or controlled by or under direct or indirect common control with such person, and related person of any person means any other person directly or indirectly owning:

10% or more of the outstanding common stock of such person (or, in the case of a person that is not a corporation, 10% or more of the equity interest in such person), or

10% or more of the combined voting power of the voting stock of such person.

Mergers and Similar Transactions

We may not consolidate with or merge into any other person or, directly or indirectly, transfer, convey, sell, lease or otherwise dispose of our properties and assets substantially as an entirety and may not permit any person to consolidate with or merge into us, unless all of the following conditions are met:

Immediately after the transaction, no default under the debt securities has occurred and is continuing. For this purpose, default under the debt securities means an event of default or an event that would be an event of default with respect to any series of debt securities if the requirements for giving us default notice and for our default having to continue for a specific period of time were disregarded. We describe these matters below under Default, Remedies and Waiver of Default.

If we are not the successor person in the transaction, the successor is organized and validly existing under the laws of Portugal or the United States or any political subdivision thereof and expressly assumes our obligations under the debt securities or the indenture.

We have delivered to the trustee an officers certificate and opinion of counsel, each stating, among others, that the transaction complies with the indenture.

If the conditions described above are satisfied, we will not need to obtain the approval of the holders in order to merge or consolidate or to sell or otherwise dispose of our properties and assets substantially as an entirety. Also, these conditions will apply only if we wish to merge into or consolidate with another person or sell or otherwise dispose of our properties and assets substantially as an entirety. We will not need to satisfy these conditions if we enter into other types of transactions, including any transaction in which we acquire the stock or assets of another person, any transaction that involves a change of control of our company but in which we do not merge or consolidate and any transaction in which we sell or otherwise dispose of our assets less than substantially as an entirety.

Covenants

Negative Pledge

So long as any of the debt securities remain outstanding, we will not create or, save only by operation of law, have outstanding any mortgage, lien, pledge or other charge (each a security interest) other than any permitted security (as defined below) upon the whole or any part of our undertaking or assets, present or future (including any uncalled capital) to secure any loan stock (as defined below) of any person (as defined below) or to secure any obligation of any person under any guarantee, indemnity or purchase of indebtedness undertaking in respect of any loan stock of any person without at the same time or prior thereto, at our option, either (i) securing the debt securities in each case equally and ratably with such loan stock, guarantee, indemnity or purchase of indebtedness undertaking to the satisfaction of the trustee or (ii) providing such security for or other

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arrangement in respect of the debt securities as the trustee shall in its absolute discretion deem not materially less beneficial to the interests of the holders or which shall be approved by an extraordinary resolution (as defined in the indenture) of the holders.

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

permitted security means:

(i) in case we consolidate or merge with or into another company (combining company) any security interest over our assets if we are the surviving company or the company (if other than us) surviving or formed by such consolidation or merger provided that (i) such security interest was created by the combining company over assets owned by it, (ii) such security interest is existing at the time of the consolidation or merger, (iii) such security interest was not created in contemplation of such consolidation or merger and (iv) the amount secured by such security interest increased thereafter; or

(ii) any security interest on or with respect to assets (including but not limited to our receivables which is created pursuant to a securitization or like arrangement in accordance with normal market practice and where the indebtedness secured by such security interest or the indebtedness in respect of any guarantee or indemnity which is secured by such security interest is limited to the value of such assets; or

(iii) any security interest securing any indebtedness incurred in relation to any asset for the purpose of financing the whole or any part of the acquisition, creation, construction, improvement or development of such asset where the financial institutions to whom the indebtedness is owed have recourse solely to the applicable project borrower (when such project borrower is formed solely or principally for the purpose of the relevant financing) and/or such asset (or any derivative asset thereof) and/or the shares of such project borrower.

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

Maintenance of Business

We are required to maintain the business of generating electricity in Portugal as one of our principal businesses.

Statement of Our Officers as to Default

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We will, within 120 days after the end of each fiscal year, file with the trustee an officer's certificate stating, whether or not, to the best of such officer's knowledge, we are in default. If any of our officers discovers that a default or event of default is continuing, we will file a certificate with the trustee describing the details thereof and the action we are taking or propose to take.

Provision of Information

We will file with the trustee copies of our annual report and the information, documents and other reports that we are required to file with the SEC pursuant to Sections 12, 13 or 15(d) of the Exchange Act.

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Default, Remedies and Waiver of Default

You will have special rights if an event of default with respect to the series of debt securities you hold occurs and is not cured, as described in this subsection.

Events of Default

When we refer to an event of default with respect to any series of debt securities, we mean any of the following:

we do not pay the principal or interest due in respect of any debt securities of that series for a period of more than 30 days after its due date;

we file for bankruptcy, or other events of bankruptcy, insolvency or reorganization or similar proceedings occur relating to us or a material subsidiary of ours; and

we or any of our material subsidiaries experience a default or event of default under any instrument relating to debt having an aggregate principal amount outstanding exceeding U.S.\$100 million that constitutes a failure to pay principal when due and results in the acceleration of the debt prior to its maturity.

Remedies if an Event of Default Occurs

If an event of default with respect to any series of debt securities has occurred and has not been cured or waived, the trustee at the request of holders of not less than 25% in principal amount of that series of debt securities shall declare the entire principal amount of all the debt securities of that series to be due immediately and upon any such declaration the principal, accrued interest and additional amounts shall become due. If an event of default occurs because of bankruptcy, insolvency or reorganization relating to us or any of our material subsidiaries, the entire principal amount of all the debt securities will be automatically accelerated, without any action by the trustee or any holder and any principal, accrued interest and additional amounts will become due.

Each of the situations described above is called an acceleration of the maturity of the debt securities. If the maturity of any series of the debt securities is accelerated and a judgment for payment has not yet been obtained, the holders of a majority in aggregate principal amount of that series of debt securities may cancel the acceleration for all the debt securities of that series, provided that all amounts then due (other than amounts due solely because of such acceleration) have been paid and all other defaults with respect to that series of debt securities have been cured.

If any event of default occurs, the trustee will have special duties. In that situation, the trustee will be obligated to use those of its rights and powers under the indenture, and to use the same degree of care and skill in doing so, that a prudent person would use in that situation in conducting his or her own affairs.

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Except as described in the prior paragraph, the trustee is not required to take any action under the indenture at the request of any holders unless the holders offer the trustee reasonable protection from expenses and liability. This is called an indemnity. If the trustee receives an indemnity that is reasonably satisfactory to it, the holders of a majority in principal amount of a series of debt securities may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the trustee for such series. These majority holders may also direct the trustee in performing any other action under the indenture with respect to the debt securities.

Before you bypass the trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the debt securities, the following must occur:

you must give the trustee written notice that an event of default has occurred and the event of default has not been cured or waived,

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the holders of not less than 25% in principal amount of a particular series of debt securities must make a written request that the trustee take action with respect to that series because of the default and they or other holders must offer to the trustee indemnity reasonably satisfactory to the trustee against the cost and other liabilities of taking that action,

the trustee must not have taken action for 60 days after the above steps have been taken, and

during those 60 days, the holders of a majority in principal amount of a series of debt securities must not have given the trustee for such series directions that are inconsistent with the written request of the holders of not less than 25% in principal amount of such debt securities.

You are entitled, however, at any time to bring a lawsuit for the payment of money due on your debt security on or after its due date.

Book-entry and other indirect holders should consult their banks or brokers for information on how to give notice or direction to or make a request of the trustee and how to declare or cancel an acceleration of the maturity.

Modification and Waiver of Covenants

Waiver of Default

The holders of not less than a majority in principal amount of the debt securities of any series may waive a default for all the debt securities of that series. If this happens, the default will be treated as if it had not occurred. No one can waive a payment default on any debt security, however, without the approval of the particular holder of that debt security.

There are three types of changes we can make to the indenture and the outstanding debt securities under the indenture.

Changes Requiring Each Holder's Approval

First, there are changes that cannot be made without the approval of each holder of an outstanding debt security affected by the change. Those types of changes are:

a change in the stated maturity for any principal or interest payment on a debt security,

a reduction in the principal amount, the interest rate or the redemption price for a debt security,

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a change in the obligation to pay additional amounts,

a change in the currency of any payment on a debt security other than as permitted by the debt security,

a change in the place of any payment on a debt security other than as permitted by the debt security,

an impairment of the holder's right to sue for payment of any amount due on its debt security,

a reduction in the percentage in principal amount of the debt securities needed to change the indenture or the outstanding debt securities under the indenture,

a reduction in the percentage in principal amount of the debt securities needed to waive our compliance with the indenture or to waive defaults, and

a reduction in the percentage in principal amount of the debt securities needed for the adoption of a resolution or the formation of a quorum for meetings of holders.

Changes Not Requiring Approval

Second, there are changes that do not require any approval by holders of debt securities. This type of change is limited to clarifications and changes that would not adversely affect the holders of outstanding debt securities under the indenture in any material respect.

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Changes Requiring Majority Approval

Any other change to the indenture, or the debt securities must be approved by the holders of a majority in principal amount of each series of debt securities affected by the change or waiver. The required approval must be given by written consent.

The same majority approval would be required for us to obtain a waiver of any of our covenants in the indenture. Our covenants include the promises we make about merging and creating liens on our interests, which we describe above under *Mergers and Similar Transactions* and *Restrictive Covenants*. If the holders approve a waiver of a covenant, we will not have to comply with it. The holders, however, cannot approve a waiver of any provision in a particular debt security or the indenture as it affects that debt security, that we cannot change without the approval of the holder of that debt security as described above in *Changes Requiring Each Holder's Approval*, unless that holder approves the waiver.

Book-entry and other indirect holders should consult their banks or brokers for information on how approval may be granted or denied if we seek to change the indenture or the debt securities or request a waiver.

Special Rules for Action by Holders

When holders take any action under the indenture such as giving a notice of default, declaring an acceleration, approving any change or waiver or giving the trustee an instruction, we will apply the following rules.

Only Outstanding Debt Securities Are Eligible

Only holders of outstanding debt securities will be eligible to participate in any action by holders. Also, we will count only outstanding debt securities in determining whether the various percentage requirements for taking action have been met. For these purposes, a debt security will not be outstanding if it has been surrendered for cancellation or if we have deposited or set aside, in trust for its holder, money for its payment or redemption.

Determining Record Dates for Action by Holders

We will generally be entitled to set any day as a record date for the purpose of determining the holders that are entitled to take action under the indenture or the supplemental indenture. In some limited circumstances, only the trustee will be entitled to set a record date for action by holders. If we or the trustee set a record date for an approval or other action to be taken by holders, that vote or action may be taken only by persons or entities who are holders on the record date and must be taken during the period that we specify for this purpose, or that the trustee specifies if it sets the record date. We or the trustee, as applicable, may shorten or lengthen this period from time to time. This period, however, may not extend beyond the 180th day after the record date for the action. In addition, record dates for any global debt security may be set in accordance with procedures established by the depositary from time to time.

Form, Exchange and Transfer

The debt securities will be issued:

only in fully registered form;

without interest coupons; and

in denominations of U.S.\$1,000 and multiples of U.S.\$1,000.

Holders may exchange or transfer their debt securities at the office of the trustee. We have appointed the trustee to act as our agent for registering debt securities in the names of holders and transferring debt securities. If the global debt securities are terminated and we issue debt securities in non-global form, holders of the non-global debt securities can transfer those debt securities at the offices of the trustee. We may appoint another entity to perform these functions or perform them ourselves.

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We may appoint additional transfer agents or cancel the appointment of any particular transfer agent. In the event of a change in the office through which any transfer agent acts, we will give prompt written notice to the trustee.

As long as the debt securities are issued in global form, only the depositary will be entitled to transfer and exchange debt securities as described in this subsection, since it will be the sole holder of the debt securities.

Payment Mechanics

Who Receives Payment

For interest due on a debt security on an interest payment date, we will pay the interest to the holder in whose name the debt security is registered at the close of business on the regular record date relating to the interest payment date. For interest due at maturity but on a day that is not an interest payment date, we will pay the interest to the person or entity entitled to receive the principal of the debt security. For principal due on a debt security at maturity, we will pay the amount to the holder of the debt security against surrender of the debt security at the proper place of payment.

Regular Record Dates for Interest

The regular record date relating to the interest payment dates for any debt security will be set forth in the applicable prospectus supplement.

How We Will Make Payments

Payments on Global Debt Securities. For debt securities issued in global form, we will make payments on the debt securities in accordance with the applicable policies of the depositary as in effect from time to time. Under those policies, we will make payments directly to the depositary, or its nominee, and not to any indirect holders who own beneficial interests in a global debt security. An indirect holder's right to receive those payments will be governed by the rules and practices of the depositary and its participants, as described above under **We Will Issue the Debt Securities in Global Form.**

Payments on Certificated Debt Securities. For debt securities issued in certificated form, we will pay interest that is due on an interest payment date by check mailed on the interest payment date to the holder at the holder's address shown on the trustee's records as of the close of business on the regular record date and we will make all other payments by check to the paying agent described below, against surrender of the debt security. All payments by check may be made in next-day funds—that is, funds that become available on the day after the check is cashed.

Payment When Offices Are Closed

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If any payment is due on a debt security on a day that is not a business day, we will make the payment on the day that is the next business day. Payments postponed to the next business day in this situation will be treated under the indenture as if they were made on the original due date. Postponement of this kind will not result in a default under the debt securities or the indenture and no interest will accrue on the postponed amount from the original due date to the next day that is a business day.

When we refer to a business day, we mean each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in New York City generally are authorized or obligated by law or executive order to close.

Paying Agent

If we issue debt securities in certificated form, we may appoint one or more financial institutions to act as our paying agents, and at whose designated offices the debt securities may be surrendered for payment at their

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maturity. We call each of those offices a paying agent. We may add, replace or terminate paying agents from time to time, provided that if any debt securities are issued in certificated form, so long as such debt securities are outstanding, we will maintain a paying agent in New York City. We may also choose to act as our own paying agent. Initially, we have appointed the trustee, at its corporate trust office in New York City, as a paying agent. We must notify you of changes in the paying agents pursuant to the provisions described under Notices.

Unclaimed Payments

Regardless of who acts as paying agent, all money paid by us to a paying agent that remains unclaimed at the end of two years after the amount is due to a holder will be repaid to us. After that two-year period, the holder may look only to us for payment and not to the trustee, any other paying agent or anyone else.

Notices

As long as we issue the debt securities in global form, notices to be given to holders will be given to the depository, in accordance with its applicable policies as in effect from time to time. If we issue the debt securities in certificated form, notices to be given to holders will be sent by mail to the respective addresses of the holders as they appear in the trustee's records, and will be deemed given when mailed.

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.

Our Relationship with the Trustee

The trustee for the debt securities under the indenture may have other business relationships with us from time to time.

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DESCRIPTION OF AMERICAN DEPOSITARY SHARES

Citibank, N.A. has agreed to act as the depositary bank for the ADSs pursuant to an amended deposit agreement referred to herein as the deposit agreement. Citibank's depositary offices are located at 388 Greenwich Street, 14th Floor, New York, New York 10013. ADSs represent ownership interests in securities that are on deposit with the depositary bank. ADSs are normally represented by certificates that are commonly known as American Depositary Receipts or ADRs. The depositary bank typically appoints a custodian to safekeep the securities on deposit. In this case, the custodian is Citibank Portugal S.A., located at Edifício Fundação, Rua Barata Salgueiro, 30-4, 1250 Lisbon, Portugal.

This Description is Only a Summary

The following section summarizes material terms of the ADSs. Because this section is a summary, it does not describe every aspect of the ADSs. This summary is subject to and qualified in its entirety by reference to all the provisions of the deposit agreement, including the definition of various terms used in the deposit agreement. For example, we describe the meanings for only the more important terms that have been given special meanings in the deposit agreement.

A holder's rights and obligations as an owner of ADSs will be determined by reference to the terms of the deposit agreement and not by this summary. We urge you to review the deposit agreement in its entirety.

Each ADS represents ten ordinary shares on deposit with the custodian or the right to be registered with the *Central de Valores Mobiliários*, or CVM, as the owner of ten ordinary shares. Ordinary shares to be registered with the CVM will be registered in the name of the depositary bank as custodian on behalf of the holders of ADSs and not as beneficial owner thereof. An ADS will also represent any other property received by the depositary bank or the custodian on behalf of the owner of the ADS but that has not been distributed to the owners of ADSs because of legal restrictions or practical considerations.

If you become an owner of ADSs, you will become a party to the deposit agreement and therefore will be bound to its terms and to the terms of the ADRs that represent your ADSs. The deposit agreement and the ADR specify our rights and obligations as well as your rights and obligations as owner of ADSs and those of the depositary bank. As an ADS holder you appoint the depositary bank to act on your behalf in specified circumstances. The deposit agreement and the ADRs are governed by New York law. However, our obligations to the holders of ordinary shares will continue to be governed by the laws of Portugal, which may be different from the laws in the United States.

As an owner of ADSs, you may hold your ADSs either by means of an ADR registered in your name or through a brokerage or safekeeping account. If you decide to hold your ADSs through your brokerage or safekeeping account, you must rely on the procedures of your broker or bank to assert your rights as ADS owner. Please consult with your broker or bank to determine what those procedures are. This summary description assumes you have opted to own the ADSs directly by means of an ADR registered in your name and, as such, we will refer to you as the holder. When we refer to you, we assume the reader owns ADSs and will own ADSs at the relevant time.

Dividends and Distributions

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As a holder, you generally have the right to receive the distributions we make on the securities deposited with the custodian. Your receipt of these distributions may be limited, however, by practical considerations and legal limitations. To the extent distributions on the securities deposited with the custodian are able to be distributed holders will receive these distributions under the terms of the deposit agreement in proportion to the number of ADSs held as of a specified record date.

Distributions of cash

Whenever we make a cash distribution for the securities on deposit with the custodian, we will notify the depositary bank. Upon receipt of this notice the depositary bank will arrange for the funds to be converted into U.S. dollars and for the distribution of the U.S. dollars to the holders, subject to the Portuguese laws and regulations.

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The conversion into U.S. dollars will take place only if practicable in the depositary bank's judgment and if the U.S. dollars are transferable to the United States. The amounts distributed to holders will be net of the fees and expenses of the depositary bank and all taxes and governmental charges payable by holders under the terms of the deposit agreement. The depositary bank will apply the same method for distributing the proceeds of the sale of any property, such as undistributed rights, held by the custodian in respect of securities on deposit.

Distributions of shares

Whenever we make a free distribution of ordinary shares for the securities on deposit with the custodian, we will notify the depositary bank and deposit the applicable number of ordinary shares with the custodian. Upon receipt of notice of a deposit, the depositary bank will subject to the terms and conditions of the deposit agreement *either* distribute to holders new ADSs representing the ordinary shares deposited *or* modify the ADS to ordinary share ratio, in which case each ADS you hold will represent rights and interests in the additional ordinary shares so deposited. Only whole new ADSs will be distributed. Fractional entitlements will be sold and the proceeds of the sale will be distributed as in the case of a cash distribution.

The distribution of new ADSs or the modification of the ADS-to-share ratio upon a distribution of ordinary shares will be made net of the fees and expenses of the depositary bank and all taxes and governmental charges payable by holders under the terms of the deposit agreement. In order to pay these taxes or governmental charges, the depositary bank may sell all or a portion of the new ordinary shares so distributed.

No distribution of new ADSs will be made if it would violate a law, i.e., the U.S. securities laws, or if it is not operationally practicable. If the depositary bank does not distribute new ADSs as described above, it may sell the ordinary shares received and will distribute the net proceeds of the sale as in the case of a distribution of cash.

Distributions of rights

Whenever we intend to distribute rights to purchase additional ordinary shares, we will give prior notice to the depositary bank and we will assist the depositary bank in determining whether it is lawful and feasible to distribute rights to purchase additional ADSs to holders.

The depositary bank will establish procedures to distribute rights to purchase additional ADSs to holders and to enable those holders to exercise the rights if the depositary bank determines in its discretion that it is lawful and feasible to make the rights available to holders of ADSs, and if we provide all of the documentation contemplated in the deposit agreement, such as opinions to address the lawfulness of the transaction. You may have to pay fees and expenses of the depositary bank and all taxes and other governmental charges to subscribe for the new ADSs upon the exercise of your rights. The depositary bank is not obligated to establish procedures to facilitate the distribution and exercise by holders of rights to purchase new ordinary shares directly rather than new ADSs.

The depositary bank will not distribute the rights to you if:

we do not timely request that the rights be distributed to you or we request that the rights not be distributed to you; or

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we fail to deliver satisfactory documents to the depositary bank; or

the depositary bank determines in its discretion that it is not lawful and feasible to distribute the rights.

In the event the rights are not distributed to you the depositary bank will use the reasonable effects sell the rights that are not exercised or not distributed if the sale is lawful and feasible. The net proceeds of the sale will be distributed to holders as in the case of a cash distribution. If the depositary bank is unable to sell the rights, it will allow the rights to lapse.

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Other distributions

Whenever we intend to distribute property other than cash, ordinary shares or rights to purchase additional ordinary shares, we will notify the depositary bank in advance. If so, we will assist the depositary bank in determining whether the proposed distribution to holders is lawful and reasonably practicable.

If we provide all of the documentation contemplated in the deposit agreement, the depositary bank will distribute the property to the holders in a manner it deems equitable and practicable.

The distribution will be made net of fees and expenses of the depositary bank and all taxes and governmental charges payable by holders under the terms of the deposit agreement. In order to pay these taxes and governmental charges, the depositary bank may sell all or a portion of the property received.

The depositary bank will *not* distribute the property to you and may sell the property if:

the depositary bank determines that it cannot distribute the property proportionately to the holders; or

the distribution of the property is subject to withholding of an amount on account of taxes or other governmental charges; or

we do not deliver satisfactory documents to the depositary bank; or

the depositary bank determines that all or a portion of the distribution to you is not feasible.

The net proceeds of a sale will be distributed to holders as in the case of a cash distribution.

Redemption

Whenever we decide to redeem any of the securities on deposit with the custodian, we will notify the depositary bank. If we provide all of the documentation contemplated in the deposit agreement, the depositary bank will mail notice of the redemption to the holders. The depositary bank will redeem from the amounts received by it in respect of such redemption, that number of ADSs representing the number of ordinary shares on deposit so redeemed. The redemption price of the ADSs will be determined in accordance with the terms and conditions of the deposit agreement.

If less than all ADSs are being redeemed, the ADSs to be retired will be selected by lot or on a *pro rata* basis, as the depositary bank may determine.

Changes affecting Ordinary Shares

The ordinary shares held on deposit for your ADSs may change from time to time. For example, there may be a change in nominal or par value, a split-up, cancellation, consolidation or reclassification of the ordinary shares or a recapitalization, reorganization, merger, consolidation or sale of assets.

If any change were to occur, your ADSs would, to the extent permitted by law, represent the right to receive the property received or exchanged in respect of the ordinary shares held on deposit. The depositary bank may in those circumstances deliver new ADSs to you or call for the exchange of your existing ADSs for new ADSs. If the depositary bank may not lawfully distribute the property to you, the depositary bank may sell the property and distribute the net proceeds to you as in the case of a cash distribution.

Issuance of ADSs upon Deposit of Ordinary Shares

The depositary bank may create ADSs on your behalf if you or your broker deposit ordinary shares with the custodian. The depositary bank will deliver these ADSs to the person you indicate only after you pay any applicable issuance fees and any charges and taxes payable for the transfer of the ordinary shares to the custodian. Your ability to deposit ordinary shares and receive ADSs may be limited by U.S. and Portuguese legal considerations applicable at the time of deposit.

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The issuance of ADSs may be delayed until the depositary bank or the custodian receives confirmation that all required approvals have been given and that the ordinary shares have been duly transferred to the custodian. The depositary bank only will issue ADSs in whole numbers.

When you make a deposit of ordinary shares, you will be responsible for transferring good and valid title to the depositary bank. As such, you will be deemed to represent and warrant that:

The ordinary shares are duly authorized, validly issued, fully paid, non-assessable and legally obtained.

All preemptive and similar rights, if any, with respect to the ordinary shares have been validly waived or exercised.

You are duly authorized to deposit the ordinary shares.

The ordinary shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim, and are not, and the ADSs issuable upon the deposit will not be, restricted securities, as defined in the deposit agreement.

The ordinary shares presented for deposit have not been stripped of any rights or entitlements.

If any of the representations or warranties are incorrect in any way, we and the depositary bank may, at your cost and expense, take any and all actions necessary to correct the consequences of the misrepresentations.

Withdrawal of Shares upon Cancellation of ADSs

As a holder, you will be entitled to present your ADSs to the depositary bank for cancellation and then receive the corresponding number of underlying ordinary shares at the custodian's offices. Your ability to withdraw the ordinary shares may be limited by U.S. and Portuguese legal considerations applicable at the time of withdrawal. In order to withdraw the ordinary shares represented by your ADSs, you will be required to pay to the depositary the fees for cancellation of ADSs and any charges and taxes payable upon the transfer of the ordinary shares being withdrawn. You assume the risk for delivery of all funds and securities upon withdrawal. Once canceled, the ADSs will not have any rights under the deposit agreement.

If you hold an ADR registered in your name, the depositary bank may ask you to provide proof of identity and genuineness of any signature and any other documents as the depositary bank may deem appropriate before it will cancel your ADSs. The withdrawal of the ordinary shares represented by your ADSs may be delayed until the depositary bank receives satisfactory evidence of compliance with all applicable laws and regulations. Please keep in mind that the depositary bank will only accept ADSs for cancellation that represent a whole number of securities on deposit.

The deposit agreement may not be modified to impair your right to withdraw the securities represented by your ADSs except to comply with mandatory provisions of law.

Voting Rights

As a holder, you generally have the right under the deposit agreement to instruct the depositary bank to exercise the voting rights for the ordinary shares represented by your ADSs. The voting rights of holders of ordinary shares are described in our annual report on Form 20-F under the heading Articles of Association.

At our request and subject to the terms and conditions of the deposit agreement, the depositary bank will distribute to you any notice of shareholders meeting received from us together with information explaining how to instruct the depositary bank to exercise the voting rights of the securities represented by ADSs, including that instructions may be deemed to have been given to the depositary in the event no instructions are received prior to a deadline set for such purposes.

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If the depositary bank timely receives voting instructions from a holder of ADSs, it will endeavor so far as practicable to vote the securities represented by the holder's ADSs in accordance with the voting instructions.

We cannot assure you that you will receive voting materials in time to enable you to return voting instructions to the depositary bank in a timely manner.

In the event notice of the meeting and the request of the Company are not received by the Depositary at least 30 days prior to the meeting, the Depositary shall be under an obligation to notify the Holders and shall be under no obligation to vote or cause to be voted the Deposited Securities. A Holder of ADRs will only be entitled to exercise the voting rights, if any, pertaining to the Shares or other Deposited Securities represented by its respective ADSs.

Neither the Custodian nor the Depositary shall vote the Shares or other Deposited Securities represented by the ADSs other than in accordance with instructions from the Holder and as described in the following paragraph. If the Depositary does not receive instructions from a Holder on or before the record date specified by the Depositary, under certain circumstances such Holder shall be deemed to have instructed the Depositary to give a discretionary proxy to the person designated by the Company to vote the Shares or other Deposited Securities.

Pursuant to the Company's Articles of Association, with the exception of Portugal, PARTEST Participações do Estado, S.G.P.S., S.A., (the Selling Shareholder) or an entity equivalent to the Selling Shareholder, no person may exercise more than 5% of outstanding voting rights of the Company. Pursuant to Portuguese law, no person may acquire more than 10% of the Shares (either directly or in the form of ADSs) without the prior approval of the Ministry of Finance. Holders of ADSs will be treated as holders of the Shares represented by the ADSs for the purposes of determining the applicability of the foregoing limitations.

Pursuant to our articles of association, with the exception of the Portuguese government or an equivalent entity, no person may exercise more than 5% of our outstanding voting rights.

Fees and Charges

As an ADS holder, you will be required to pay the following service fees to the depositary bank:

<u>Service</u>	<u>Fees</u>
Issuance of ADSs	Up to U.S.\$0.05 per ADS issued
Cancellation of ADSs	Up to U.S.\$0.05 per ADS cancelled
Distribution of cash dividends	No fee (so long as prohibited by NYSE)
Distribution of ADSs pursuant to stock dividend or other free stock distributions	No fee (so long as prohibited by NYSE)

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As a holder you also will be responsible to pay certain fees and expenses incurred by the depositary bank and certain taxes and governmental charges such as:

Fees for the transfer and registration of ordinary shares that the registrar and transfer agent charge for the ordinary shares in Portugal, *i.e.*, upon deposit and withdrawal of ordinary shares.

Expenses incurred for converting foreign currency into U.S. dollars.

Expenses for cable, telex and fax transmissions and for delivery of securities.

Taxes and duties upon the transfer of securities, *i.e.*, when ordinary shares are deposited or withdrawn from deposit.

We have agreed to pay specified other charges and expenses of the depositary bank. Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the depositary bank. You will receive prior notice of these changes.

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Amendments and Termination

We may agree with the depositary bank to modify the deposit agreement at any time without your consent. We undertake to give holders 90 days prior notice of any modifications that would materially prejudice any of their substantial rights under the deposit agreement. We will not consider to be materially prejudicial to your substantial rights any modifications or supplements that are reasonably necessary for the ADSs to be registered under the Securities Act or to be eligible for book-entry settlement, in each case without imposing or increasing the fees and charges you are required to pay. In addition, we may not be able to provide you with prior notice of any modifications or supplements that are required to accommodate compliance with applicable provisions of law.

You will be bound by the modifications to the deposit agreement if you continue to hold your ADSs after the modifications to the deposit agreement become effective. The deposit agreement cannot be amended to prevent you from withdrawing the ordinary shares represented by your ADSs, except as permitted by law.

We have the right to direct the depositary bank to terminate the deposit agreement. Similarly, the depositary bank may in specified circumstances on its own initiative terminate the deposit agreement. In either case, the depositary bank must give notice to the holders at least 30 days before termination.

Upon termination, the following will occur under the deposit agreement:

for a period of six months after termination, you will be able to request the cancellation of your ADSs and the withdrawal of the ordinary shares represented by your ADSs and the delivery of all other property held by the depositary bank in respect of those ordinary shares on the same terms as prior to the termination. During this six months period the depositary bank will continue to collect all distributions received on the ordinary shares on deposit, *i.e.*, dividends, but will not distribute any of this property to you until you request the cancellation of your ADSs.

after the expiration of the six months period, the depositary bank may sell the securities held on deposit. The depositary bank will hold the proceeds from the sale and any other funds then held for the holders of ADSs in a non-interest bearing account. At that point, the depositary bank will have no further obligations to holders other than to account for the funds then held for the holders of ADSs still outstanding.

Books of Depositary

The depositary bank will maintain ADS holder records at its depositary office. You may inspect these records at the depositary bank's office but solely for the purpose of communicating with other holders in the interest of business matters relating to the ADSs and the deposit agreement.

The depositary bank will maintain in New York facilities to record and process the issuance, cancellation, combination, split-up and transfer of ADRs. These facilities may be closed from time to time, to the extent not prohibited by law.

Limitations on Obligations and Liabilities

The deposit agreement limits our obligations and the depositary bank's obligations to you. Please note the following:

The depositary bank and we are obligated only to take the actions specifically stated in the deposit agreement without negligence or bad faith.

The depositary bank disclaims any liability for any failure to carry out voting instructions, for any manner in which a vote is cast or for the effect of any vote, provided it acts in good faith and in accordance with the terms of the deposit agreement.

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We and the depositary bank disclaim any liability if we are prevented or forbidden from acting on account of any law or regulation, any provision of our articles of association, any provision of any securities on deposit or any offering or distribution thereof or by reason of any act of God or war or other circumstances beyond our control.

We and the depositary bank further disclaim any liability for any action or inaction in reliance on the advice or information received from legal counsel, accountants, any person presenting shares for deposit, any holder of ADSs or authorized representatives thereof, or any other person believed by either of us in good faith to be competent to give such advice or information.

We and the depositary bank may rely without any liability upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties.

Pre-release Transactions

The depositary bank may, in specified circumstances, issue ADSs before receiving a deposit of ordinary shares or release ordinary shares before receiving ADSs. These transactions are commonly referred to as pre-release transactions. The deposit agreement limits the aggregate size of pre-release transactions and imposes a number of conditions on these transactions, *i.e.*, the need to receive collateral, the type of collateral required, the representations required from brokers, etc. The depositary bank may retain the compensation received from the pre-release transactions.

Taxes

You will be responsible for the taxes and other governmental charges payable on the ADSs and the securities represented by the ADSs. We, the depositary bank and the custodian may deduct from any distribution the taxes and governmental charges payable by holders and may sell any and all property on deposit to pay the taxes and governmental charges payable by holders. You will be liable for any deficiency if the sale proceeds do not cover the taxes that are due.

The depositary bank may refuse to issue ADSs, to deliver, transfer, split and combine ADRs or to release securities on deposit until all taxes and charges are paid by the applicable holder. The depositary bank and the custodian may take reasonable administrative actions to obtain tax refunds and reduced tax withholding for any distributions on your behalf. However, you may be required to provide to the depositary bank and to the custodian proof of taxpayer status and residence and any other information as the depositary bank and the custodian may require to fulfill legal obligations. You are required to indemnify us, the depositary bank and the custodian for any claims with respect to taxes based on any tax benefit obtained for you.

Foreign Currency Conversion

Subject to any restrictions imposed by Portuguese law, regulations or applicable permits the depositary bank will arrange for the conversion of all foreign currency received into U.S. dollars if the conversion is reasonable, and it will distribute the U.S. dollars in accordance with the terms of the deposit agreement. You may have to pay fees and expenses incurred in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

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If the conversion of foreign currency can be effected on a reasonable basis for some but not all holders or if any required approvals are denied or not obtainable within a reasonable period, the depositary bank may take the following actions in its discretion:

convert the foreign currency to the extent practical and lawful and distribute the U.S. dollars to the holders for whom the conversion and distribution is practical;

distribute the foreign currency to holders for whom the distribution is practical; or

hold the foreign currency, without liability for interest, for the applicable holders.

Table of Contents**DESCRIPTION OF SHARE CAPITAL**

As of December 31, 2003, the total amount of issued and fully paid share capital of EDP, is 3,000,000,000. The par value per share, according to our articles of association and to the resolution approved in our general meeting held on May 12, 2000, is currently 1. Under Portuguese law, the concept of authorized share capital does not exist. There is, however, a procedure pursuant to the Portuguese Companies Code that allows a board of directors to approve a share capital increase through the issuance of a certain number of shares over a certain period of time pursuant to an authorization to be granted by shareholders. At our general meeting held on October 7, 2004, our shareholders approved an amendment to our articles of association authorizing the board of directors to increase our share capital by up to 1.2 billion. This amendment to our articles of association is still pending execution of the corresponding public deed and subsequent registration with the CMVM.

As of May 31, 2004, we held 24,598,668 of our own ordinary shares, 1,750,000 of which were purchased in 1999, 650,000 of which were purchased in 2000, 9,326,209 of which were purchased in 2001, 5,702,717 of which were purchased in 2002, 4,002,038 of which were purchased in 2003 and 3,167,704 of which were purchased in 2004.

Currently, we have two stock options plans in force:

a plan for members of the board of directors, initially comprising a total of 1,750,000 ordinary shares, which were increased to 2,450,000 ordinary shares at the general shareholders meeting on May 10, 2000. Disinterested persons who are not employees of EDP or its subsidiaries manage this plan.

a plan for members of the boards of directors of our operating companies and senior officers of EDP and its subsidiaries comprising a total of 16,250,000 ordinary shares. Awards of options under this plan are determined by the sole discretion of the board of directors of EDP.

Under both plans, the exercise price of each option equals the market price of our stock on the date of grant and an option's maximum term is 5 years. A summary of the status of our two fixed stock option plans as of December 31, 2002 and 2003, and changes during the years then ended on those dates is presented below:

	<u>Shares available for grant under 1999 option plans</u>	<u>Option activity</u>	<u>Weighted average exercise price</u>
Balance December 31, 2001	16,413,750		
Options forfeited			
Options granted			
Balance December 31, 2002	16,413,750	2,286,250	3.43
Options forfeited ⁽¹⁾		(353,992)	
Options granted ⁽²⁾	(980,000)	490,000	
Balance December 31, 2003	15,433,750	2,422,258	3.36

⁽¹⁾ Options forfeited include options not exercised within the required period and options forfeited by departing plan participants.

⁽²⁾ The number of options to be granted for 2004 has not yet been determined.

The following table summarizes information about stock options outstanding and exercisable as of December 31, 2003:

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Options outstanding	Weighted average exercise price	Weighted average remaining contractual life	Options exercisable
2,422,258	3.36	1.3 years	0

The last public offering of our ordinary shares occurred in October 2000 when the Portuguese Republic, within the context of the fourth phase of privatization of our share capital, sold a block of 20% of our outstanding

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ordinary shares. Presently, we are approximately 26.1% owned, directly or indirectly, by the Portuguese Republic and an additional 4.84% of our shares are held by Caixa Geral de Depósitos, S.A., a state-owned bank. Other significant shareholders include BCP Banco Comercial Português S.A. or BCP (5.05%), Iberdrola, S.A. (5%) and, indirectly, Brisa Autoestradas de Portugal S.A. or Brisa (2%).

Our net income in each fiscal year, as increased or decreased by any profit or loss carried forward from prior years, less any contribution to the legal reserve, is available for distribution to shareholders as dividends, subject to the requirements of Portuguese law and our articles of association. We are required to establish and maintain a legal reserve equal to 20% of the aggregate nominal value of our share capital and, if necessary to maintain this legal reserve, to contribute a minimum of 5% of our annual net income to the legal reserve. The legal reserve is distributable only upon our liquidation but it can be used to cover losses and be incorporated as our share capital. Currently, our total legal reserve is approximately 326 million.

Under Portuguese law, the payment and amount of dividends are subject to the recommendation of our board of directors and the decision by our shareholders at a general meeting. Dividends are generally distributed to shareholders pro rata according to their respective holdings of shares. According to Decree law no. 187/70 of April 30, 1970, dividend entitlement lapses in favor of the Portuguese Republic if not claimed by the shareholder within five years.

The payment of the dividend is due within 30 days of the date of the general meeting approving the dividend irrespectively of whether the shareholders are Portuguese residents or nonresidents. The board of directors determines the actual dividend payment date within that period. Banco Português de Investimento, S.A. is, and at the time of admission of shares to official listing is expected to continue to be, the paying agent of our dividends.

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TAXATION

This section discusses the material Portuguese and U.S. federal income tax consequences of the ownership of debt securities and shares or ADSs.

The discussion that follows is of a general nature, and additional disclosure regarding the tax treatment of specific securities may be provided in the prospectus supplement for such instruments. To the extent there is any inconsistency in the discussion of tax consequences between this prospectus and the applicable prospectus supplement, you should rely on the discussion in the prospectus supplement.

The statements regarding Portuguese and U.S. tax laws set forth below are based on the laws in force on the date of this prospectus, which are subject to change.

You should consult your own tax advisers as to the tax consequences of the purchase, ownership, and disposition of the securities in the light of your particular circumstances, including the effect of any state, local, or other national laws.

PORTUGUESE TAXATION

General

The following is a summary of the principal Portuguese tax considerations that are likely to be material to the purchase, ownership and disposition of the debt securities and shares or ADSs if a holder is a non-resident of Portugal for Portuguese tax purposes, does not hold 10% or more of any class of our stock and does not hold our debt securities, ordinary shares or ADSs through a permanent establishment in Portugal.

Resident holders for purposes of Portuguese taxation include collective entities having their registered office or effective place of management in Portugal and individuals having remained in Portuguese territory more than 183 days in any given calendar year or having the use of a dwelling in Portuguese territory at the end of any given calendar year which may imply their intention of using it as their habitual residence.

A non-resident holder may be broadly defined as any collective entity or individual not satisfying the above criteria. However, non-resident holders having a permanent establishment or a fixed installation in Portugal to which Portuguese-source income may be attributed will be taxed on such income under rules applicable to resident holders.

This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to non-resident holders, and does not address tax rules applicable to special classes of holders.

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Furthermore, this summary is based on the tax laws of Portugal in effect on the date of this prospectus, including the Convention between the United States of America and the Portuguese Republic for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, together with the related Protocol, referred to in this prospectus as the Treaty, the Treaty, and is subject to changes to those laws and practices or the Treaty subsequent to that date, which changes could be made on a retroactive basis.

Prospective purchasers should consult their own advisers as to the tax consequences of the acquisition, ownership and disposition of debt securities and ordinary shares or ADSs in light of their particular circumstances, including the effect of any other national laws.

For purposes of the Treaty and for Portuguese tax purposes, a U.S. person holding ADSs will be treated as a beneficial owner of our ordinary shares represented by such ADSs.

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DEBT SECURITIES

Taxation of interest in respect of debt securities

Payments of interest on the debt securities generally are subject to a Portuguese withholding tax of 20% of the gross amount of the interest paid. However, under the Treaty the rate of withholding tax on interest payment on the debt securities to U.S. residents who are eligible for Treaty benefits generally is reduced to 10%.

Payments of principal made to non-resident holders of debt securities will not be subject to any Portuguese withholding tax.

Taxation of disposition of debt securities

Non-resident holders of debt securities are exempt from capital gains taxation. Capital gain on disposition of a debt security is calculated net of accrued but unpaid interest, which will be taxable as such.

SHARES OR ADSs

Dividends

Dividends paid in respect of shares or ADSs to non-residents generally are subject to a Portuguese withholding tax of 25% of the gross amount of the dividends. Until now article 59 of the Portuguese Tax Incentives Statute (*Estatuto dos Benefícios Fiscais*) has been interpreted as providing that, for privatizations of companies started before January 1, 2003, until a period of five years after the date upon which the privatization is completed, only 50% of dividends received (net of other benefits) from shares acquired during the privatization are required to be included in taxable income. However, there is no assurance that this incentive will continue to apply to new issuances of shares by privatized companies.

Under the Treaty, the rate of withholding tax on dividends distributed to U.S. residents eligible for Treaty benefits will not exceed 15%. Since Portuguese effective rates are at or below the Treaty rates, according to the Portuguese Tax Authority, at the present time it is not necessary for U.S. residents to claim treaty benefits with respect to dividends paid on ordinary shares or ADSs.

Pro rata distributions of ordinary shares or rights to subscribe for ordinary shares are not treated as dividends for Portuguese tax purposes, and, therefore, are not subject to Portuguese withholding tax or the Portuguese substitute gift and inheritance tax. The Portuguese tax consequences of *pro rata* distributions of ordinary shares or rights to subscribe for ordinary shares may be subject to change.

Capital gains

In general capital gains realized by non-resident individuals on the transfer of ordinary shares or ADSs are subject to tax at the rate of 10% if those ordinary shares or ADSs were held for 12 months or less and are not subject to tax if the ordinary shares or ADSs were held for more than 12 months. However, regardless of the length of time that ordinary shares or ADSs have been held non-resident corporate holders and non-resident individual holders of ordinary shares and ADSs are not subject to tax on capital gains in Portugal if the following three conditions are met:

no more than 25% of the non-resident is owned, directly or indirectly, by resident entities;

the non-resident entity does not have as its place of residence a state or jurisdiction identified in a list of tax havens published by the Portuguese Ministry of Finance; and

the capital gains do not arise from the transfer for consideration of shares or other participations in a Portuguese resident company the assets of which are primarily comprised (more than 50%) of immovable property located in Portugal or in a Portuguese resident company that controls such a company (a Portuguese Real Property Holding company).

Under the Treaty unless EDP is a Portuguese Real Property Holding company, capital gains derived from the sale or other disposition of ordinary shares, including deposits of ordinary shares in exchange for ADSs, by

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an individual holder who is eligible for Treaty benefits will not be subject to Portuguese capital gains tax, regardless of the length of time our ordinary shares are held.

Gift and Inheritance Taxes

Gift and inheritance tax was abolished and, as it relates to free transfers, was substituted by (i) stamp duty, if the beneficiary is an individual, and (ii) corporate income tax, if the beneficiary is a corporate entity. Nonetheless, transfers by a non-resident of ordinary shares or ADSs by gift or at death will not be subject to Portuguese Stamp Duty provided the beneficiary is also a non-resident or otherwise if the beneficiary is the respective spouse, parents or children.

Portuguese Transaction Costs

Pursuant to Decree law no. 183/2003 of August 19, 2003, which revoked Regulation no. 1303/2001 of November 22, 2001, as amended by Regulation no. 323/2002 of March 27, 2002, both issued by the Ministry of Finance, and on Regulation no. 913-I/2003 of August 30, 2003, fees applicable to securities transactions performed in a stock exchange, on other regulated securities markets or off-market were abolished and replaced by supervision fees that are paid by the entities subject to the supervision of the CMVM in connection with the performance of services in relation to securities, such as clearance and settlement services, registration or custodian services or portfolio management.

A stamp tax of 4.0% is payable on brokerage fees, bank settlement fees and bank commissions.

Under current laws and practice, no Portuguese transfer fees, taxes or other charges are levied on the transfer of ADSs, other than the deposit or the withdrawal of ordinary shares, unless the transfer is made through a financial intermediary domiciled or established in Portugal. If the transfer is made through a financial intermediary domiciled or established in Portugal, the transfer may be regarded as a transfer of ordinary shares over the counter with the consequences stated above.

The status of Portuguese law with respect to transfer fees, taxes and other charges applicable to deposits and withdrawals of ordinary shares for ADSs is uncertain. Under current law and practice, a negotiable bank settlement fee and a stamp tax of 4.0% of the fee may apply to deposits and withdrawals of ordinary shares. However, Portuguese brokerage fees, bank commissions and stock exchange fees will not be levied on a deposit of ordinary shares in exchange for ADSs or a withdrawal of ordinary shares in exchange for the cancellation of ADSs, unless the deposit or withdrawal is made through a financial intermediary domiciled or established in Portugal. If a deposit or withdrawal of ordinary shares is made through a financial intermediary, the deposit or withdrawal may be regarded as a transfer of ordinary shares over the counter with the consequences stated above. Current practice with respect to the applicability of Portuguese transfer fees, taxes or other charges to deposits and withdrawals of ordinary shares is subject to change.

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UNITED STATES TAX CONSIDERATIONS

The following discussion summarizes certain material U.S. federal income tax considerations that may be relevant to you if you invest in securities issued pursuant to this prospectus and are a U.S. holder. You will be a U.S. holder if you are an individual who is a citizen or resident of the United States, a U.S. domestic corporation, or any other person that is subject to U.S. federal income tax on a net income basis in respect of an investment in our securities. This summary deals only with U.S. holders that hold our securities as capital assets. It does not address considerations that may be relevant to you if you are an investor that is subject to special tax rules, such as a bank, thrift, real estate investment trust, regulated investment company, insurance company, dealer in securities or currencies, trader in securities or commodities that elects mark to market treatment, person that will hold debt securities as a hedge against currency risk or as a position in a straddle or conversion transaction, tax-exempt organization or a person whose functional currency is not the U.S. dollar.

This summary is based on U.S. tax laws, regulations, rulings and decisions currently in effect, all of which may change. Any change could apply retroactively and could affect the continued validity of this summary.

You should consult your tax adviser about the tax consequences of holding our securities, including the relevance to your particular situation of the considerations discussed below, as well as the relevance to your particular situation of state, local or other tax laws.

DEBT SECURITIES

Payments or Accruals of Interest

Payments or accruals of qualified stated interest (as defined below) including additional amounts, if any, on a debt security will be taxable to you as ordinary interest income at the time that you receive or accrue such amounts (in accordance with your regular method of tax accounting). If you use the cash method of tax accounting and you receive payments of interest pursuant to the terms of a debt security in a currency other than U.S. dollars (a foreign currency), the amount of interest income you will realize will be the U.S. dollar value of the foreign currency payment based on the exchange rate in effect on the date you receive the payment, regardless of whether you convert the payment into U.S. dollars. If you are an accrual-basis U.S. holder, the amount of interest income you will realize will be based on the average exchange rate in effect during the interest accrual period (or with respect to an interest accrual period that spans two taxable years, at the average exchange rate for the partial period within the taxable year). Alternatively, as an accrual-basis U.S. holder, you may elect to translate all interest income on foreign currency-denominated debt securities at the spot rate on the last day of the accrual period (or the last day of the taxable year, in the case of an accrual period that spans more than one taxable year) or on the date that you receive the interest payment if that date is within five business days of the end of the accrual period. If you make this election, you must apply it consistently to all debt instruments from year to year and you cannot change the election without the consent of the Internal Revenue Service. If you use the accrual method of accounting for tax purposes, you will recognize foreign currency gain or loss on the receipt of a foreign currency interest payment if the exchange rate in effect on the date the payment is received differs from the rate applicable to a previous accrual of that interest income. This foreign currency gain or loss will be treated as ordinary income or loss, but generally will not be treated as an adjustment to interest income received on the debt security.

Purchase, Sale and Retirement of Debt securities

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Initially, your tax basis in a debt security generally will equal the cost of the debt security to you. Your basis will increase by any amounts that you are required to include in income under the rules governing original issue discount and market discount, and will decrease by the amount of any amortized premium and any payments other than qualified stated interest made on the debt security. (The rules for determining these amounts are discussed below.) If you purchase a debt security that is denominated in a foreign currency, the cost to you (and therefore generally your initial tax basis) will be the U.S. dollar value of the foreign currency purchase price on

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the date of purchase calculated at the exchange rate in effect on that date. If the foreign currency debt security is traded on an established securities market and you are a cash-basis taxpayer (or if you are an accrual-basis taxpayer that makes a special election), you will determine the U.S. dollar value of the cost of the debt security by translating the amount of the foreign currency that you paid for the debt security at the spot rate of exchange on the settlement date of your purchase. The amount of any subsequent adjustments to your tax basis in a debt security in respect of foreign currency-denominated original issue discount, market discount and premium will be determined in the manner described below. If you convert U.S. dollars into a foreign currency and then immediately use that foreign currency to purchase a debt security, you generally will not have any taxable gain or loss as a result of the conversion or purchase.

When you sell or exchange a debt security, or if a debt security that you hold is retired, you generally will recognize gain or loss equal to the difference between the amount you realize on the transaction (less any accrued qualified stated interest, which will be subject to tax in the manner described above under *Payments or Accruals of Interest*) and your tax basis in the debt security. If you sell or exchange a debt security for a foreign currency, or receive foreign currency on the retirement of a debt security, the amount you will realize for U.S. tax purposes generally will be the dollar value of the foreign currency that you receive calculated at the exchange rate in effect on the date the foreign currency debt security is disposed of or retired. If you dispose of a foreign currency debt security that is traded on an established securities market and you are a cash-basis U.S. holder (or if you are an accrual-basis holder that makes a special election), you will determine the U.S. dollar value of the amount realized by translating the amount at the spot rate of exchange on the settlement date of the sale, exchange or retirement.

The special election available to you if you are an accrual-basis taxpayer in respect of the purchase and sale of foreign currency debt securities traded on an established securities market, which is discussed in the two preceding paragraphs, must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the Internal Revenue Service.

Except as discussed below with respect to market discount and foreign currency gain or loss, the gain or loss that you recognize on the sale, exchange or retirement of a debt security generally will be capital gain or loss. The gain or loss on the sale, exchange or retirement of a debt security will be long-term capital gain or loss if you have held the debt security for more than one year on the date of disposition. Net long-term capital gain recognized by an individual U.S. holder before January 1, 2009 generally is subject to taxation at a maximum rate of 15%. The ability of U.S. holders to offset capital losses against ordinary income is limited.

Despite the foregoing, the gain or loss that you recognize on the sale, exchange or retirement of a foreign currency debt security generally will be treated as ordinary income or loss to the extent that the gain or loss is attributable to changes in exchange rates during the period in which you held the debt security. This foreign currency gain or loss will not be treated as an adjustment to interest income that you receive on the debt security.

Original Issue Discount

If we issue debt securities at a discount from their stated redemption price at maturity, and the discount is equal to or more than the product of one-fourth of one percent (0.25%) of the stated redemption price at maturity of the debt securities multiplied by the number of full years to their maturity, the debt securities will be *Original Issue Discount Debt Securities*. The difference between the issue price and the stated redemption price at maturity of the debt securities will be the *original issue discount*. The *issue price* of the debt securities will be the first price at which a substantial amount of the debt securities are sold to the public (*i.e.*, excluding sales of debt securities to underwriters, placement agents, wholesalers, or similar persons). The *stated redemption price at maturity* will include all payments under the debt securities other than payments of qualified stated interest. The term *qualified stated interest* generally means stated interest that is unconditionally payable in cash or property (other than debt instruments issued by the Company) at least annually during the entire term of a debt security at a single fixed interest rate or, subject to certain conditions, based on one or more interest indices.

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If you invest in an Original Issue Discount Debt Security, you generally will be subject to the special tax accounting rules for original issue discount obligations provided by the Internal Revenue Code and certain U.S. Treasury regulations. You should be aware that, as described in greater detail below, if you invest in an Original Issue Discount Debt Security, you generally will be required to include original issue discount in ordinary gross income for U.S. federal income tax purposes as it accrues, although you may not yet have received the cash attributable to that income.

In general, and regardless of whether you use the cash or the accrual method of tax accounting, if you are the holder of an Original Issue Discount Debt Security with a maturity greater than one year, you will be required to include in ordinary gross income the sum of the daily portions of original issue discount on that debt security for all days during the taxable year that you own the debt security. The daily portions of original issue discount on an Original Issue Discount Debt Security are determined by allocating to each day in any accrual period a ratable portion of the original issue discount allocable to that period. Accrual periods may be any length and may vary in length over the term of an Original Issue Discount Debt Security, so long as no accrual period is longer than one year and each scheduled payment of principal or interest occurs on the first or last day of an accrual period. If you are the initial holder of the debt security, the amount of original issue discount on an Original Issue Discount Debt Security allocable to each accrual period is determined by:

(i) multiplying the adjusted issue price (as defined below) of the debt security at the beginning of the accrual period by a fraction, the numerator of which is the annual yield to maturity (defined below) of the debt security and the denominator of which is the number of accrual periods in a year; and

(ii) subtracting from that product the amount (if any) payable as qualified stated interest allocable to that accrual period.

In the case of an Original Issue Discount Debt Security that is a floating rate debt security, both the annual yield to maturity and the qualified stated interest will be determined for these purposes as though the debt security will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to interest payments on the debt security on its date of issue or, in the case of some floating rate debt securities, the rate that reflects the yield that is reasonably expected for the debt security. (Additional rules may apply if interest on a floating rate debt security is based on more than one interest index.) The adjusted issue price of an Original Issue Discount Debt Security at the beginning of any accrual period will generally be the sum of its issue price (including any accrued interest) and the amount of original issue discount allocable to all prior accrual periods, reduced by the amount of all payments other than any qualified stated interest payments on the debt security in all prior accrual periods. All payments on an Original Issue Discount Debt Security (other than qualified stated interest) will generally be viewed first as payments of previously accrued original issue discount (to the extent of the previously accrued discount), with payments considered made from the earliest accrual periods first, and then as a payment of principal. The annual yield to maturity of a debt security is the discount rate (appropriately adjusted to reflect the length of accrual periods) that causes the present value on the issue date of all payments on the debt security to equal the issue price. As a result of this constant yield method of including original issue discount income, the amounts you will be required to include in your gross income if you invest in an Original Issue Discount Debt Security denominated in U.S. dollars generally will be lesser in the early years and greater in the later years than amounts that would be includible on a straight-line basis.

You generally may make an irrevocable election to include in income your entire return on a debt security (*i.e.*, the excess of all remaining payments to be received on the debt security, including payments of qualified stated interest, over the amount you paid for the debt security) under the constant yield method described above. If you purchase debt securities at a premium or market discount and if you make this election, you will also be deemed to have made the election (discussed below under the Premium and Market Discount) to amortize premium or to accrue market discount currently on a constant yield basis in respect of all other premium or market discount bonds that you hold.

In the case of an Original Issue Discount Debt Security that is also a foreign currency debt security, you should determine the U.S. dollar amount includible as original issue discount for each accrual period by (i) calculating the

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amount of original issue discount allocable to each accrual period in the foreign currency using the constant yield method described above and (ii) translating that foreign currency amount at the average exchange rate in effect during that accrual period (or, with respect to an interest accrual period that spans two taxable years, at the average exchange rate for each partial period). Alternatively, you may translate the foreign currency amount at the spot rate of exchange on the last day of the accrual period (or the last day of the taxable year, for an accrual period that spans two taxable years) or at the spot rate of exchange on the date of receipt, if that date is within five business days of the last day of the accrual period, provided that you have made the election described above under Payments or Accruals of Interest. Because exchange rates may fluctuate, if you are the holder of an Original Issue Discount Debt Security that is also a foreign currency debt security, you may recognize a different amount of original issue discount income in each accrual period than would be the case if you were the holder of an otherwise similar Original Issue Discount Debt Security denominated in U.S. dollars. Upon the receipt of an amount attributable to original issue discount (whether in connection with a payment of an amount that is not qualified stated interest or the sale or retirement of the Original Issue Discount Debt Security), you will recognize ordinary income or loss measured by the difference between the amount received (translated into U.S. dollars at the exchange rate in effect on the date of receipt or on the date of disposition of the Original Issue Discount Debt Security, as the case may be) and the amount accrued (using the exchange rate applicable to such previous accrual).

If you purchase an Original Issue Discount Debt Security outside of the initial offering at a cost less than its remaining redemption amount (*i.e.*, the total of all future payments to be made on the debt security other than payments of qualified stated interest), or if you purchase an Original Issue Discount Debt Security in the initial offering at a price other than the debt security's issue price, you generally will also be required to include in gross income the daily portions of original issue discount, calculated as described above. However, if you acquire an Original Issue Discount Debt Security at a price greater than its adjusted issue price, you will be required to reduce your periodic inclusions of original issue discount to reflect the premium paid over the adjusted issue price.

Floating rate debt securities generally will be treated as variable rate debt instruments under the OID Regulations. Accordingly, the stated interest on a Floating Rate Debt Security generally will be treated as qualified stated interest and such a Debt security will not have OID solely as a result of the fact that it provides for interest at a variable rate. If a floating rate debt security does not qualify as a variable rate debt instrument, the debt security will be subject to special rules that govern the tax treatment of debt obligations that provide for contingent payments. We will provide a detailed description of the tax considerations relevant to U.S. holders of any such Debt securities in the pricing supplement.

Certain Original Issue Discount Debt Securities may be redeemed prior to maturity, either at the option of the Company or at the option of the holder, or may have special repayment or interest rate reset features as indicated in the pricing supplement. Original Issue Discount Debt Securities containing these features may be subject to rules that differ from the general rules discussed above. If you purchase Original Issue Discount Debt Securities with these features, you should carefully examine the pricing supplement and consult your tax adviser about their treatment since the tax consequences of original issue discount will depend, in part, on the particular terms and features of the debt securities.

Short-Term Debt Securities

The rules described above will also generally apply to Original Issue Discount Debt Securities with maturities of one year or less (short-term debt securities), but with some modifications.

First, the original issue discount rules treat none of the interest on a short-term debt security as qualified stated interest, but treat a short-term debt security as having original issue discount. Thus, all short-term debt securities will be Original Issue Discount Debt Securities. Except as noted below, if you are a cash-basis holder of a short-term debt security and you do not identify the short-term debt security as part of a hedging transaction you will generally not be required to accrue original issue discount currently, but you will be required to treat any gain realized on a sale, exchange or retirement of the debt security as ordinary income to the extent such gain

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does not exceed the original issue discount accrued with respect to the debt security during the period you held the debt security. You may not be allowed to deduct all of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry a short-term debt security until the maturity of the debt security or its earlier disposition in a taxable transaction. Notwithstanding the foregoing, if you are a cash-basis U.S. holder of a short-term debt security, you may elect to accrue original issue discount on a current basis (in which case the limitation on the deductibility of interest described above will not apply). A U.S. holder using the accrual method of tax accounting and some cash method holders (including banks, securities dealers, regulated investment companies and certain trust funds) generally will be required to include original issue discount on a short-term debt security in gross income on a current basis. Original issue discount will be treated as accruing for these purposes on a ratable basis or, at the election of the holder, on a constant yield basis based on daily compounding.

Second, regardless of whether you are a cash-basis or accrual-basis holder, if you are the holder of a short-term debt security you may elect to accrue any acquisition discount with respect to the debt security on a current basis. Acquisition discount is the excess of the remaining redemption amount of the debt security at the time of acquisition over the purchase price. Acquisition discount will be treated as accruing ratably or, at the election of the holder, under a constant yield method based on daily compounding. If you elect to accrue acquisition discount, the original issue discount rules will not apply.

Finally, the market discount rules described below will not apply to short-term debt securities.

Premium

If you purchase a debt security at a cost greater than the debt security's remaining redemption amount, you will be considered to have purchased the debt security at a premium, and you may elect to amortize the premium as an offset to interest income, using a constant yield method, over the remaining term of the debt security. If you make this election, it generally will apply to all debt instruments that you hold at the time of the election, as well as any debt instruments that you subsequently acquire. In addition, you may not revoke the election without the consent of the Internal Revenue Service. If you elect to amortize the premium, you will be required to reduce your tax basis in the debt security by the amount of the premium amortized during your holding period. Original Issue Discount Debt Securities purchased at a premium will not be subject to the original issue discount rules described above. In the case of premium on a foreign currency debt security, you should calculate the amortization of the premium in the foreign currency. Premium amortization deductions attributable to a period reduce interest income in respect of that period, and therefore are translated into U.S. dollars at the rate that you use for interest payments in respect of that period. Exchange gain or loss will be realized with respect to amortized premium on a foreign currency debt security based on the difference between the exchange rate computed on the date or dates the premium is amortized against interest payments on the debt security and the exchange rate on the date the holder acquired the debt security. If you do not elect to amortize premium, the amount of premium will be included in your tax basis in the debt security. Therefore, if you do not elect to amortize premium and you hold the debt security to maturity, you generally will be required to treat the premium as capital loss when the debt security matures.

Market Discount

If you purchase a debt security at a price that is lower than the debt security's remaining redemption amount (or in the case of an Original Issue Discount Debt Security, the debt security's adjusted issue price), by 0.25% or more of the remaining redemption amount (or adjusted issue price), multiplied by the number of remaining whole years to maturity, the debt security will be considered to bear market discount in your hands. In this case, any gain that you realize on the disposition of the debt security generally will be treated as ordinary interest income to the extent of the market discount that accrued on the debt security during your holding period. In addition, you may be required to defer the deduction of a portion of the interest paid on any indebtedness that you incurred or continued to purchase or carry the debt security. In general, market discount will be treated as

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accruing ratably over the term of the debt security, or, at your election, under a constant yield method. You must accrue market discount on a foreign currency debt security in the specified currency. The amount that you will be required to include in income in respect of accrued market discount will be the U.S. dollar value of the accrued amount, generally calculated at the exchange rate in effect on the date that you dispose of the debt security.

You may elect to include market discount in gross income currently as it accrues (on either a ratably or constant yield basis), in lieu of treating a portion of any gain realized on a sale of the debt security as ordinary income. If you elect to include market discount on a current basis, the interest deduction deferral rule described above will not apply. If you do make such an election, it will apply to all market discount debt instruments that you acquire on or after the first day of the first taxable year to which the election applies. The election may not be revoked without the consent of the Internal Revenue Service. Any accrued market discount on a foreign currency debt security that is currently includible in income will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the holder's taxable year).

Indexed Debt Securities and Other Debt Securities Providing for Contingent Payments

Special rules govern the tax treatment of debt obligations that provide for contingent payments (contingent debt obligations). These rules generally require accrual of interest income on a constant yield basis in respect of contingent debt obligations at a yield determined at the time of issuance of the obligation, and may require adjustments to these accruals when any contingent payments are made. We will provide a detailed description of the tax considerations relevant to U.S. holders of any contingent debt obligations in the pricing supplement.

Foreign Source Income and Foreign Tax Credits

The Portuguese withholding tax on interest at the rate applicable to the U.S. holder under the Treaty will be treated as a foreign income tax eligible (subject to generally applicable limitations and conditions under U.S. tax law) for credit against a U.S. holder's federal income tax liability, or at the U.S. holder's election, for deduction in computing the holder's taxable income. Interest and additional amounts, if any, paid on our debt securities will constitute income from sources without the U.S. for foreign tax credit purposes. As discussed under Portuguese Taxation Debt Securities Taxation of interest in respect of debt securities interest payments to non-residents are generally subject to a 20% withholding tax. Under the Treaty, this rate is reduced to 10%. At current Portuguese withholding rates, interest payments on our debt securities will be subject to the separate foreign tax credit limitation for high withholding tax interest. Gain or loss realized by a U.S. holder on the sale or disposition of a debt security general will be treated as U.S. source income or loss for foreign tax credit purposes.

SHARES OR ADSs

Dividends

The gross amount of any dividends received with respect to our ordinary shares or ADSs, including amounts withheld in respect of Portuguese withholding tax, generally will be subject to U.S. federal income taxation as foreign-source dividend income, and will not be eligible for the dividends received deduction allowed to corporations. Dividends paid in euros will be includible in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of receipt by you or, in the case of ordinary shares held in ADS form, by the depositary. If dividends paid in euros are converted into U.S. dollars on the date of receipt, you generally should not be required to recognize

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foreign currency gain or loss in respect of the dividend income. If you do not convert euros that are received by you into U.S. dollars on the date of receipt, you generally will have a basis in those euros equal to their U.S. dollar value on that date. You also generally will be required to recognize foreign currency gain or loss realized on a subsequent conversion or other disposition of the euros, which will be treated as U.S. source ordinary income or loss.

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Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual prior to January 1, 2009 with respect to our ordinary shares or ADSs will be subject to taxation at a maximum rate of 15% if the dividends are qualified dividends. Dividends paid on our ordinary shares or ADSs will be treated as qualified dividends if we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company (PFIC), foreign personal holding company (FPHC) or foreign investment company (FIC). Based on our audited financial statements and relevant market and shareholder data, we believe that we were not treated as a PFIC, FPHC or FIC for U.S. federal income tax purposes with respect to our 2003 taxable year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a PFIC, FPHC or FIC for our 2004 taxable year. The U.S. Treasury has announced its intention to promulgate rules pursuant to which holders of ADSs or common stock and intermediaries through whom such securities are held will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because such procedures have not yet been issued, it is not clear whether we will be able to comply with them. Holders of our ADSs and ordinary shares should consult their own tax advisers regarding the availability of the reduced dividend tax rate in light of their own particular circumstances.

Portuguese withholding tax on dividends should be treated as foreign income taxes that, subject to generally applicable limitations under U.S. tax law, are eligible for credit against your U.S. federal income tax liability or, at your election, may be deducted in computing taxable income. Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities and may not be allowed in respect of arrangements in which the expected economic profit is insubstantial. You are urged to consult your own tax adviser to determine whether you are eligible for benefits under the Treaty, and whether, and to what extent, foreign tax credits will be available with respect to dividends paid by us.

Distributions of additional shares with respect to ordinary shares or ADSs that are made as part of a *pro rata* distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

Capital Gains

Upon a sale or other disposition of ordinary shares or ADSs, you will recognize gain or loss for United States federal income tax purposes in an amount equal to the difference between the U.S. dollar value of the amount realized and the your tax basis, determined in U.S. dollars, in the ordinary shares or ADSs. Generally, such gain or loss will be capital gain or loss, will be long-term capital gain or loss if your holding period for such ordinary shares or ADSs exceeds one year and any gain will be income from sources within the United States for foreign tax credit limitation purposes. The net amount of long-term capital gain recognized by an individual U.S. holder before January 1, 2009 generally is subject to taxation at a maximum rate of 15%. The deductibility of capital losses is subject to significant limitations.

As discussed in Portuguese Taxation Capital Gains, above, if we are a Portuguese Real Property Holding Company, U.S. holders could be subject to a Portuguese capital gains tax of 10% on capital gains realized under Portuguese law on the sale or other disposition of ordinary shares or ADSs that were held for 12 months or less. In the event that such a Portuguese tax is imposed, U.S. holders that do not receive significant foreign source income from other sources may not be able to derive effective U.S. foreign tax credit benefits in respect of such Portuguese tax.

Deposits and withdrawals of ordinary shares in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

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U.S. INFORMATION REPORTING AND BACKUP WITHHOLDING

Dividends, interest (including original issue discount) and payments of the proceeds of a sale of our securities, paid to U.S. holders within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the U.S. holder is a corporation or other exempt recipient or provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, a non-U.S. person may be required to provide a certification to establish its non-U.S. status in connection with payments received within the United States or through certain U.S.-related financial intermediaries. Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability. You may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim or refund with the Internal Revenue Service and filing any required information.

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PLAN OF DISTRIBUTION

At the time of offering any securities, we will supplement the following summary of the plan of distribution with a description of the offering, including the particular terms and conditions thereof, set forth in a prospectus supplement relating to those securities.

We may offer securities by way of a grant of rights to existing shareholders to acquire additional securities.

We may sell securities in any of the following ways: through underwriters or dealers; directly to one or a limited number of institutional purchasers; or through agents or by way of exercise of rights granted pro rata to our existing shareholders. Each prospectus supplement with respect to a series of securities will set forth the terms of the offering of those securities, including the name or names of any underwriters or agents, the price of such securities and the net proceeds to EDP from such sale, any underwriting discounts, commissions or other items constituting underwriters or agents compensation, any discount or concessions allowed or reallocated or paid to dealers and any securities exchanges on which those securities may be listed.

If underwriters are used in the sale, the securities may be underwritten pursuant to a stand-by underwriting agreement or acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices to be determined at the time of sale. We may offer the securities to the public either through underwriting syndicates of investment banking firms represented by managing underwriters, or directly by one or more such investment banking firms or others, as designated. Unless otherwise set forth in the applicable prospectus supplement, the obligations of the underwriters to purchase the securities will be subject to certain conditions precedent and the underwriters will be obligated to purchase all of the securities offered thereby if any are purchased. Any initial public offering price and any discounts or concessions allowed or reallocated or paid to dealers may be changed from time to time.

We may sell securities either directly to one or more institutional purchasers, or through agents designated by us from time to time. Any agent involved in the offer or sale of the securities will be named, and any commissions payable by us to such agent will be set forth in the applicable prospectus supplement. Unless otherwise indicated in such prospectus supplement, any such agent will be acting on a reasonable efforts basis for the period of its appointment.

We may authorize agents, underwriters or dealers to solicit offers by certain institutional investors to purchase offered securities which will be paid for and delivered on a future date specified in a prospectus supplement. The obligations of any purchasers under this delayed delivery and payment arrangements will not be subject to any conditions except that the purchase at delivery must not be prohibited under the laws of any jurisdiction in the United States to which the institution is subject.

Agents and underwriters may be entitled under agreements entered into with us to indemnification by us against certain civil liabilities, including liabilities under the Securities Act of 1933, or to contribution with respect to payments which the agents or underwriters may be required to make in respect thereof

Agents and underwriters may engage in transactions with or perform services for EDP in the ordinary course of business.

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In the event that we do not list securities of any type or series on a U.S. national securities exchange or quotation system, various broker-dealers may make a market in the securities, but will have no obligation to do so, and may discontinue any market making at any time without notice. Consequently, it may be the case that no broker-dealer will make a market in securities of any series or that the liquidity of the trading market for the securities will be limited.

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The financial statements incorporated in this Prospectus by reference to the Annual Report on Form 20-F for the year ended December 31, 2003 have been so incorporated in reliance on the report of PricewaterhouseCoopers, independent registered public accounting firm, given on the authority of said firm as experts in accounting and auditing. PricewaterhouseCoopers is registered with the Ordem dos Revisores Oficiais de Contas.

VALIDITY OF THE SECURITIES

Morais Leitão, J. Galvão Teles & Associados will pass upon the validity of the ordinary shares for us and as to certain matters of Portuguese law. The validity of the debt securities and certain matters of New York law will be passed upon by Cleary, Gottlieb, Steen & Hamilton or any other law firm named in the applicable prospectus supplement as to certain matters of New York law. Shearman & Sterling LLP or any other law firm named in the applicable prospectus supplement will pass upon the validity of the debt securities and certain matters of New York law for any underwriters or agents. Cleary, Gottlieb, Steen & Hamilton may rely upon Morais Leitão, J. Galvão Teles & Associados with respect to certain matters governed by Portuguese law.

ENFORCEABILITY OF CIVIL LIABILITIES

We are a limited liability company (*sociedade anónima*) organized under the laws of the Portuguese Republic. All of our directors and executive officers, as well as certain experts named in this prospectus or in documents incorporated by reference, are resident outside the United States, and all or a substantial portion of our assets and the assets of such persons are located outside the United States, namely in Portugal. As a result, it may be difficult for you to effect service of process within the United States upon these persons or to enforce against them judgments obtained in U.S. courts predicated upon civil liabilities under the U.S. federal securities laws. Therefore, you may need to enforce U.S. courts' judgments in the Portuguese courts. In such an event, Portuguese law subjects the enforceability of foreign sentences to a High Court revision procedure, which is merely formal and aims exclusively to ensure respect for the due process of law. Based on the opinion of Morais Leitão, J. Galvão Teles & Associados, our Portuguese counsel, there is doubt as to the enforceability in Portugal, whether in original actions or in actions for enforcement of judgments of U.S. courts, of liabilities predicated solely upon the U.S. federal securities laws.

EXPENSES

The table on the following page sets forth the estimated expenses to be paid by us in connection with the issuance and distribution of the securities being registered.

Legal fees and expenses	U.S.\$ 600,000
Accounting fees and expenses	400,000
Printing and engraving expenses	3,000
Securities and Exchange Commission registration fee	
Miscellaneous	

Total U.S.\$ 1,003,000

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WHERE YOU CAN FIND MORE INFORMATION

We file reports, including annual reports on Form 20-F, and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any materials filed with the SEC at its Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. As a foreign private issuer, we have been required to make filings with the SEC by electronic means since November 2002. Any filings we make electronically will be available to the public over the Internet at the SEC's web site at www.sec.gov and at our web site at www.edp.pt.

We provide Citibank, N.A., as depositary, under the Deposit Agreement between us, the depositary and registered holders of the American depositary receipts evidencing our ordinary shares, with annual reports in English, including a review of operations, and annual audited consolidated financial statements prepared in conformity with generally accepted accounting principles in Portugal, or Portuguese GAAP, together with a reconciliation of operating income, net income and total stockholders' equity to generally accepted accounting principles in the United States, or U.S. GAAP. We also furnish the depositary with unaudited semi-annual consolidated financial statements prepared in accordance with Portuguese GAAP. Upon receipt of these reports, the depositary promptly mails them to all record holders of ADSs. We also furnish to the depositary in English all notices of meetings of holders of shares and other reports and communications that are made generally available to holders of shares. The depositary will mail to all holders of ADSs a notice containing the information (or a summary of the information) contained in any notice of a shareholders' meeting received by the depositary and will make available to all holders of ADSs such notices and all other reports and communications received by the depositary in the same manner as we make them available to holders of shares.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus and certain later information that we file with the SEC will automatically update and supersede this information. We incorporate by reference the following documents:

our annual report on Form 20-F for the year ended December 31, 2003, filed with the SEC on June 30, 2004 (SEC File No. 1-14648),

our report on Form 6-K, containing our results of operations for the three-month periods ended March 31, 2004 and 2003, furnished to the SEC on July 7, 2004,

our reports on Form 6-K, containing our results of operations for the six-month periods ended June 30, 2004 and 2003, furnished to the SEC on October 21, 2004 and October 26, 2004,

our report on Form 6-K containing our results of operations for the nine-month periods ended September 30, 2004 and 2003, furnished to the SEC on October 26, 2004,

any future filings on Form 20-F made with the SEC under the Securities Exchange Act of 1934, as amended, after the date of this prospectus and prior to the termination of the offering of the securities offered by this prospectus, and

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any future reports on Form 6-K that we furnish to the SEC after the date of this prospectus and prior to the termination of the offering of securities offered by this prospectus that are identified in such reports as being incorporated by reference in this prospectus.

You may request a copy of any and all of the information that has been incorporated by reference in this prospectus and that has not been delivered with this prospectus, at no cost, by writing or telephoning us at our principal executive offices, located at Praça Marquês de Pombal, 12, 1250-162 Lisbon, Portugal, +351-21-001-2500, attention: Mr. Pedro Pires, Investor Relations.

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	Notes	Jun 2004 USD 000 (*) <i>(unaudited)</i>	Jun 2004 Euro 000 <i>(unaudited)</i>	Dec 2003 Euro 000
Assets				
Cash and cash equivalents	3	247,394	203,533	287,496
Accounts receivable - trade, net	4	1,316,056	1,082,728	1,108,064
Accounts receivable - other, net	5	770,104	633,570	651,843
Inventories	6	175,051	144,016	159,236
Total Current Assets		2,508,605	2,063,847	2,206,639
Long term receivables	7	702,123	577,641	435,842
Investments, net	8	2,177,591	1,791,519	1,622,451
Fixed assets, net	9	14,228,707	11,706,053	11,651,599
Other assets, net	10	3,222,218	2,650,940	2,734,138
Total Non-Current Assets		20,330,639	16,726,153	16,444,030
Total Assets		22,839,244	18,790,000	18,650,669
Liabilities and Shareholders Equity				
Short term debt and current portion of long term debt	11	2,004,440	1,649,066	1,579,130
Accounts payable - trade	12	854,905	703,336	782,626
Accounts payable - other	13	261,673	215,280	187,262
Accrued cost	14	462,347	380,376	236,534
Taxes payable	15	248,733	204,634	269,103
Deferred revenue	16	476,623	392,121	235,764
Total Current Liabilities		4,308,721	3,544,813	3,290,419
Long term debt	11	7,063,108	5,810,866	5,913,579
Accrued pension and post retirement liabilities	17	647,559	532,751	562,263
Deferred revenue and other liabilities	18	3,559,360	2,928,312	2,962,410
Total Non-Current Liabilities		11,270,027	9,271,929	9,438,252
Total Liabilities		15,578,748	12,816,742	12,728,671
Minority interests		284,228	233,836	236,485
Hydrological correction account	19	456,057	375,201	387,506
Share capital	20	3,646,500	3,000,000	3,000,000
Treasury stock	22	(67,554)	(55,577)	(49,020)
Reserves and retained earnings	23	2,607,182	2,144,946	1,965,918
Consolidated net profit	23	334,083	274,852	381,109

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Total Shareholders Equity	<u>6,520,211</u>	<u>5,364,221</u>	<u>5,298,007</u>
Total liabilities and Shareholders equity	<u>22,839,244</u>	<u>18,790,000</u>	<u>18,650,669</u>

(*) Converted at 1.2155 USD

See accompanying notes to the Consolidated Financial Statements

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Table of Contents**EDP - ELECTRICIDADE DE PORTUGAL, S.A. AND SUBSIDIARIES****Consolidated Profit and Loss Account**

for the six-months ended June 30, 2004 (unaudited) and 2003 (unaudited)

	Notes	Jun 2004 USD 000 (*) <i>(unaudited)</i>	Jun 2004 Euro 000 <i>(unaudited)</i>	Jun 2003 Euro 000 <i>(unaudited)</i>
Revenues				
Sales	24	3,968,458	3,264,877	3,146,515
Services rendered	24	324,666	267,105	199,176
		<u>4,293,124</u>	<u>3,531,982</u>	<u>3,345,691</u>
Operating costs and expenses, net				
Raw materials and consumables	24	2,334,352	1,920,487	1,841,065
Personnel costs	25	394,714	324,734	345,273
Depreciation and amortization	26	472,583	388,797	408,346
Supplies and services	27	367,134	302,044	310,239
Own work capitalized	28	(126,626)	(104,176)	(116,659)
Concession and power-generating rents		115,148	94,733	87,948
Provisions	29	56,201	46,237	62,523
Other operating expenses / (income)	30	9,188	7,559	118
		<u>3,622,694</u>	<u>2,980,415</u>	<u>2,938,853</u>
Operating Margin		670,430	551,567	406,838
Interest and related income	31	127,494	104,890	128,789
Interest and related expenses	31	(348,054)	(286,346)	(311,320)
Other non-operating income / (expenses)	32	(24,401)	(20,075)	59,379
Profit before tax		425,469	350,036	283,686
Provision for income taxes	33	125,673	103,392	110,640
Profit after tax		299,796	246,644	173,046
Minority interests		(34,287)	(28,208)	(8,997)
Consolidated Net Profit		<u>334,083</u>	<u>274,852</u>	<u>182,043</u>
Net Profit per share - Basic - Euros	20	<u>0.11 USD</u>	<u>0.09 euros</u>	<u>0.06 euros</u>

(*) Converted at 1.2155 USD

See accompanying notes to the Consolidated Financial Statements

Table of Contents**EDP - ELECTRICIDADE DE PORTUGAL, S.A. AND SUBSIDIARIES****Consolidated Statement of Cash Flows**

for the six-months ended June 30, 2004, and 2003

	Jun 2004	Jun 2004	Jun 2003
	USD 000	Euro 000	Euro 000
	(unaudited)	(unaudited)	(unaudited)
<i>Cash Flow from Operating Activities</i>			
<i>Operating activities :</i>			
Cash receipts from customers	4,372,823	3,597,551	3,270,124
Cash paid to suppliers	(2,773,246)	(2,281,568)	(2,171,203)
Cash paid to staff	(463,334)	(381,188)	(391,511)
Concession rents paid	(113,593)	(93,454)	(87,948)
	<u>1,022,650</u>	<u>841,341</u>	<u>619,462</u>
Cash flows provided by operating activities	1,022,650	841,341	619,462
Income tax received / (paid)	(83,642)	(68,813)	(93,031)
Other variations of operating	96,546	79,429	264,944
	<u>12,904</u>	<u>10,616</u>	<u>171,913</u>
Net Cash flow provided by Operating Activities	1,035,554	851,957	791,375
<i>Cash Flow from Investing Activities</i>			
<i>Cash receipts resulting from:</i>			
Investments and long term-receivables	3,846	3,164	20,677
Tangible and intangible fixed assets	9,011	7,413	122,916
Fixed assets subsidies	45,290	37,260	28,074
Interest	9,201	7,570	881
Dividends	10,909	8,975	31,481
	<u>78,257</u>	<u>64,382</u>	<u>204,029</u>
Net Cash Flow used in Investing Activities	(612,936)	(504,267)	(270,223)
<i>Cash Flow from Financing Activities</i>			
Loans repaid	(76,284)	(62,759)	(96,256)
Interest and similar costs	(180,392)	(148,410)	(154,896)
Dividends	(325,764)	(268,008)	(258,895)
Acquisition of treasury stock	(7,970)	(6,557)	(1,871)

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	(590,410)	(485,734)	(511,918)
Net Cash Flow used in Financing Activities	(590,410)	(485,734)	(511,918)
Variation of cash and cash equivalents	(167,792)	(138,044)	9,234
Effect of currency translation differences	29,292	24,099	(65,732)
Cash and cash equivalents at the beginning of the period	(374,872)	(308,410)	(407,258)
Cash and cash equivalents at the end of the period (*)	(513,372)	(422,355)	(463,756)

(*) See note 3 to the Financial Statements, detailing the breakdown of Cash and Cash equivalents

See accompanying notes to the Consolidated Financial Statements

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Table of Contents**EDP - ELECTRICIDADE DE PORTUGAL, S.A. AND SUBSIDIARIES****Changes in Consolidated Statements of Shareholders Equity**

for the six-months ended June 30, 2004 (unaudited) and year ended December 31, 2003

	(Thousands of Euros)					
	Total		Legal	Reserves		
	Shareholders	Share	and special	and retained	Fair value	Treasury
	Equity	capital	reserve	earnings	reserves and other valuation	stock
Balance as at December 31, Dec 2002	5,494,182	3,000,000	309,631	2,497,020	(268,975)	(43,494)
Transfer to reserves:						
Legal and special reserves			16,760	(16,760)		
Bonus to employees	(25,062)			(25,062)		
Dividends paid (Eur 0.09 per share)	(268,275)			(268,275)		
Purchase and sale of treasury stock	(5,526)					(5,526)
Net profit for the year	381,109			381,109		
Deferred taxes	(252,296)			(252,296)		
Effects arising from the implementation of IAS 36 and 39 in EDP Group:						
- Financial instruments / Derivatives	131,181			131,181		
- Reclassification of impairment of BCP in 2002(*)				(247,750)	247,750	
- Fair value of investments available for sale	10,758				10,758	
- Reversion of Fair value of Iberdrola in 2002	21,223				21,223	
Exchange differences arising on consolidation	(193,032)			(193,032)		
Other reserves arising on consolidation	3,745			3,745		
Balance as at December 31, Dec 2003	5,298,007	3,000,000	326,391	2,009,880	10,756	(49,020)
Transfer to reserves:						
Legal and special reserves			19,055	(19,055)		
Bonus to employees	(20,722)			(20,722)		
Dividends paid (Eur 0.09 per share)	(268,008)			(268,008)		
Purchase and sale of treasury stock	(6,557)					(6,557)
Net profit for the period	274,852			274,852		
Deferred taxes	(31,256)			(31,256)		
Effects arising from IAS 36 and 39 in EDP Group:						
- Financial instruments / Derivatives	(2,147)			(2,147)		
- Fair value of investments available for sale	149,633				149,633	
Exchange differences arising on consolidation	(12,952)			(12,952)		
Other reserves arising on consolidation	(16,629)			(16,629)		
Balance as at June 30, 2004 (unaudited)	5,364,221	3,000,000	345,446	1,913,963	160,389	(55,577)

(*) This reclassification is caused by the implementation of IAS 39 and IAS 36 in 2003, specifically the application of the concept of impairment loss in the event of conditions that can be considered as being of a permanent nature. It is considered that the depreciation in

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value of the financial investment in BCP has these characteristics and, consequently, that the impairment loss would be recorded within retained earnings in the opening balance sheet of 2003, whilst the amount remains within equity as a fair value adjusted for 2002 in accordance with the principles of adopting new standards within the Portuguese accounting framework.

See accompanying notes to the Consolidated Financial Statements

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EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

These interim financial statements reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. The interim information has been prepared on a basis consistent with those used to prepare the annual financial statements, except for matters referred in Note 2.

1. The business operations of the EDP Group

The EDP Group operates mainly in the Iberian and Brazilian markets in the electricity and telecommunications sectors.

Activity in the Energy Sector on the Iberian Peninsula

In Portugal, the National Electricity System (SEN) is based on the coexistence of a Public Service Electricity System (SEP) and of an Independent Electricity System (SEI), the latter comprising the Non-binding Electricity System (SENV) and the Special Regime Producers (PRE).

The SEP comprises the National Transport Network (RNT), Binding Producers, Binding Distributors and Binding Customers. The RNT, under concession to REN - Rede Eléctrica Nacional, S.A., is in charge with providing electricity transport and with the overall technical management of the SEP. Binding Producers are tied to RNT by long-term exclusive supply contracts. Binding Distributors are obliged to supply their customers in accordance with fixed prices, under the law, by the Energy Services Regulatory Entity (ERSE). Binding Customers are entities and individuals that cannot opt for a SENV supplier (currently low-tension consumers), or either those that are able to do so, but opt to acquire electricity from their respective binding distributor under conditions determined by the ERSE. The SENV essentially comprises Non-binding Producers and Non-binding Customers, the latter being entitled to use the SEP networks using fixed tariffs determined by ERSE under the terms of the law.

Special Regime Producers operate in the renewable energies and cogeneration areas, delivering their electricity to the SEP networks under special legislation. In accordance with the law, the ERSE is in charge with exercising the regulation of the sector, through the preparation, issue, and application of regulations, and also through the definition of the tariffs both for the use of infrastructure and for the supply of electricity to SEP customers. Through the generation and distribution companies, the EDP Group plays a fundamental role in the entire SEN, and has a relevant position within the SEP, and also owns generation companies that operate within the SEI both at the level of the SENV and at the level of the PREs.

In Spain, the EDP Group has a 40% shareholding in Group Hidroeléctrica del Cantábrico, S.A. (Hidrocantábrico), a company in which it undertakes a joint operational management. Hidrocantábrico is the parent company that carries on the business in the electricity (generation, transport, distribution and supply), gas (distribution and supply) and telecommunications sectors. This EDP shareholding in Hidrocantábrico

constitutes part of a strategy for the integration and consolidation of the Iberian energy market.

Activity in the Energy Sector in Brazil

In Brazil, the EDP Group operates in the electricity sector, namely in generation, distribution and supply. In distribution it has a 96.5% shareholding in Bandeirante Energia S.A., and 99.97% of IVEN, S.A., which controls Escelsa Espírito Santo Centrais Eléctricas, S.A., and Enersul Empresa Energética do Mato Grosso do Sul S.A..

In the electricity generation sector, the EDP Group has holdings in Usina Hidroeléctrica (UHE), Lajeado (27.65%), Usina Termoeléctrica (UTE) and Fafen (79.6%); in partnership with the Rede Group of Brazil was successful in the auctions for the concession of the construction and operation of Peixe Angical and Couto Magalhães hydroelectric power stations.

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EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements (Continued)

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

In the supply business, in addition to the business carried on by the distribution companies, the EDP Group operates in the electricity trading market through Enertrade, a wholly owned Group company.

Low-tension Electricity Distribution Concession Regime

In accordance with specific legislation (Decree-Law 344-B/82), the right to distribute low-tension electricity in Portugal is in the hands of the municipalities (local authorities). However, EDP is allowed to carry on this activity, under concession, by entering into concession contracts generally with a 20 year term, which can be revoked with 2 years notice. Since 1994, when EDP was restructured as a Group by splitting into new companies, these concession terms were maintained in relation to the 4 electricity distribution companies set-up at that time and later merged in 2000 into EDP Distribuição S.A.. In respect to these concessions, a rent is paid to the conessor municipalities.

Activity in the Telecommunications Sector

In the telecommunications sector, the EDP Group holds 56.03% of the share capital of ONI SGPS (ONI), the remaining capital is held by BCP, GALP Energia and Brisa. ONI operates in fixed telecommunications, providing voice and data services in the Portuguese market (both corporate and residential customers) and in the Spanish market (in the corporate segment).

Activity in the Information Technologies Sector

The EDP Group operates in the information technologies through EDINFOR - Sistemas Informáticos S.A., a wholly owned subsidiary which holds 57.8% of ACE, engaged namely in consultancy, systems integration, processing, application outsourcing, IT infrastructure, georeferenced solutions, printing solutions, and finishing.

Public Domain Assets

In Portugal some fixed assets allocated to electricity generation and distribution within the SEP are subject to the public domain regime. However, EDP has the authority to operate and manage these assets in the binding sector only, and never for any other purpose. In Brazil the fixed assets used in the distribution and supply of electricity are tied to those services and cannot be withdrawn, sold, assigned or mortgaged without the prior express consent of the Regulator. ANEEL has already created regulations releasing the assets of the Public Electricity Service

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concessions, granting prior authorisation for the release of assets of no use to the concession, provided they are to be sold, further determining that the product of the sale be deposited in a tied bank account, to be used in the concession.

2. Accounting policies

Basis of presentation

The Group's parent company, EDP - Electricidade de Portugal, S.A. (hereinafter known as EDP), was incorporated in 1976 as a consequence of the nationalisation and consequent merger of the principal companies of the electricity sector operating in mainland Portugal. Its registered office is in Lisbon at Praça Marquês de Pombal, 12, 6º. During 1994, as established by Decree-Law 7/91 and 131/94, the EDP Group was established (hereinafter known as EDP Group or Group) following the split of EDP, which led to a number of subsidiaries wholly owned by EDP itself, directly or indirectly. The Group's businesses are currently focused on the generation, distribution and supply of electricity, on the distribution and supply of gas, on telecommunications and on information technologies. Although complementary, the Group currently operates as well in related areas such as water, engineering, laboratory tests, vocational training and property management.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

The Consolidated Financial Statements of the EDP Group have been prepared in accordance with accounting principles generally accepted in Portugal (Portuguese GAAP), except as provided in notes 17 and 35 particularly as a result of the adoption of International Accounting Standards IAS 19, IAS 32, IAS 36 and IAS 39. The Consolidated Financial Statements have been prepared from the accounting records of EDP and its subsidiary companies listed below. Portuguese GAAP differs in certain significant respects from generally accepted accounting principles in the United States of America (U.S. GAAP). A description of these differences and their effects on consolidated net income and shareholders equity are set forth in Note 37. The financial statements also include certain reclassifications and additional disclosures in order to conform more closely to the form and content of financial statements required by the Securities and Exchange Commission of the United States of America.

Convenience translation (unaudited): the Company maintains its accounting records and prepares its financial statements in Euro. The United States dollar amounts disclosed in the accompanying financial statements are presented solely for the convenience of the reader at the June 30, 2004 rate of 1,2155 Euro to the dollar (closing rate per Bank of Portugal). Such translations should not be construed as representations that the Euro amounts represent, or have been or could be converted into United States dollars at that or any other rate.

The preparation of the financial statements in conformity with Portuguese GAAP, together with the reconciliation to U.S. GAAP, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Some of the more significant estimates and assumptions relate to the hydrological correction account, depreciation and impairment of long lived assets, fair value of financial investments, provision for employee retirement benefits and deferred taxes. Actual results could differ from those estimates.

The accounting standards are as described in Note 2 of Part III Form 20F as at December, 2003 for EDP Group.

The accounting standards are consistent with those applied in the first half of 2003, with the exception to:

- a) In June 2003, under Portuguese GAAP, the EDP Group did not measure its derivatives and investments at fair value. During the second half of 2003 the EDP Group made early implementation of International Accounting Standards IAS 32, IAS 36 and IAS 39. The effect before taxes resulting from this adoption as at June 30, 2003 would be as follows:

<u>Assets</u>	<u>Liabilities</u>	<u>Shareholders Equity</u>	<u>Profit before tax for the period</u>
<u>DR / (CR)</u>	<u>DR / (CR)</u>	<u>DR / (CR)</u>	<u>DR / (CR)</u>
<u>Euro 000</u>	<u>Euro 000</u>	<u>Euro 000</u>	<u>Euro 000</u>

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Derivatives	294,309	(82,116)	(131,181)	(81,102)
Investments	311,058	(272,697)	(38,361)	

- b)* Compensation of depreciation of portion funded by clients of fixed assets is presented in 2004 as a deduction to the amortizations instead of being recognized as other non-operating income. Thus in June 30, 2003 the other non-operating income included Eur 34.38 million related to the depreciation of the portion of fixed assets funded by clients.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****3. Cash and cash equivalents**The balance **Cash and cash equivalents** is analysed as follows:

	Group	
	Jun 2004	Dec 2003
	Euro 000	Euro 000
	<u> </u>	<u> </u>
Cash:		
- Cash in hand	2,889	20,375
	<u>2,889</u>	<u>20,375</u>
Bank deposits:		
- Current deposits	102,807	116,205
- Short term deposits	4,267	6,963
- Other deposits	4,455	
	<u>111,529</u>	<u>123,168</u>
Negotiable securities:		
- Other securities	56,376	56,291
	<u>56,376</u>	<u>56,291</u>
Other treasury placements:		
- Financial products at domestic banks	20,300	85,300
- Financial products at foreign banks	12,445	2,368
	<u>32,745</u>	<u>87,668</u>
Provision	(6)	(6)
	<u>203,533</u>	<u>287,496</u>

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With reference to the consolidated statement of cash flows, the breakdown for the purpose of determination and detailing the Cash and Cash equivalents components, is as follows:

	Group	
	Jun 2004	Dec 2003
	Euro 000	Euro 000
Cash components:		
- Cash	2,889	20,375
- Bank deposits	111,529	123,168
- Negotiable securities	56,376	56,291
	170,794	199,834
Cash equivalents:		
- Other treasury securities	32,745	87,668
- Overdrafts	(625,894)	(595,912)
	(593,149)	(508,244)
Cash and cash equivalents	(422,355)	(308,410)

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****4. Accounts receivable - Trade, net**This balance **Accounts receivable - Trade, net** is analysed as follows:

	Group	
	Jun 2004	Dec 2003
	Euro 000	Euro 000
	<u> </u>	<u> </u>
<i>Resident customers:</i>		
State and official entities	43,853	36,234
Local authorities	30,689	31,041
Corporate sector and individuals	767,297	789,986
Unbilled receivables	50,912	85,193
Trade accounts - bills receivable	1	46
	<u>892,752</u>	<u>942,500</u>
<i>Non-resident customers:</i>		
Corporate sector and individuals	187,312	158,490
	<u>187,312</u>	<u>158,490</u>
	<u>1,080,064</u>	<u>1,100,990</u>
Doubtful debt	191,977	188,689
Provision for doubtful debt	(189,313)	(181,615)
	<u>1,082,728</u>	<u>1,108,064</u>

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****5. Accounts receivable - Other, net**

This balance is analysed as follows:

	Group	
	Jun 2004	Dec 2003
	Euro 000	Euro 000
Other accounts receivable - Short term / Current		
State and other public entities:		
- Income tax	3,972	73,398
- Value added tax	85,937	100,730
- Other taxes	14,550	5,647
Other related companies	3,948	1,178
Advances to suppliers	3,408	2,478
Other debtors:		
- Account with the Pension Fund	12,120	12,120
- Amounts owed to staff	2,863	8,536
- Amounts owed by the State and Concessors	10,697	6,879
- Debtors in respect of other goods and services	90,721	94,437
- Regulatory assets	27,269	51,732
- INAG/EDP Protocol - Alqueva	26,082	26,082
- Advances to pensioners	17,024	8,497
- Other debtors and sundry operations	29,152	7,344
	<u>327,743</u>	<u>399,058</u>
Provision for short-term debtors	(10,646)	(9,335)
	<u>317,097</u>	<u>389,723</u>
Accrued income		
- Interest receivable	294,109	193,234
- For sales and services provided	5,321	7,368
- Other accrued income	17,043	61,518
	<u>316,473</u>	<u>262,120</u>

633,570	651,843
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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****6. Inventories**

This balance is analysed as follows:

	Group	
	Jun 2004	Dec 2003
	Euro 000	Euro 000
Merchandise	13,498	15,794
Purchases and advances on account of purchases	5,834	2,291
Finished and intermediate products	619	569
Products and work in progress	3,998	3,648
Sub-products, waste, residues and scrap	2,188	1,989
Raw and subsidiary materials and consumables:		
Coal	19,833	24,920
Fuel	29,919	47,530
Other consumables	68,137	62,495
	<u>144,026</u>	<u>159,236</u>
Provision for inventories	(10)	
	<u>144,016</u>	<u>159,236</u>

7. Long term receivables, netThe balance **Long term receivables, net** is analysed as follows:

Group	
Jun 2004	Dec 2003
Euro 000	Euro 000

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Trade accounts receivable - Medium and long-term / Non Current:		
<i>Resident customers:</i>		
Customers - Local government - Debt at December 31, 1988 (i)	180,452	181,689
Corporate sector and individuals	17,885	5,017
Trade accounts - bills receivable	414	413
	<u>198,751</u>	<u>187,119</u>
Provision for local government customers at December 31, 1988	(88,228)	(101,322)
	<u>110,523</u>	<u>85,797</u>
Trade accounts receivable - Medium and long term / Non Current		
Other related companies	10,934	
Other debtors:		
- Fixed assets in compensated integration (ii)	9,270	9,270
- Regulatory assets:		
Portugal (iii)	223,328	148,352
Brazil	128,138	127,256
- Performance bonds and tied deposits	49,748	44,991
- Other debtors and sundry operations	53,242	20,176
	<u>474,660</u>	<u>350,045</u>
Provision for medium-/long-term debtors - Non current	(7,542)	
	<u>467,118</u>	<u>350,045</u>
	<u>577,641</u>	<u>435,842</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

- (i) The amount of this heading is shown net of the compensation of debits related to assets undergoing integration to be transferred to the Group and of the rents owed by the Group on that date.
- (ii) Compensated fixed assets undergoing integration correspond to the net amounts, on integration date, of the debts of local authorities up to December 31, 1988, compensated by means of the respective assets undergoing integration (Tangible Fixed Assets under the regime of Decree-law 344-B/82). The transfer of these amounts to tangible fixed assets is awaiting formalisation of the concession contracts or debt regularisation protocols to be entered into by EDP and the local authorities.
- (iii) The regulatory assets Portugal heading shows the costs associated with the 2003 Human Resources Rationalisation Plan in EDP Distribuição, which were accepted by the Energy Services Regulatory Entity as an investment amortizable over a period of 20 years, beginning in 2005.

8. Investments

This balance is analysed as follows:

	Group	
	Jun 2004	Dec 2003
	Euro 000	Euro 000
Shareholdings		
Subsidiary companies	65	1,305
Associate companies	431,527	441,449
Investments in other companies	1,485,224	1,351,958
	<u>1,916,816</u>	<u>1,794,712</u>
Investment in properties		
Buildings and other constructions	1,390	1,417
	<u>1,390</u>	<u>1,417</u>
Other financial investments		
Bank deposits	5,000	
Public debt securities	19	19
Other securities	38,244	70,143
Other financial investments	6,245	4,029
Amounts recoverable from the sale of Oniway	90,339	39,667

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	139,847	113,858
	<u>2,058,053</u>	<u>1,909,987</u>
<i>Provision for financial assets :</i>		
Shareholdings	(265,012)	(285,790)
Other financial investments	(1,161)	(1,391)
	<u>(266,173)</u>	<u>(287,181)</u>
<i>Amortization of investment in properties</i>	(361)	(355)
	<u>(361)</u>	<u>(355)</u>
	<u>(266,534)</u>	<u>(287,536)</u>
	<u>1,791,519</u>	<u>1,622,451</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**The breakdown of **Shareholdings** is analysed as follows:

	Group	
	Jun 2004	Dec 2003
	Euro 000	Euro 000
Investment in subsidiary companies:		
Other	65	1,305
	<u>65</u>	<u>1,305</u>
Investment in associated companies:		
DECA - Distribucion Eléctrica Centroamerica, SA	69,135	67,894
Companhia de Electricidade de Macau	59,649	65,129
REN - Rede Eléctrica Nacional, SA	248,694	254,223
Associated Companies of Hidrocantábrico Group	36,813	39,398
Portsines - Terminal de Sines	7,501	7,501
Turbogás - Produtora Energética	7,499	5,211
Other	2,236	2,093
	<u>431,527</u>	<u>441,449</u>
Investment in other companies		
CERJ - Companhia Eléctrica do Estado Rio Janeiro	95,050	97,767
Galp, SGPS	457,201	328,211
BCP - Banco Comercial Português	552,789	552,789
OPTEP (Optimus)	315,000	314,750
Other companies	65,184	58,441
	<u>1,485,224</u>	<u>1,351,958</u>
	<u>1,916,816</u>	<u>1,794,712</u>

The subsidiary and associated companies incorporated in the consolidated accounts by the full consolidated method, the proportional method and by the equity method are referred in the 2003 Financial Statements.

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The new Subsidiary Companies acquired and incorporated since December 31, 2003, fully consolidated were as follows:

<u>Subsidiary Companies</u>	<u>Head office</u>	<u>Share capital / Currency</u>	Shareholders	Net	<u>% Group</u>
			Equity	Profit	
			31 Dec 2003	31 Dec 2003	
			Euro 000	Euro 000	
Digihotel, S.A.	Lisbon	249 500 EUR	153	99	57.77%
Digigest, S.A.	Lisbon	149 700 EUR	(45)		57.77%
Digitec, S.A.	Lisbon	74 850 EUR	8		57.77%
Greatplains, S.A.	Lisbon	224 550 EUR	(363)		55.65%
Case Edinfor ÁSIA, Lda	Macao	25 000 MOP	12	(10)	57.77%
EDP - Investments and Services, Limited	Cayman Island	1,000 USD	792		100.00%

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

After December 31, 2003, Subsidiary Companies sold were as follows:

Subsidiary Companies	Head office	Share capital / Currency	Shareholders	Net	%
			Equity	Profit	
			31 Dec 2003	31 Dec 2003	Group
			Euro 000	Euro 000	
ONI Way	Lisbon	300 000 000 EUR	5,810	(14,369)	56.02%

9. Fixed assets

This balance is analysed as follows:

	Group	
	Jun 2004	Dec 2003
	Euro 000	Euro 000
Fixed assets under the Decree Law 344-B/82 regime	240,607	240,607
Land and natural resources	128,051	128,169
Buildings and other constructions	393,047	410,982
Plant and machinery:		
Hydroelectric generation	6,937,749	6,952,258
Thermoelectric generation	3,602,883	3,405,254
Renewables generation	61,245	42,795
Electricity distribution	12,857,159	12,675,981
Other plant and machinery	721,166	714,415
Transport equipment	74,845	75,761
Office equipment and utensils	357,498	344,250
Other tangible fixed assets	36,243	22,393
Fixed assets in progress	1,183,812	1,187,302
	<u>26,594,305</u>	<u>26,200,167</u>

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<i>Accumulated depreciation</i>		
Depreciation charges for the year	(404,757)	(391,467)
Other accumulated depreciation	(14,483,495)	(14,157,101)
	<u>(14,888,252)</u>	<u>(14,548,568)</u>
	<u>11,706,053</u>	<u>11,651,599</u>

Tangible fixed assets under the Decree-Law 344-B/82 regime are those assets allocated to low-tension in electricity distribution transferred from the local authorities under the concession regime. These assets, though operated by the Group, continue to be the property of the local authorities and are accounted as follows:

	Group	
	Jun 2004	Dec 2003
	Euro 000	Euro 000
Fixed assets under the DL 344-B/82 regime	240,607	240,607
Accumulated depreciation	(232,831)	(231,528)
Net amount	<u>7,776</u>	<u>9,079</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

Part of these assets may be transferred to Group ownership by settlement, by offsetting accounts in respect of debts of the respective municipalities (State and official entities) pending settlement (see Note 4).

Tangible fixed assets during the 1st half of 2004, are analysed as follows:

	Balance					Changes in	Balance
	January 1st	Acquisitions / Charge year	Disposals	Transfers	Subsidiaries / Other	June 30	
	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000	
Cost :							
Fixed assets under the DL 344-B/82 regime	240,607					240,607	
Land and natural resources	128,169	717	(419)	462	(878)	128,051	
Buildings and other constructions	410,982	2,054	(3,117)	(12,487)	(4,385)	393,047	
Plant and machinery	23,790,703	76,995	(32,286)	402,044	(57,254)	24,180,202	
Transport equipment	75,761	2,052	(3,576)	990	(382)	74,845	
Office equipment and utensils	344,250	4,672	(982)	10,006	(448)	357,498	
Other tangible fixed assets	22,393	44,032		13,599	(43,781)	36,243	
Fixed assets in progress	1,187,302	377,588	(116)	(414,614)	33,652	1,183,812	
	<u>26,200,167</u>	<u>508,110</u>	<u>(40,496)</u>	<u></u>	<u>(73,476)</u>	<u>26,594,305</u>	
Accumulated depreciation :							
Fixed assets under the DL 344-B/82 regime	231,528	1,303				232,831	
Buildings and other constructions	166,403	4,658	(1,153)		(1,518)	168,390	
Plant and machinery	13,911,573	368,789	(29,753)		(20,828)	14,229,781	
Transport equipment	54,532	4,815	(2,875)		(230)	56,242	
Office equipment and utensils	180,109	23,276	(905)		(7,308)	195,172	
Other tangible fixed assets	4,423	1,916			(503)	5,836	
	<u>14,548,568</u>	<u>404,757</u>	<u>(34,686)</u>	<u></u>	<u>(30,387)</u>	<u>14,888,252</u>	

As at June 30, 2004, for the Group, the cost of tangible fixed assets financed by leasing is in the amount of Eur 39.8 million (accumulated depreciation in the amount of Eur 8.5 million) and the respective falling due in the amount of Eur 28.3 million.

10. Other assets

The balance **Other assets** is analysed as follows:

	Group	
	Jun 2004	Dec 2003
	Euro 000	Euro 000
Intangible assets	933,715	950,182
Goodwill	873,849	899,514
Deferred taxes	546,683	609,338
Deferred costs	296,693	275,104
	2,650,940	2,734,138

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**The balance **Intangible assets** is analysed as follows:

	Group	
	Jun 2004	Dec 2003
	Euro 000	Euro 000
Intangible assets		
Set-up costs	85,455	85,157
Research and development costs	98,129	103,302
Industrial property and other rights	176,775	158,057
Fixed assets in progress and other fixed assets	13,148	21,944
Other intangible assets on telecommunications business	40,209	40,209
Concession rights in Brazil and Spain	835,583	835,366
	<u>1,249,299</u>	<u>1,244,035</u>
Accumulated amortization		
Amortization of concession rights during the period	(15,220)	(30,439)
Amortization of intangible fixed assets during the period	(22,015)	(42,501)
Other accumulated amortization	(278,349)	(220,913)
	<u>(315,584)</u>	<u>(293,853)</u>
	<u>933,715</u>	<u>950,182</u>

Intangible assets during the 1st half of 2004, are analysed as follows:

	Balance				Changes in	
	January 1st	Acquisitions / Charge year	Disposals	Transfers	Subsidiaries / Other	Balance June 30
	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000
Cost :						
Set-up costs	85,157	308	(133)	(74)	197	85,455

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Research and development costs	103,302	190	(5,946)	323	260	98,129
Industrial property and other rights	158,057	269	(4)	20,030	(1,577)	176,775
Fixed assets in progress and other fixed assets	21,944	4,040	(179)	(14,568)	1,911	13,148
Other intangible assets on telecommunications business	40,209					40,209
Concession rights in Brazil and Spain	835,366	2,167		(5,711)	3,761	835,583
	<u>1,244,035</u>	<u>6,974</u>	<u>(6,262)</u>		<u>4,552</u>	<u>1,249,299</u>
<i>Accumulated amortization :</i>						
Set-up costs	64,855	7,785	(39)		(6,391)	66,210
Research and development costs	44,606	8,879	(2,342)		(95)	51,048
Industrial property and other rights	32,376	4,243	17		(8,086)	28,550
Other intangible assets on telecommunications business	14,571	1,108			1,457	17,136
Concession rights in Brazil and Spain	137,445	15,220			(25)	152,640
	<u>293,853</u>	<u>37,235</u>	<u>(2,364)</u>		<u>(13,140)</u>	<u>315,584</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

The **Concession rights** heading, resulting from the difference between cost and the proportional fair value of the company's assets on the date of acquisition, is analysed as follows for the following acquisitions:

	Jun 2004			Dec 2003		
	Concession	Accumulated	Net	Concession	Accumulated	
	Rights	amortization	Amount	Rights	amortization	Net Amount
	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000
Electricity Business - Brazil						
Bandeirante Energia	274,949	(58,876)	216,073	275,279	(54,483)	220,796
Escelsa / Enersul	560,634	(93,764)	466,870	560,087	(82,962)	477,125
	<u>835,583</u>	<u>(152,640)</u>	<u>682,943</u>	<u>835,366</u>	<u>(137,445)</u>	<u>697,921</u>
Amortization charges for the period		<u>(15,220)</u>			<u>(30,439)</u>	

The **Concession rights** over the Brazilian electricity distribution subsidiaries, particularly over Bandeirante Energia SA, Escelsa - Espírito Santo Centrais Eléctricas SA, and Enersul - Empresa Energética do Mato Grosso do Sul SA, are amortized using the straight-line method over the life of the concessions, up to 2025 and 2030 respectively. In June 2003, amortization of the period was Eur 22,977 thousand.

As at June 30, 2004, by business area, the main **Research and development projects** are as follows:

	Amount	Accumulated	
	invested	amortization	Net Amount
	Euro 000	Euro 000	Euro 000
Development projects by business area:			
Electricity generation	18,498	(12,167)	6,331
Information technologies	8,751	(5,544)	3,207
Telecommunications	67,254	(32,387)	34,867
Other	3,626	(950)	2,676

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	98,129	(51,048)	47,081
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As at June 30, 2004, the breakdown of the **Industrial property and other rights** assets, is as follows:

		Amount invested	Accumulated amortization	Net Amount
	EDP Group Company	Euro 000	Euro 000	Euro 000
Software licensing	Brazil and Hidrocantábrico	66,093	(19,516)	46,577
Optic fibre usage rights	ONI Telecom	108,932	(8,071)	100,861
Other	Other companies	1,750	(963)	787
		176,775	(28,550)	148,225

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**The breakdown of **Goodwill** is as follows:

	Jun 2004			Dec 2003		
	Accumulated		Net	Accumulated		Net
	Goodwill	amortization	Amount	Goodwill	amortization	Amount
	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000
Electricity Business						
Hydrocantábrico Group	758,014	(78,488)	679,526	752,676	(46,319)	706,357
Investco	2,108	(158)	1,950	2,177	(127)	2,050
Enerpeixe	1,014	(28)	986	1,629	(4)	1,625
	<u>761,136</u>	<u>(78,674)</u>	<u>682,462</u>	<u>756,482</u>	<u>(46,450)</u>	<u>710,032</u>
Telecommunications Business						
Comnexo	21,103	(9,454)	11,649	21,103	(8,399)	12,704
Comunitel Global	91,393	(27,266)	64,127	86,157	(22,889)	63,268
Other	12,782	(2,024)	10,758	12,779	(1,385)	11,394
	<u>125,278</u>	<u>(38,744)</u>	<u>86,534</u>	<u>120,039</u>	<u>(32,673)</u>	<u>87,366</u>
Information Technology Business						
ACE, SGPS	58,844	(10,298)	48,546	58,844	(8,827)	50,017
Case Edinfor	3,612	(1,264)	2,348	3,612	(1,084)	2,528
Copidata	4,064	(4,064)		4,064	(3,861)	203
S-Tecno Serviços TI	3,926	(1,374)	2,552	3,926	(1,178)	2,748
Other	8,660	(2,742)	5,918	8,827	(2,428)	6,399
	<u>79,106</u>	<u>(19,742)</u>	<u>59,364</u>	<u>79,273</u>	<u>(17,378)</u>	<u>61,895</u>
Other Businesses						
Affinis Serviços	12,725	(1,007)	11,718	12,725	(689)	12,036
Turbogás	18,174	(1,363)	16,811	18,174	(908)	17,266
Companhia Electricidade Macau	17,110	(7,842)	9,268	16,543	(6,893)	9,650
Other	9,254	(1,562)	7,692	2,127	(858)	1,269
	<u>57,263</u>	<u>(11,774)</u>	<u>45,489</u>	<u>49,569</u>	<u>(9,348)</u>	<u>40,221</u>
	<u>1,022,783</u>	<u>(148,934)</u>	<u>873,849</u>	<u>1,005,363</u>	<u>(105,849)</u>	<u>899,514</u>

<i>Amortization charges for the period</i>	(29,644)	(54,439)
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Goodwill in respect of subsidiary and associate companies is amortized using the straight-line method over the estimated useful life (10 years in general, and 20 years for ACE, Affinis, Turbogás and Hidrocantábrico). In June 2003, amortization of the period was Eur 25,704 thousand.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

In respect of **Deferred tax assets**, the EDP Group records in its accounts the tax effect arising from temporary differences between the assets and liabilities determined from an accounting standpoint and from a taxation standpoint, and this is broken down by company as follows:

	Deferred Tax Assets	
	Jun 2004	Dec 2003
	Euro 000	Euro 000
Individual - EDP, SA	284,231	336,924
ONI Group	101,915	107,831
EDP Produção Group	1,037	1,037
EDP Brazil Group	131,313	131,707
Hidrocantábrico Group	9,162	12,814
EDP Finance BV	18,510	18,510
Other	515	515
EDP Group	546,683	609,338

The balance **Deferred costs** is analysed as follows:

	Group	
	Jun 2004	Dec 2003
	Euro 000	Euro 000
Deferred costs :		
- Rents	14,158	1,771
- Expenditure on concessions	11,148	11,499
- Accrued maintenance	3,828	18,172
- Compensation of fuel costs	140,455	130,502
- Deferred retirement benefit obligation	47,991	50,993
- Cost of negotiating loans (BEI)	22,316	24,537
- Discounts on bond issues	5,959	6,434
- Other deferred costs	50,838	31,196
	296,693	275,104



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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****11. Debt - Short and long term**

This balance is analysed as follows:

	Group	
	Jun 2004	Dec 2003
	Euro 000	Euro 000
Short term loans - Current		
Overdrafts :		
- EDP, SA	20,424	
- ONI Group	595,100	592,298
- Grupo Edinfor	10,248	
- Other	122	3,614
	<u>625,894</u>	<u>595,912</u>
Bank loans:		
- EDP, SA	258,231	315,711
- ONI Group	91,071	51,395
- Edinfor Group	4,947	
- Produção Group	4,718	
- Brazil Group	199,286	225,530
- Hidrocentrífico Group	27,623	24,360
- EDP Finance BV	93,524	93,524
- Other	33,897	46,977
	<u>713,297</u>	<u>757,497</u>
Bonds issued - Non convertible:		
- EDP, SA	9,975	10,221
- EDP Finance BV	45,500	45,500
	<u>55,475</u>	<u>55,721</u>
Commercial paper		
- EDP, SA	220,000	170,000
- Grupo Hidrocentrífico	34,400	
	<u>254,400</u>	<u>170,000</u>

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	1,649,066	1,579,130
	<u> </u>	<u> </u>
Medium and long term loans - Non Current		
Bank loans:		
- EDP, SA	592,133	631,021
- ONI Group		41,732
- Edinfor Group	6,488	
- Produção Group	30,664	
- Brazil Group	336,101	237,662
- Hidroantábrico Group	666,134	761,800
- EDP Finance BV	550,000	550,000
- Other	15,895	67,032
	<u> </u>	<u> </u>
	2,197,415	2,289,247
	<u> </u>	<u> </u>
Bonds issued - Non convertible:		
- EDP, SA	2,466,323	2,476,551
- EDP Finance BV	963,694	963,694
- Brazil Group	83,434	84,087
	<u> </u>	<u> </u>
	3,513,451	3,524,332
	<u> </u>	<u> </u>
Commercial paper		
- EDP, SA	100,000	100,000
	<u> </u>	<u> </u>
	100,000	100,000
	<u> </u>	<u> </u>
	5,810,866	5,913,579
	<u> </u>	<u> </u>
	7,459,932	7,492,709
	<u> </u>	<u> </u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

As of June 30, 2004, the scheduled repayments of the long-term portion of the group's debt was as follows:

	Euro 000
Since Jul 01, 2005 until Jun 30, 2006	715,393
Since Jul 01, 2006 until Jun 30, 2007	942,683
Since Jul 01, 2007 until Jun 30, 2008	842,268
Since Jul 01, 2008 until Jun 30, 2009	367,741
Jul 01, 2009 and following years	2,942,847
	5,810,932

At the EDP, SA, level, the Group has short-term credit facilities in the sum of Eur 797 million, indexed to the Euribor rate for the agreed period of use, with margin conditions agreed in advance, of which Eur 777 million have a firm underwriting commitment. There is also a Eur 350 million commercial paper programme with guaranteed placement. As far as medium-term credit facilities are concerned, Eur 700 million is available to EDP, SA, with a firm underwriting commitment, also indexed to Euribor under previously agreed conditions. As at June 30, 2004, no credit facilities had been used.

The bank loans in Brazil involve floating-rate interest on the real, mostly indexed to the CDI. On the other hand, bank loans in euros are associated with floating-rate interest indexed to the three- or six-month Euribor rates.

The breakdown of Bonds issued as at June 30, 2004 is as follows:

Issuer	Issue date	Interest rate	Repayment/ conditions	Group Euro 000
Issued by EDP, S.A.				
EDP, SA 22nd Issue	May 13, 1996	Euribor 6 months - 0.10%	(i)	13,424
EDP, SA 23rd Issue	Dec 20, 1996	Euribor 6 months - 0.125%	(ii)	10,332
EDP, SA 24th Issue	Dec 22, 1997	Euribor 6 months + 0.10%	(iii)	3,263
EDP, SA 25th Issue	Nov 23, 1998	Euribor 6 months + 0.225%	(iv)	299,279
EDP, SA 26th Issue	Mar 26, 2003	Euribor 6 months + 0.5%	On Mar 26, 2013	150,000

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476,298

Issued by EDP within the Euro Medium Term Notes Programme

EDP, SA	1st Issue	Oct 29, 1999	Fixed rate EUR 6.40%	On Oct 29, 2009	1,000,000
EDP, SA	2nd Issue	Mar 27, 2001	Fixed rate EUR 5.875%	On Mar 28, 2011	1,000,000
EDP Finance BV	3rd Issue (*)	Oct 29, 2001	JPY Libor 3 months + 0.20%	On Oct 29, 2004	45,500
EDP Finance BV	4th Issue	Nov 26, 2001	Coupon Zero	On Nov 26, 2009	22,455
EDP Finance BV	5th Issue (*)	Nov 28, 2001	Fixed rate JPY 0.70%	On Nov 28, 2006	27,882
EDP Finance BV	6th Issue (*)	Aug 9, 2002	Fixed rate GBP 6.625%	On Aug 9, 2017	320,000
EDP Finance BV	7th Issue	Dec 16, 2002	Fixed rate EUR 5.00%	On Dec 16, 2008	500,000
EDP Finance BV	8th Issue	Dec 23, 2002	Fixed rate EUR 2.661%	On Dec 23, 2022	93,357

3,009,194

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

Issuer	Issue date	Interest rate	Repayment/ conditions	Group Euro 000
Issued by Escelsa (Brazil) (International Bond)				
Escelsa USD 430 Million (**)	On Jul 28, 1997	Fixed rate USD 10.0%	On Jul 15, 2007	57,388
Issued by Investco (Brazil) (Domestic bond)				
Investco 1st Issue	Nov 1, 2001	IGPM + 12.80%	On Nov 1, 2011	19,721
Investco (FINAM)	Nov 14, 2003	TJLP + 4%	On Nov 14, 2011	6,325
				26,046
				3,568,926

- (i) : 4 annual payments beginning in June 2, 2003. It may be repaid early at the request of bondholders.
- (ii) : 4 annual payments beginning in December 20, 2008. As from December 20, 2006 it may be repaid in part or in full at the request of EDP to all the bondholders.
- (iii) : 4 annual payments beginning in January 5, 2002.
- (iv) : 6 semi-annual payments beginning in May 23, 2006.
- (*) : These issues by EDP Finance BV have associated floating-interest-rate euro currency swaps.
- (**) : The EDP Group holds 83% of the value of this issue in an intra-group portfolio, as a result of the international takeover bid launched in 2002.

The breakdown of the fair value of the EDP Group's debt, that is the market value of the debt, is as follows:

	Jun 2004		Dec 2003	
	Carrying Value Euro 000	Market Value Euro 000	Carrying Value Euro 000	Market Value Euro 000
Short term loans - Current	1,649,066	1,649,066	1,579,130	1,579,130
Medium and long term loans - Non current	5,810,866	6,142,875	5,913,579	6,251,355
	7,459,932	7,791,941	7,492,709	7,830,485

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The market value of the medium/long-term loans is calculated on the basis of the cash flows discounted at the rates ruling on June 30, 2004. In current short-term debt, the book value is considered to be the market value

12. Accounts payable - Trade

This balance is analysed as follows:

	Group	
	Jun 2004	Dec 2003
	Euro 000	Euro 000
Short term creditors - Current		
Suppliers	643,475	678,741
Supplies of fixed assets	59,861	103,885
	703,336	782,626

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****13. Accounts payable - Other**

This balance is analysed as follows:

	Group	
	Jun 2004	Dec 2003
	Euro 000	Euro 000
Other shareholders	27,888	10,541
Advances to customers	2,908	1,204
Other creditors		
- Employees	9,406	20,625
- Supply of other goods and services	12,138	12,946
- Concession rents	7,739	6,690
- Creditors for collections	28,544	20,115
- For interest and financial credits	77	13,960
- INAG/EDP Protocol - Alqueva	35,893	35,893
- Other creditors and sundry operations	90,687	65,288
	215,280	187,262

14. Accrued costThe balance **Accrued cost** is analysed as follows:

	Group	
	Jun 2004	Dec 2003
	Euro 000	Euro 000
Accrued costs:		

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- Holiday pay, bonus and other charges	64,409	68,393
- Interest payable	226,327	121,874
- Other accrued costs	89,640	46,267
	<u>380,376</u>	<u>236,534</u>

15. Taxes payables

This balance is analysed as follows:

	<u>Group</u>	
	<u>Jun 2004</u>	<u>Dec 2003</u>
	<u>Euro 000</u>	<u>Euro 000</u>
<i>State and other public entities:</i>		
- Income tax	104,142	173,924
- Withholding tax	9,530	11,686
- Social security contributions	12,933	11,359
- Value added tax	14,955	12,197
- Other taxes	63,074	59,937
	<u>204,634</u>	<u>269,103</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****16. Deferred revenue**The balance **Deferred revenue** is analysed as follows:

	Group	
	Jun 2004	Dec 2003
	Euro 000	Euro 000
	<u> </u>	<u> </u>
Deferred revenue:		
- Equal Installment Account EDP Distribuição	134,744	101,096
- Other deferred revenue (i)	257,377	134,668
	<u> </u>	<u> </u>
	392,121	235,764
	<u> </u>	<u> </u>

- (i) The deferred revenue include personnel rationalisation programme deferred income amounting Eur 192 million. (December 2003, Eur 133 million)

17. Accrued pension and post retirement liabilitiesThe balance **Accrued pension and retirement liabilities** is analysed as follows:

	Group	
	Jun 2004	Dec 2003
	Euro 000	Euro 000
	<u> </u>	<u> </u>
Defined benefit pension plan	106,026	149,636
Post retirement medical benefits	426,725	412,627
	<u> </u>	<u> </u>
	532,751	562,263
	<u> </u>	<u> </u>

Some companies of the EDP Group grant their employees post-retirement benefits, both under the form of defined-benefit plans and under the form of defined-contribution plans. These include pension benefits that pay complimentary old-age, disability and surviving-relative pension complements, and also early retirement pensions. In some cases medical care is provided during the period of retirement and of early retirement, through mechanisms complementary to those of the National Health Service.

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

I. Pension Plans - *Defined-Benefit Type*

In Portugal, the companies of the EDP Group resulting from the split of EDP in 1994 have defined benefits plan financed through a closed Pension Fund, covered by a specific provision. This Pension Fund covers liabilities for retirement pension benefits (old age, disability and surviving relative) as well as liabilities for early retirement.

In Brazil, Bandeirante, Escelsa and Enersul have defined-benefit plans managed by a closed complementary welfare entities with its own assets: CESP, ESCELSOS and ENERSUL foundation, respectively.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

Bandeirante has two defined-benefit plans:

- BD Plan in force up to March 31, 1998, a Balance Benefit Plan that grants Balanced Proportional Supplementary Benefit (BSPS) in the form of an annuity payable to participants enrolled by March 31, 1998, of an amount defined in proportion to past length of service accumulated by the reference date, based on compliance with regulatory granting requirements. The company is liable in full for the cover of any actuarial insufficiencies of this Plan.
- BD Plan in force after March 31, 1998, which grants an annuity in proportion to the accumulated past length of service after March 31, 1998, on the basis of 70% of the average actual monthly wage for the last 36 months in service. In the event of death or disability caused by works accident, beneficiaries incorporate the whole of the past service (including that accumulated up to March 31, 1998), not just the past service accumulated after March 31, 1998. The Company and the participants equally share liability for the cover of the actuarial insufficiencies of this plan.

Escelsa and Enersul has a defined-benefit plan that grants a complementary benefit for past length service, disability, age and pension. Escelsa also has grants a special complementary benefit for retirement, for the former combatants and for dead.

The change in benefit obligation of consolidated liabilities for past services linked to these pension plans has been as follows:

	Jun 2004			Dec 2003		
	Portugal	Brazil	Group	Portugal	Brazil	Group
	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000
<i>Change in benefit obligation</i>						
Liabilities at the beginning of period	1,412,541	64,750	1,477,291	1,394,075	54,658	1,448,733
Cost of current services	4,435	499	4,934	11,193	1,047	12,240
Cost of Interest	34,776	4,158	38,934	78,843	6,006	84,849
Benefits paid	(66,577)	(1,854)	(68,431)	(139,459)	(1,516)	(140,975)
Actuarial losses	90,329	21,119	111,448	67,889	4,147	72,036
Currency fluctuation		(2,161)	(2,161)		407	407
<i>Liabilities at the end of the period</i>	1,475,504	86,511	1,562,015	1,412,541	64,750	1,477,291

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As at June 30, 2004, the Actuarial losses from Brasil includes the responsibilities reclassified from the Defined Contribution Plan to Defined Benefit Plan of Escelsa and Enersul in the amount of Eur 10.6 million and Eur 7.9 million, respectively.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

In calculating the liabilities inherent in these pension plans within the EDP Group the following financial and actuarial assumptions were used:

	Jun 2004		Dec 2003	
	Portugal		Portugal	
	Euro 000	Brazil Euro 000	Euro 000	Brazil Euro 000
Assumptions				
Rate of return of the Funds	5.70%	10.24% - 12.82%	5.70%	10.24%
Discount rate	5.20%	10.24% - 10.76%	5.20%	10.24%
Wage growth rate	3.30%	6.08% - 7.12%	3.30%	7.12%
Pension growth rate	2.25%	7.12%	2.25%	7.12%
Social Security wage appreciation rate	2.00%	4.00%	2.00%	4.00%
Inflation rate	2.00%	4.00%	2.00%	4.00%
Mortality table	TV 88/90	AT-49(qx)	TV 88/90	AT-49(qx)
Disability table	50% EKV 80	Light-Average (ix)	50% EKV 80	Light-Average (ix)
Expected % of subscription by employees eligible for early retirement	40% of the eligible actives		40% of the eligible actives	
	Not applicable		Not applicable	

As mentioned above, only part of the liabilities for the Pension Plan is financed through the Pension Funds, the remainder being recognised in accordance with IAS 19, by means of a provision detailed hereunder:

	Jun 2004			Dec 2003		
	Portugal	Brazil	Group	Portugal	Brazil	Group
	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000
Provision for Pension Plans						
Liabilities at the end of the period	1,475,504	86,511	1,562,015	1,412,541	64,750	1,477,291
Fund assets at the end of the period	(805,685)	(61,075)	(866,760)	(785,147)	(31,355)	(816,502)
Unfunded liabilities	669,819	25,436	695,255	627,394	33,395	660,789
Deferred actuarial losses (i)	(585,661)	(1,525)	(587,186)	(506,600)	(4,553)	(511,153)
Value of the provision at the end of the period	84,158	23,911	108,069	120,794	28,842	149,636

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- (i) The international accounting standards adopted by EDP allowed deferred actuarial gains/losses to be recognised systematically in the statement of income for the year by amortizing the amount that exceeded, in the previous year, 10% of the value of the greater of the liabilities or assets of the Fund. Such amortizations are calculated for the period corresponding to the average remaining length of service of the active population.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

The components of consolidated net cost recognised during the period with these plans are as follows:

	Jun 2004		
	Portugal	Brazil	Group
	Euro 000	Euro 000	Euro 000
<i>Cost for the period</i>			
Cost of the service	4,435	499	4,934
Cost of interest	34,776	4,158	38,934
Return on the Funds assets	(21,438)	(5,084)	(26,522)
Worker contributions		(233)	(233)
Amortization of deferred actuarial losses	12,168		12,168
<i>Net cost for the period</i>	29,941	(660)	29,281

As at June 30, 2003, the Cost for the period was in the amount of Eur 36.3 million and the breakdown is not available.

The plan assets of the Pension Funds was as follows:

	Jun 2004			Dec 2003		
	Portugal	Brazil	Group	Portugal	Brazil	Group
	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000
<i>Change in plan assets</i>						
Assets at the beginning of period	785,147	31,355	816,502	727,258	22,687	749,945
Group Contributions	22,609	2,129	24,738	54,340	3,947	58,287
Worker contributions		233	233		552	552
Pensions paid during the period	(22,609)	(1,780)	(24,389)	(50,340)	(1,516)	(51,856)
Return of the Funds	20,538	5,084	25,622	44,286	15,403	59,689
Actuarial gains (losses)		25,269	25,269	9,603	(10,016)	(413)
Currency fluctuation		(1,215)	(1,215)		297	297

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<i>Assets at the end of the period</i>	805,685	61,075	866,760	785,147	31,355	816,502
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As at June 30, 2004, the Actuarial losses from Brazil includes the responsibilities reclassified from the Defined Contribution Plan to Defined Benefit Plan of Escelsa and Enersul in the amount of Eur 12.5 million and Eur 12.7 million, respectively.

As a result of the fact that in accounting the costs of pensions and associated charges the EDP Group transposed the provisions of IAS 19 earlier than required, derogating in this way and to this extent the provisions of Accounting Directive 19 which transposed to Portuguese accounting standards the earlier version of the international standard we present hereunder the effects and impacts on the said the derogation. In analysing the differences in this particular case, the EDP Group makes use of the corridor method to recognise actuarial gains and losses, allowing deferral of their impact on results. This technique is one of the options provided for in IAS 19 in paragraphs 92 and 93. Accounting Directive 19, on the contrary, imposes in this matter recognition of actuarial losses and gains directly in results for the year in which they occur and does not accept the corridor alternative or allow deferral of actuarial gains and losses in excess of the said corridor . It therefore imposes a systematic method of immediate recognition in results.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****II. Pension Plans - Defined Contribution Type**

Hidroantábriico in Spain and Bandeirante, Escelsa and Enersul in Brazil have social benefits Defined-contribution plans that complement those benefits granted by the Social Welfare Systems to the Group companies employees, under which they pay a contribution to these plans each year, calculated in accordance with the rules established in each case.

III. Liability for Medical Care Plans - Defined Benefit Type

In Portugal, Group companies resulting from the split of EDP in 1994 have a Medical Care Plan of the defined-benefit type, supported through a provision that covers the whole of these liabilities. The evolution of consolidated liabilities for past services inherent in the EDP Group medical care plan has been as follows:

	Jun 2004			Dec 2003
	Portugal	Brasil	Group	Group
	Euro 000	Euro 000	Euro 000	Euro 000
<i>Change in benefit obligation</i>				
Liabilities at the beginning of the period	660,255		660,255	496,201
Cost of current services	3,952	58	4,010	5,942
Cost of interest	16,823	541	17,364	29,049
Benefits paid	(13,208)	(289)	(13,497)	(24,099)
Actuarial losses	10,804	12,196	23,000	153,162
Currency translation		(12)	(12)	
<i>Liabilities at the end of the period</i>	678,626	12,494	691,120	660,255

The following financial and actuarial assumptions were used in calculating the liabilities associated with this medical care plan:

Group

	Jun 2004	Dec 2003
	Euro 000	Euro 000
Assumptions		
Discount rate	5.20%	5.20%
Annual growth rate of medical services costs	4.5% (a)	4.5% (a)
Mortality table	(b)	(b)
Disability table	(b)	(b)
Expected % of subscription by employees eligible for early retirement	(b)	(b)

- (a) 4.5% during the next 9 years and 4.0% during the remaining years
 (b) As mentioned in the Pension Plan assumptions

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

As mentioned above, Medical Care Plan liabilities are recognised in the Group's accounts through a provision, which is presented below:

	Jun 2004			Dec 2003
	Portugal	Brasil	Group	Group
	Euro 000	Euro 000	Euro 000	Euro 000
<i>Provision for Medical Care Plans</i>				
Liabilities at the end of the period	678,626	12,494	691,120	660,255
Deferred actuarial losses (i)	(251,901)	(5,139)	(257,040)	(247,628)
<i>Value of the provision at the end of the period</i>	426,725	7,355	434,080	412,627

- (i) The international accounting standards adopted by EDP allowed deferred actuarial gains/losses to be recognised systematically in the statement of income through amortization of the amount exceeding, in the previous year, 10% of the amount of the greater of the liabilities or of the assets of the Fund. These amortizations are calculated for the period corresponding to the estimated average remaining length of service of the active population.

The components of net consolidated cost recognised during period with this plan are as follows:

	Jun 2004		
	Portugal	Brasil	Group
	Euro 000	Euro 000	Euro 000
<i>Cost for the period</i>			
Cost of the service	3,952	58	4,010
Cost of interest	16,823	541	17,364
Amortization of the deferred transitory obligation (i)	6,532	(290)	6,242
<i>Net cost for the period</i>	27,307	309	27,616

As at June 30, 2003, the Cost for the period was in the amount of Eur 20 million and the breakdown is not available.

18. Deferred revenue and other liabilities

The balance **Deferred revenue and other liabilities** is analysed as follows:

	Group	
	Jun 2004	Dec 2003
	Euro 000	Euro 000
Subsidies for investment in fixed assets	1,528,910	1,546,101
Deferred taxes	532,221	616,056
Provision for financial assets	90,449	92,696
Provisions for other contingencies and liabilities	181,618	164,615
Concession fixed assets held - (Reg. DL 344-B/82)	7,775	9,079
State share in Multipurpose hydroelectric power stations	14,996	14,996
Concession fixed assets held - (Reg. DL 344-B/82)	40,748	39,843
Recognition of liabilities on the sale of OPTEP in 2002	315,000	315,000
Supplies of fixed assets	64,659	74,618
Electricity tariff compensations in Brazil	20,035	35,013
Other creditors and sundry operations	131,901	54,393
	<u>2,928,312</u>	<u>2,962,410</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

Subsidies for investment in fixed assets is the deferred income related to the portion of fixed assets funded by clients

As an immediate consequence of the full application by the EDP Group for the first time of IAS 39: Measurement and Recognition of financial instruments, the Creditors Medium/long-term heading of the Group, includes an entry of the EDP Group's liability as a result of the sale of 100% of the OPTEP/Optimus asset (see Note 7) in 2002, since there is an Optimus/OPTEP selling price adjustment mechanism clause with the buyer, and consequently, in accordance with the IAS 39, it cannot be specified as a sale/firm commitment. In accordance with the international standard, the asset sold in 2002 is carried in full under assets and the respective liability, also in full, is carried under the Group's liability, while price fluctuations are recognized as though the matter was one of investments available for sale for as long as the said clause is in force until March 22, 2005.

As at June 30, the provision for financial assets includes a provision in the amount of Eur 30 million (December 2003: 30 million) related to investments in Brasil and Cabo Verde and associated commitments and another provision in the amount of Eur 60 million (December 2003: 60 million) recorded by EDP Brazil and related with impairment charges resulting from its investments in EDP Lajeado and FAFEN Energia.

In respect of **Deferred tax liabilities**, the EDP Group records in its accounts the tax effect arising from temporary differences between the assets and liabilities determined from an accounting standpoint and from a taxation standpoint, and this is broken down by company as follows:

	Deferred Tax Liabilities	
	Jun 2004	Dec 2003
	Euro 000	Euro 000
Individual - EDP, SA	376,967	474,839
ONI Group	719	719
EDP Brasil Group	114,657	103,066
Hidrocantábrico Group	39,878	37,432
EDP Group	532,221	616,056

19. Hydrological correction account

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The balance **Hydrological correction account** is analysed as follows:

	Group	
	Jun 2004	Dec 2003
	Euro 000	Euro 000
Opening balance on January 1	387,506	324,111
Differential for the year.	(17,124)	71,916
Hydrological correction bonuses		(19,350)
Financial charges	4,819	10,829
	375,201	387,506

The Hydrological Correction Account is a mechanism that was legally instituted (Decree-Law 338/91) to compensate variable electricity production costs. In dry years the thermoelectric system is overused and the spending on fuel or on the import of electricity increases significantly. In wet years the situation is reversed.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

Electricity supply tariffs for the customers of the SEP cannot be altered in the light of the cost fluctuations caused by the hydraulicity. In accordance with Order-in-Council 987/2000, the hydrological correction account is assigned to the EDP accounts and, consequently, it is carried in an account under liabilities in its balance sheet, and the corresponding movements for the year are detailed in the notes to the financial statements.

The annual amount of the hydrological correction is calculated in accordance with parameters established by law, and includes:

(i) The differential between the economic cost of electricity production and the reference economic cost, which is borne by REN as the RNT concessionaire and sole manager of the hydrological correction account. EDP pays REN each month the positive differentials and receives from REN the negative differentials. These payments and revenues are recorded with a contra entry in the hydrological correction account;

(ii) the financial costs or income associated with the accumulated balance of this account constitute an EDP cost or income; (iii) the part corresponding to the amount necessary to make the expected value of the balance, within 10 years, equal to an adequate benchmark, when it reflects a debit to the hydrological correction account, constitutes EDP income, when it reflects a credit, the REN is obliged to make the respective payment to EDP. The corresponding cost is included in the REN electricity-selling tariff to the tied distribution company (EDP Distribuição), constituting a cost for the latter to be recovered through its customer selling prices. Movements under the hydrological correction account are subject to approval by ministerial order.

20. Share capital

The share capital amounts to Euro 3 billion represented by 3,000,000,000 ordinary shares each of a par value of 1 euro, and is fully paid-up.

The breakdown of the earnings per share (EPS) is as follows:

	Group	
	Jun 2004	Jun 2003
Consolidated net profit in Euros	274,852,348	182,043,997

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Average number of shares in the year net from treasury stock	2,975,651,332	2,980,342,044
Net Profit per share - Basic - Euros	0.09 euros	0.06 euros

EDP, which began as a state-owned Company, was successively transformed into a *sociedade anónima* (limited liability company under Portuguese law) wholly owned by the public sector and then into a *sociedade anónima* with a majority of its share capital owned by the public sector. It is currently a *sociedade anónima* in whose share capital the State and other Public Entities have a minority holding. The privatisation process began in 1997, and the second and third stages of the privatisation took place in 1998 and the fourth stage in 2000, following which the State now holds about 30% of the share capital, directly and indirectly.

The EDP Group calculates its basic and diluted earnings per share under the terms of which earnings per share are calculated using the weighted average of the shares issued during the reporting period.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****21. Legal reserve**

In accordance with article 295 of Companies Code and with the EDP articles of association, the Legal Reserve must be increased by a minimum of 5% of the annual profits until such time as its value equals 20% of the company's share capital. This reserve may be used only to cover losses or to increase share capital.

22. Treasury stock

This balance is analysed as follows:

	Group	
	Jun 2004	
	Euro 000	Dec 2003 Euro 000
Book value of EDP, SA shares	55,577	49,020
Number of EDP SA shares	24,348,668 shares	21,430,964 shares
Market price of EDP, SA shares as at June 30, 2004 and December 31, 2003	2.30 euros	2.09 euros
Market value of EDP, SA shares as at June 30, 2004 and December 31, 2003	56,002	44,791

The treasury shares held by EDP, S.A., lie within the limits established by the Company's articles of association and by the Companies Code.

23. Reserves and retained earnings

This balance is analysed as follows:

	Group	
	Jun 2004	Dec 2003
	Euro 000	Euro 000
Legal reserves	345,446	326,391
Revaluation reserves	89,449	89,449
Other reserves and retained earnings	3,127,938	3,031,892
Fair-value adjustments of investments available for sale	160,389	10,756
Net profit	274,852	381,109
Currency translation arising on consolidation	(585,452)	(572,500)
Other reserves arising on consolidation	(992,824)	(920,070)
	2,419,798	2,347,027

The amount resulting from the fluctuation in local currency of the Shareholders' Equity of the Subsidiary and Associate Companies expressed in foreign currencies resulting from the fluctuation of the respective exchange rates is recorded under Currency Translation arising on consolidation. The exchange rates used in the preparation of the Financial Statements are as follows:

Currency		Exchange rates in June 30, 2004		Exchange rates in June 30, 2003	
		Rates	Average	Rates	Average
		Closing	exchange-rate	Closing	exchange-rate
American dollar	USD	1.2155	1.2240	1.1427	1.1146
Brazilian Real	BRL	3.7839	3.6367	3.2888	3.5527
Macao Pataca	MOP	9.7647	9.8194	9.1000	8.8833

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

The contra entry of the adjustments made to the headings of tangible fixed assets and financial investments in properties caused by the various revaluations undertaken, net of amounts used to increase the share capital and to cover retained losses, and the corresponding deferred taxes are carried under Revaluation Reserves. These revaluations were undertaken pursuant to the following legislation:

Decree-law no. 430/78	Decree-law no. 111/88
Decree-law no. 219/82	Decree-law no. 7/91
Decree-law no. 399-G/84	Decree-law no. 49/91
Decree-law no. 171/85	Decree-law no. 264/92
Decree-law no. 118-B/86	

Article 8 of Decree-Law 7/91, of January 8, which determined the formation of new sociedades anónimas constituted by means of the simple split of EDP, called for the valuation of EDP's assets, the valuation having been undertaken by entities selected from among those previously qualified by the Finance Ministry for the purpose and subjected to the approval of the Finance Minister. This evaluation, pursuant to Decree-Law 22/92 of February 14, is used for tax purposes, particularly with regard to the calculation of depreciation charges for the year.

24. Revenues

The **Revenues**, with breakdown by **Sales and Services rendered**, and by contribution of each business, is analysed as follows:

	Group	
	Jun 2004	Jun 2003
	Euro 000	Euro 000
Sales by sector of activity/business:		
Electricity	3,137,687	3,115,611
Steam and ashes	12,061	9,601
Gas	90,623	
Information systems and technologies	8,121	9,208
Telecommunications	2,500	5,319
Other sales	13,885	6,776
	3,264,877	3,146,515

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Services rendered by sector of activity/business:		
Associated with electricity sales	44,654	26,284
Thermo/Hydro electricity engeneering	3,877	3,485
Information systems and technologies	35,423	21,599
Telecommunications	156,044	142,642
Consultancy and services	3,191	1,251
Other	23,916	3,915
	<hr/>	<hr/>
	267,105	199,176
	<hr/>	<hr/>
TOTAL TURNOVER by business:		
Electricity	3,182,341	3,141,895
Steam and ashes	12,061	9,601
Gas	90,623	
Thermo/Hydro electricity	3,877	3,485
Information systems and technologies	43,544	30,807
Telecommunications	158,544	147,961
Other	40,992	11,942
	<hr/>	<hr/>
	3,531,982	3,345,691
	<hr/>	<hr/>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**The breakdown of **Gross profit on Sales** is as follows:

	Group	
	Jun 2004	Jun 2003
	Euro 000	Euro 000
Sales:		
Electricity	3,137,687	3,115,611
Steam and ashes	12,061	9,601
Gas	90,623	
Other sales	24,506	21,303
	<u>3,264,877</u>	<u>3,146,515</u>
Cost of sales - Raw materials and consumables :		
Electricity	1,621,769	1,598,222
Fuel, steam and ashes	219,987	129,322
Other costs	78,731	113,521
	<u>1,920,487</u>	<u>1,841,065</u>
	<u>1,344,390</u>	<u>1,305,450</u>

The breakdown of **Services rendered** is as follows:

	Group	
	Jun 2004	Jun 2003
	Euro 000	Euro 000
Associated with electricity sales	44,654	26,284
Engineering studies and designs	3,877	3,485
IT services	35,423	21,599
Other telecommunications services	156,044	142,641

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Other services provided	27,107	5,167
	<u>267,105</u>	<u>199,176</u>

25. Personnel costs

The balance **Personnel costs** is analysed as follows:

	Group	
	Jun 2004	Jun 2003
	Euro 000	Euro 000
	<u> </u>	<u> </u>
Corporate officers remuneration	6,014	6,562
Employees remuneration	201,912	214,070
Charges on remuneration and other	116,808	124,641
	<u>324,734</u>	<u>345,273</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****26. Depreciation and amortization**The balance **Depreciation and amortization** is analysed as follows:

	Group	
	Jun 2004	Jun 2003
	Euro 000	Euro 000
<i>Tangible fixed assets:</i>		
Fixed assets under concession the Decree-law 344-B/82	1,303	1,866
Buildings and other constructions	4,658	2,854
Plant and machinery:		
Hydroelectricity generation	59,685	62,701
Thermoelectric generation	56,259	50,811
Electricity distribution	220,392	217,801
Other plant and machinery	32,453	29,723
Transport equipment	4,815	4,325
Administrative equipment and utensils	23,276	19,527
Other tangible fixed assets	1,916	1,859
	404,757	391,467
<i>Intangible fixed assets:</i>		
Set-up costs	7,785	7,680
Research and development costs	8,879	7,645
Industrial property and other rights	4,243	1,554
Other intangible assets on telecommunications business	1,108	
	22,015	16,879
<i>Compensation of depreciation of part-funded fixed assets:</i>		
Compensated fixed assets	(37,975)	
	(37,975)	
	388,797	408,346

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In June 30, 2003, Compensation of depreciation of part-funded fixed assets was included in other non-operating income and amounted EUR 34.3 million.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****27. Supplies and services**

This balance is analysed as follows:

	Group	
	Jun 2004	Jun 2003
	Euro 000	Euro 000
	_____	_____
<i>Subcontracts:</i>		
Subcontracts	93,839	93,892
Other subcontracts	7,887	
<i>Supplies and services:</i>		
Water, electricity and fuel	4,638	2,678
Utensils and office material	2,441	1,808
Leases and rents	22,804	26,802
Communications	14,045	11,104
Insurance	10,578	9,522
Transport, travel, and the board and lodging	5,842	3,633
Commissions and fees	5,065	7,424
Maintenance and repairs	42,708	27,805
Advertising and propaganda	6,118	6,758
Specialised work	75,388	92,192
Other supplies and services	10,691	26,621
	_____	_____
	302,044	310,239
	_____	_____

28. Own work capitalized

This balance is analysed as follows:

	Group	
	Jun 2004	Jun 2003
	_____	_____

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	Euro 000	Euro 000
Consumption of materials	47,614	46,085
Direct internal costs and overheads	40,841	42,395
Financial charges	11,833	16,360
Other own work capitalized	3,888	11,819
	<u>104,176</u>	<u>116,659</u>

29. Provisions for the year

This balance is analysed as follows:

	Group	
	Jun 2004	Jun 2003
	Euro 000	Euro 000
Charge for doubtful debt	13,059	37,101
Charge for healthcare liabilities	27,345	20,006
Charge for other contingencies and liabilities	5,833	5,416
	<u>46,237</u>	<u>62,523</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****30. Other operating expenses net**

This balance is analysed as follows:

	Group	
	Jun 2004	Jun 2003
	Euro 000	Euro 000
<i>Other operating income:</i>		
Supplementary income	4,439	2,033
Operating subsidies	201	110
Other operating income	3,356	7,347
	<u>7,996</u>	<u>9,490</u>
<i>Other operating expenses:</i>		
Direct taxes	784	189
Indirect taxes	8,968	4,276
Other operating costs and losses	5,803	5,143
	<u>15,555</u>	<u>9,608</u>
<i>Other net operating income / (expenses)</i>	<u>(7,559)</u>	<u>(118)</u>

31. Interest and related income and expensesThe balance **Interest and related income and expenses**, are analysed as follows:

Group

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	Jun 2004	Jun 2003
	Euro 000	Euro 000
	<u> </u>	<u> </u>
<i>Interest and related income :</i>		
Interest income	23,817	29,307
Income on application of the equity method	21,172	17,474
Investment income	8,976	31,481
Favourable exchange differences	15,156	8,259
Other financial gains	35,769	42,268
	<u> </u>	<u> </u>
	104,890	128,789
	<u> </u>	<u> </u>
<i>Interest and related expenses :</i>		
Interest expense	167,837	185,076
Banking services	7,525	
Losses on application of the equity method	1,054	10,283
Unfavourable exchange differences	33,193	5,799
Other financial losses	29,964	61,480
	<u> </u>	<u> </u>
	239,573	262,638
	<u> </u>	<u> </u>
Amortization of investments (Goodwill):		
- Concession rights	15,220	22,978
- Goodwill assets	29,644	25,704
- Other intangible assets on telecommunications business	1,909	
	<u> </u>	<u> </u>
	46,773	48,682
	<u> </u>	<u> </u>
	286,346	311,320
	<u> </u>	<u> </u>
<i>Net Financial Income / (Expenses)</i>	<u>(181,456)</u>	<u>(182,531)</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****32. Other non-operating income / (expenses)**The balance **Other non-operating income / (expenses)** is analysed as follows:

	Group	
	Jun 2004	Jun 2003
	Euro 000	Euro 000
<i>Other non-operating income</i>		
Gains on fixed assets	1,906	22,737
Recovery of debt	269	232
Reduction of provisions		
- For customer debt	32	
- For financial assets	562	
- For other contingencies and liabilities	4,833	23,280
Corrections to previous years	5,321	2,639
Compensation of depreciation of part-funded fixed assets		34,385
Investment subsidies	3,313	4,062
Compensation of cost of human resources rationalisation	6,627	
Other extraordinary gains	9,519	6,538
	32,382	93,873
<i>Other non-operating (expenses)</i>		
Losses on stocks	1,293	616
Losses on fixed assets	6,524	16,323
Bad debt	2,420	288
Fines and penalties	41	50
Corrections to previous years	10,270	5,047
Extraordinary provisions		
- For other contingencies and liabilities	1,066	
Loss on Baixa UTE Campo Grande (Enersul)	1,502	
Cost of human resources rationalisation	23,199	
Other extraordinary losses	6,142	12,170
	52,457	34,494
<i>Net Non-Operating Results</i>	(20,075)	59,379

In 2004, Compensation of depreciation of part-funded fixed assets was reclassified to depreciation and amortization.

Cost of human resources rationalisation mainly includes charges with pensioners, compensation from contract rescissions and Flexible Retirement Program promoted by EDP Group.

33. Provisions for income taxes

In accordance with prevailing legislation, tax returns are subject to review and correction by the tax authorities during subsequent years. In Portugal this period is four years, and 1998 was the last year considered to be definitively liquidated by the tax authorities.

Tax losses calculated for given year, also subject to inspection and adjustment, may be deducted from taxable profits during subsequent years. The companies of the EDP Group are taxed, whenever possible, under the consolidated systems allowed by the tax law of the respective countries.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

The breakdown of income tax expense is as follows:

	Group	
	Jun 2004	Jun 2003
	Euro 000	Euro 000
Tax base		
Income before income taxes	350,036	283,686
Permanent differences	25,934	28,334
	<u>375,970</u>	<u>312,020</u>
Normal charge	103,392	102,967
Adjustments		7,672
Income tax expenses	<u>103,392</u>	<u>110,639</u>
Current income taxes	174,007	141,835
Deferred income taxes	(70,615)	(31,195)
Income tax expense	<u>103,392</u>	<u>110,640</u>

The inverse in deferred income taxes relates mainly to reversal of deferred tax liabilities related with capital gains taxes.

The breakdown of the reconciliation between the nominal and the actual income tax (IRC) rate for the Group in June 30, 2004 is as follows:

	Jun 2004	
	Tax Base	Tax Rate
	Euro 000	%
	<u> </u>	<u> </u>

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Nominal tax on profits	350,036	96,260	27.5%
Amortization resulting from revaluation fixed assets	35,979	9,894	2.8%
Book losses not compensated	36,766	10,111	2.9%
Other adjustments to taxable income	(46,811)	(12,873)	-3.7%
Effective rate and actual tax on profits		103,392	29.5%

Jun 2003

	Tax Base	Tax	Rate
	Euro 000	Euro 000	%
Nominal tax on profits	283,686	93,616	33.0%
Book losses not compensated	23,565	7,776	2.7%
Change in prior year estimates	23,248	7,672	2.7%
Other adjustments	4,764	1,576	0.6%
Effective rate and actual tax on profits		110,640	39.0%

Corporate income tax returns are subject to review and correction by the income tax authorities for a period of four years after the filing of such returns. Accordingly, the last taxation year that can be considered definitively assessed by the income tax authorities in 1998.

34. Segmental reporting

The Segmental Reporting was prepared in accordance with Portuguese Accounting Directive 27 and with international best practices.

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****EDP Group Business by Business Segment****Information by business segment - 1st Half 2004****(Amounts expressed in thousands of euros)**

	<u>Portugal</u>		<u>Spain</u>			<u>Brazil</u>		<u>Telecoms</u>	<u>Information Technology</u>	<u>Services and Other Adjustments</u>	<u>EDP Group</u>
	<u>Generation ^(a)</u>	<u>Distribution + Supply</u>	<u>Generation</u>	<u>Distribution + Supply</u>	<u>Gas ^(b)</u>	<u>Generation</u>	<u>Distribution</u>				
Turnover											
Sales of electricity	678,224	1,745,221	110,949	124,056	9,286	13,506	462,576			(6,130)	3,137,688
Other sales	10,393	1,211	3,595	31,596	82,735	1,700		5,222	13,083	(22,346)	127,189
Services rendered	36,030	11,800	843	8,533	7,677	3,766	31,908	160,596	77,940	(71,988)	267,105
	<u>724,647</u>	<u>1,758,232</u>	<u>115,387</u>	<u>164,185</u>	<u>99,698</u>	<u>18,972</u>	<u>494,484</u>	<u>165,818</u>	<u>91,023</u>	<u>(100,464)</u>	<u>3,531,982</u>
Raw materials and consumables											
Purchase of electricity	17,974	1,143,337	7,982	124,805	64,532	3,302	302,872			(43,035)	1,621,769
Fuel costs	163,121		53,105	979	407	2,375					219,987
Other materials	1,430	53,407	2,480	6,180	2,853	48	4,041	4,495	11,549	(7,751)	78,732
	<u>182,525</u>	<u>1,196,744</u>	<u>63,567</u>	<u>131,964</u>	<u>67,792</u>	<u>5,725</u>	<u>306,913</u>	<u>4,495</u>	<u>11,549</u>	<u>(50,786)</u>	<u>1,920,488</u>
Gross Margin	<u>542,122</u>	<u>561,488</u>	<u>51,820</u>	<u>32,221</u>	<u>31,906</u>	<u>13,247</u>	<u>187,571</u>	<u>161,323</u>	<u>79,474</u>	<u>(49,678)</u>	<u>1,611,494</u>
Other operating income / (costs)											
Supplies and services	(32,156)	(109,382)	(8,207)	(8,944)	(4,643)	(6,090)	(24,191)	(122,341)	(29,474)	43,384	(302,044)
Personnel costs	(63,075)	(189,363)	(8,652)	(7,470)	(3,484)	(491)	(30,797)	(27,641)	(29,725)	35,963	(324,735)
Own work capitalized	7,728	90,525	867	660	100			2	454	3,840	104,176
Other operating income /	2,073	(89,537)	(2,801)	2,679	629	(98)	(4,496)	1,455	878	(13,073)	(102,291)

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(costs)											
	(85,430)	(297,757)	(18,793)	(13,075)	(7,398)	(6,679)	(59,484)	(148,525)	(57,867)	70,114	(624,894)
Gross Operating Margin	456,692	263,731	33,027	19,146	24,508	6,568	128,087	12,798	21,607	20,436	986,600
Depreciation and amortization	118,490	175,964	20,039	6,868	12,118	2,257	26,842	31,814	14,803	17,576	426,771
Compensation of depreciation of part-funded fixed assets	(115)	(36,909)	(68)	(322)	(248)					(313)	(37,975)
Provisions	5,719	23,277	72	264	34		8,249	1,737	228	6,657	46,237
Operating Margin	332,598	101,399	12,984	12,336	12,604	4,311	92,996	(20,753)	6,576	(3,484)	551,567
Financial income / (expense)	(51,467)	(16,773)	(8,532)	(4,299)	(2,218)	(4,959)	(54,642)	(18,146)	(3,351)	29,703	(134,684)
(Amortization of goodwill and concession rights)			(4,794)	(5,954)	(369)	(36)		(8,094)	(2,512)	(25,013)	(46,772)
Current results	281,131	84,626	(342)	2,083	10,017	(684)	38,354	(46,993)	713	1,206	370,111
Extraordinary gains / (losses)	1,780	3,114	120	251	73	(19)	(4,716)	(424)	(825)	(19,429)	(20,075)
Profit before taxes	282,911	87,740	(222)	2,334	10,090	(703)	33,638	(47,417)	(112)	(18,223)	350,036
Income taxes	83,864	61,222	807	1,125	3,229	1,016	12,898	5,916	1,818	(68,503)	103,392
Minority interests	(1)		185	(59)	3,403		(1,657)	(23,445)	1	(6,635)	(28,208)
Net attributable profit	199,048	26,518	(1,214)	1,268	3,458	(1,719)	22,397	(29,888)	(1,931)	56,915	274,852
Other information :											
Tangible fixed assets	4,380,103	4,491,895	728,512	219,314	158,529	334,846	637,558	221,988	90,877	442,431	11,706,053
Intangible fixed assets	5,897	917	1,129	2,428	(8,331)	1,055	35,396	168,987	7,580	718,657	933,715
Current assets	796,583	768,254	66,180	45,608	43,680	48,676	568,972	207,573	113,558	(208,204)	2,450,880
Shareholders equity	4,014,261	1,546,700	381,994	183,123	115,274	114,241	420,659	(187,359)	52,743	(1,277,415)	5,364,221
Current liabilities	817,255	2,854,054	136,124	89,047	26,762	164,254	492,056	852,132	117,568	(643,359)	4,905,893
Investment in fixed assets	131,319	124,410	35,479	6,169	9,127	86,333	27,632	13,541	7,344	5,712	447,064

(a) The electricity generation includes the renewables segment

(b) The commercial activity of the Gas segment is aggregated with the Distribution and Supply

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	<u>Portugal</u>		<u>Spain</u>			<u>Brazil</u>		<u>Telecoms</u>	<u>Information Technology</u>	<u>Services and Other Adjustments</u>	<u>EDP Group</u>
	<u>Generation (a)</u>	<u>Distribution + Supply</u>	<u>Generation</u>	<u>Distribution + Supply</u>	<u>Gas (b)</u>	<u>Generation</u>	<u>Distribution + Supply</u>				
Turnover											
Sales of electricity	626,512	1,811,750	120,133	149,495	11,507	18,401	441,627			(63,814)	3,115,611
Other sales	9,603	832	438	153				7,370	13,071	(563)	30,904
Services rendered	7,465	35,697	486	833	1,422			142,641	82,159	(71,527)	199,176
	<u>643,580</u>	<u>1,848,279</u>	<u>121,057</u>	<u>150,481</u>	<u>12,929</u>	<u>18,401</u>	<u>441,627</u>	<u>150,011</u>	<u>95,230</u>	<u>(135,904)</u>	<u>3,345,691</u>
Raw materials and consumables											
Purchase of electricity	30,372	1,202,615	50,677	114,125		966	301,180			(101,713)	1,598,222
Fuel costs	131,018					793				(2,489)	129,322
Other materials	1,987	51,342	14,667	7,284	5,655	44	3,152	3,152	10,870	15,367	113,520
	<u>163,377</u>	<u>1,253,957</u>	<u>65,344</u>	<u>121,409</u>	<u>5,655</u>	<u>1,803</u>	<u>304,332</u>	<u>3,152</u>	<u>10,870</u>	<u>(88,835)</u>	<u>1,841,064</u>
Gross Margin	<u>480,203</u>	<u>594,322</u>	<u>55,713</u>	<u>29,072</u>	<u>7,274</u>	<u>16,598</u>	<u>137,295</u>	<u>146,859</u>	<u>84,360</u>	<u>(47,069)</u>	<u>1,504,627</u>
Other operating income / (costs)											
Supplies and services	(28,969)	(101,105)	(7,856)	(6,898)	(1,347)	(7,518)	(24,870)	(121,908)	(34,685)	24,917	(310,239)
Personnel costs	(61,031)	(203,041)	(8,603)	(7,245)	(961)	(165)	(28,763)	(30,652)	(33,448)	28,636	(345,273)
Own work capitalized	17,462	88,645	1,246	766	124		235	6	3,611	4,565	116,660
Other	(27)	(82,200)	1,175	(759)	184	(1,235)	(328)	36	1,299	(6,214)	(88,069)

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(costs)											
	(72,565)	(297,701)	(14,038)	(14,136)	(2,000)	(8,918)	(53,726)	(152,518)	(63,223)	51,904	(626,921)
Gross Operating Margin	407,638	296,621	41,675	14,936	5,274	7,680	83,569	(5,659)	21,137	4,835	877,706
Depreciation and amortization	118,146	174,787	16,521	9,341	2,006	1,847	26,527	33,986	11,260	13,924	408,345
Compensation of depreciation of part-funded fixed assets	(87)	(36,251)	(88)	(412)	(318)			(154)	(4)	37,314	
Provisions	4,916	41,982	151	427	18		10,676	3,357	364	632	62,523
Operating Margin	284,663	116,103	25,091	5,580	3,568	5,833	46,366	(42,848)	9,517	(47,035)	406,838
Financial income / (expense)	(33,949)	(17,168)	(10,991)	(5,052)	(622)	(7,783)	30,124	(17,196)	(2,662)	(68,588)	(133,887)
(Amortization of goodwill and concession rights)			(9,313)	(2,942)	(64)	(36)		(7,340)	(2,687)	(26,263)	(48,645)
Current results	250,714	98,935	4,787	(2,414)	2,882	(1,986)	76,490	(67,384)	4,168	(141,886)	224,306
Extraordinary gains / (losses)	6,862	8,481	(447)	1,946	20	(545)	12,518	(4,865)	(533)	35,943	59,380
Profit before taxes	257,576	107,416	4,340	(468)	2,902	(2,531)	89,008	(72,249)	3,635	(105,943)	283,686
Income taxes	87,047	35,170	(7,004)	(164)	1,016		34,972	(9,637)	2,352	(33,113)	110,639
Minority interests	2,256		774			(763)	22,772	(27,476)	(183)	(6,377)	(8,997)
Net attributable profit	168,273	72,246	10,570	(304)	1,886	(1,768)	31,264	(35,136)	1,466	(66,453)	182,044
Other information :											
Tangible fixed assets	4,367,736	4,477,925	711,682	219,064	157,618	259,135	665,181	233,623	95,401	464,234	11,651,599
Intangible fixed assets	6,663	756	139,837	199,870	14,567	978	29,403	181,814	8,878	367,417	950,183
Current assets	1,108,217	1,072,971	76,661	81,144	43,894	38,933	781,218	170,896	110,993	(420,111)	3,064,816
Shareholders equity	4,101,294	1,658,780	368,534	194,150	113,526	108,043	428,732	(204,018)	53,835	(1,524,869)	5,298,007
Current liabilities	3,423,871	3,502,151	105,685	80,416	33,229	127,582	618,986	854,089	207,351	(4,130,949)	4,822,411
Investment in fixed assets	281,812	405,211	37,874	20,736	11,918	59,091	74,215	28,564	58,784	25,069	1,003,274

(a) The electricity generation includes the renewables segment

(b) The commercial activity of the Gas segment is aggregated with the Distribution and Supply

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	Brazil						
	1st Half 2004			1st Half 2003			
	Distribution			Distribution + Supply			
	Bandeirante	Escelsa	Enersul	Bandeirante	Escelsa	Enersul	Enertrade
Turnover							
Sales of electricity	239,069	126,852	89,321	226,569	124,746	72,223	18,089
Other sales							
Services rendered	18,621	10,528	2,467				
	<u>257,690</u>	<u>137,380</u>	<u>91,788</u>	<u>226,569</u>	<u>124,746</u>	<u>72,223</u>	<u>18,089</u>
Raw materials and consumables							
Purchase of electricity	169,928	84,017	47,206	171,735	75,208	37,616	16,620
Fuel costs							
Other materials	1,025	1,322	1,694	1,012	1,016	1,125	
	<u>170,953</u>	<u>85,339</u>	<u>48,900</u>	<u>172,747</u>	<u>76,224</u>	<u>38,741</u>	<u>16,620</u>
Gross Margin	<u>86,737</u>	<u>52,041</u>	<u>42,888</u>	<u>53,822</u>	<u>48,522</u>	<u>33,482</u>	<u>1,469</u>
Other operating income / (costs)							
Supplies and services	(12,676)	(6,197)	(4,724)	(11,111)	(7,800)	(5,543)	(444)
Personnel costs	(12,502)	(10,003)	(8,025)	(11,872)	(9,429)	(7,136)	(327)
Own work capitalized				235			
Concession and power-generating rents							
Other operating income / (costs)	(1,359)	(1,984)	(1,112)	840	(732)	(300)	(110)
	<u>(26,537)</u>	<u>(18,184)</u>	<u>(13,861)</u>	<u>(21,908)</u>	<u>(17,961)</u>	<u>(12,979)</u>	<u>(881)</u>
Gross Operating Margin	<u>60,200</u>	<u>33,857</u>	<u>29,027</u>	<u>31,914</u>	<u>30,561</u>	<u>20,503</u>	<u>588</u>
Depreciation and amortization	10,940	8,323	7,562	10,352	8,300	7,802	73

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Provisions	3,862	2,694	1,693	2,104	6,573	1,999	
Operating Margin	45,398	22,840	19,772	19,458	15,688	10,702	515
Financial income / (expense) (Amortization of goodwill and concession rights)	(8,550)	(37,057)	(8,820)	(14,863)	48,095	(3,096)	(12)
Current results	36,848	(14,217)	10,952	4,595	63,783	7,606	503
Extraordinary gains / (losses)	(3,089)	(169)	(1,460)	(1,708)	21,095	(6,891)	22
Profit before taxes	33,759	(14,386)	9,492	2,887	84,878	715	525
Income taxes	12,514	(5,179)	4,421	621	30,603	3,624	122
Minority interests	744	(4,165)	1,765	79	24,563	(1,871)	
Net attributable profit	20,501	(5,042)	3,306	2,187	29,712	(1,038)	403
Other information :							
Tangible fixed assets	237,067	214,892	185,556	248,828	224,633	191,589	131
Intangible fixed assets	19,770	9,946	5,873	14,921	8,700	5,745	37
Current assets	217,027	234,093	100,919	300,381	325,005	145,383	10,449
Shareholders' equity	204,298	84,490	122,143	197,033	105,668	120,535	5,496
Current liabilities	213,229	160,210	109,237	317,934	183,305	110,919	6,828
Investment in fixed assets	12,462	7,305	7,862	37,580	17,596	15,279	

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****35. Commitments**

As at June 30, 2004, the breakdown of financial commitments not shown in the balance sheet in respect of guarantees provided (no mortgages have been provided) is as follows:

Commitments	Group
	Euro 000
Guarantees of a financial nature	
Guarantees provided by Group entities - Portugal	
to domestic banks	72,674
to foreign banks	236,944
to other foreign entities	5,300
Guarantees provided by Group entities - Spain	
to foreign banks	37,057
to other foreign entities	9,610
Guarantees provided by Group entities - Brazil	
to foreign banks	149,819
	511,404
Guarantees of an operational nature	
Guarantees provided by group entities - Portugal	
to other domestic entities	54,114
to foreign banks	14,535
to other foreign entities	24,023
Guarantees provided by group entities - Spain	
to foreign banks	52,776
to other foreign entities	628
	146,076
	657,480

Bank guarantees provided for operational activities are as follows:

Group
Euro 000

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Domestic banks	12,352
Foreign banks	76,799
	89,151

The breakdown of financial commitments in respect of swap contracts outstanding on the balance sheet date is as follows:

	Group			
	Jun 2004		Dec 2003	
	Assets Euro 000	Liabilities Euro 000	Assets Euro 000	Liabilities Euro 000
Interest rate swaps :				
EUR	2,997,445	3,339,837	3,117,287	3,510,669
GBP	200,000		200,000	
JPY	8,000,000		8,000,000	

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On the date of the first application of IAS 32 and IAS 39, EDP did not have all the documents required to be able to comply with the requirements for hedge accounting. Therefore, all changes in the fair value of derivatives have been recorded in accordance with amounts reflected for U.S. GAAP standard FAS 133 in EDP's 2002 Form 20-F as filed with the U.S. Securities and Exchange Commission. Consequently, all variations to the fair value of these instruments have been recognised in the statement of income for the year as from the date of the adoption.

However, owing to the process of transition to the IFRS, in which the EDP Group has been involved for some time, the preparation of the documentation required for these financial derivatives to be considered as hedging instruments had started in 2003 and was completed in the beginning of 2004. Therefore, hedge accounting was applied for those instruments in accordance with IAS 39.

Taking into account the fact that financial instrument assets are recorded under accruals and deferrals assets and that financial instrument liabilities are recorded under accruals and deferrals liabilities, the relevant information is as follows:

	Group	
	Jun 2004	Dec 2003
	Assets	Liabilities
	Euro 000	Euro 000
Trading derivatives	(6,530)	(3,317)
Foreign exchange swaps	251	
Fair value hedge		
- Derivatives	2,805	
- Covered liabilities	(2,805)	
	(6,279)	(3,317)

The maturity of these derivatives instruments is as follows:

Group Jun 2004			
Up to	3 months	1 year	More than

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	3 months	to 1 year	to 5 years	5 years	Total
	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000
Interest-rate contracts:					
Interest-rate swaps		350,000	200,000	2,422,455	2,972,455
Options bought and sold	25,000	2,923,272	250,000	500,000	3,698,272
	<u>25,000</u>	<u>3,273,272</u>	<u>450,000</u>	<u>2,922,455</u>	<u>6,670,727</u>
Interest-rate and exchange-rate contracts:					
CIRS (currency and interest rate swaps)		45,500	27,882	320,000	393,382
	<u>25,000</u>	<u>3,318,772</u>	<u>477,882</u>	<u>3,242,455</u>	<u>7,064,109</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

The possible real interest rates on the various financial derivatives instruments are as follows:

	Group Jun 2004				
	Currency	EDP Pays		EDP Receives	
Interest-rate contracts:					
Interest-rate swaps	Euro	4.50%	2.17%	6.40%	2.35%
Interest-rate and exchange-rate contracts:					
CIRS (currency and interest rate swaps)	EUR / JPY	2.4740%	2.4190%	0.7000%	0.2550%
CIRS (currency and interest rate swaps)	EUR / GBP	3.4860%		6.6250%	
	Euro 000	Group Jun 2004			
Interest-rate contracts:					
Options bought on interest rates (CAP purchases)	3,735,697	4.82%	2.51%		
Options sold on interest rates (CAP sale)	1,000,000	5.30%	4.10%		
Options sold on interest rates (FLOOR sale)	3,735,697	3.50%	2.27%		

36. Employee Stock Option Plans

The EDP Group began a stock option programme under the terms approved by the General Meeting, applicable to senior management and directors, with a view to stimulating the creation of value, in keeping with the practice employed by similar companies.

The aim of the plan, approved in 1999, is to grant over a period of five years purchase options on shares representing the EDP share capital. The number of options to be awarded cannot exceed 16,250,000 (following the stock split in which each share was replaced by 5 shares of a par value equal to 1/5 of the value before the stock split), each option giving entitlement to the acquisition of one share. In the event of alteration of the EDP share capital, this limit and the number of options already granted may be adjusted so that the size of the plan and/or the position of the beneficiaries of the option remain substantially the same as the size and/or position existing prior to the fact in question. This provision may be applicable in other cases that, in the opinion of the board of directors of EDP, warrant identical treatment.

The consideration payable for the acquisition of shares granted under the stock options (exercise price) is the weighted average of the closing prices of EDP shares during the period prior to the date defined as the option-granting date fixed by the EDP board of directors. The exercise price may be corrected in the event of: a) alteration to the share capital; b) distribution of dividends and other reserves to shareholders having a significant effect on the price of the EDP shares; and c) the occurrence of other facts of a similar nature that, in the judgement of the EDP board of directors, warrant such corrections.

The liabilities assumed within the scope of the EDP incentives plans in respect of directors and certain senior staff in the service of the Group companies are recognised as a cost in each period, taking into account the time to maturity of the option exercise right or of the attribution of the shares. The respective provision is set aside/increased taking into account the staggering of the rights granted and of the inherent costs, over the life of

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EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements (Continued)

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

the plan. These costs correspond to the difference between the estimated cost of acquisition of the shares by the Company and their selling price to the employees. The corresponding costs are recorded under Staff costs, and costs inherent in the respective hedging operations are recorded under Financial costs and losses.

37. Reconciliation to accounting principles generally accepted in the United States of America

The consolidated financial statements of EDP Group have been prepared in accordance with Portuguese GAAP which varies in certain significant aspects from U.S. GAAP. Differences that have a significant effect on the Group consolidated results of operations and shareholders equity are as follows:

a) Revaluation of fixed assets

The Group's fixed assets that were acquired prior to 1993 are stated at revalued amounts as permitted under Portuguese GAAP. The revalued fixed assets are being depreciated over their estimated useful lives on their revalued basis. Under U.S. GAAP, fixed assets may not be stated at more than their historical acquisition cost. Accordingly, in the accompanying reconciliation, the increases in shareholders' equity and the related increase in depreciation expense occurring as a result of such revaluations have been reversed for all periods presented. Depreciation for corporate income tax purposes is based on the original acquisition cost and 60% of the additional revaluation increment. Therefore, the adjustments also reflect the remaining deferred tax benefit arising from the revaluation increments. The effect of the revaluation on the gains and losses on disposals is not significant.

b) Capitalized overhead

The EDP Group capitalizes a portion of its general and administrative overhead to the cost of its assets under construction. Under U.S. GAAP, such costs are expensed in the period incurred.

c) Foreign exchange differences

As permitted under Portuguese GAAP, prior to 1995, the EDP Group capitalized net foreign exchange differences (both gains and losses) that resulted from loans contracted to fund capital expenditures denominated in non-escudo currencies. Under U.S. GAAP, foreign exchange gains

and losses may not be capitalized.

d) Deferred costs

The EDP Group capitalizes and amortizes research and development expenses, advertising costs, major repairs and maintenance costs, and reorganization costs. Under U.S. GAAP, such amounts are expensed in the period incurred. The Group also defers and amortizes subsidies received with respect to research and development costs (included in deferred revenue in the consolidated balance sheets). Under U.S. GAAP, the benefit of the subsidies would be included in income as the related research and development costs are incurred.

e) Hydrological correction account

As required by Government regulation, the Group records a liability amount to smooth the effect on its earnings that result from changes in hydrological conditions. Under U.S. GAAP, the effect of future changes in hydrological conditions would be viewed as a general business risk and such a recording would not be permitted. Since July 2000, the movement of gain/losses for hydro conditions are charged to REN and not to the income statements.

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EDP - Electricidade de Portugal, S.A. and Subsidiaries

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June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

The hydrological correction adjustments presented below in the U.S. GAAP net income reconciliation reflect the net change for the year in the Hydrological correction account which consists of the amounts disclosed in Note 19.

f) Distribution to management and employees

The EDP Group customarily distributes a portion of its net income to management and employees. The amount of the distribution generally amounts to one month's salary. Under Portuguese GAAP, this distribution is reflected in the period in which formal shareholder approval is obtained and is recorded as a reduction of retained earnings or other reserves. U.S. GAAP requires that such distributions be recorded as compensation expense in the period to which they relate.

g) Employee retirement benefits

The Company and some of its subsidiaries have pension obligations, both defined benefit and contribution and also medical benefits for retired employees. Costs for defined contribution are expensed when incurred. Accumulated obligations and annual expenses for medical and defined benefit pension plans are determined on actuarial basis. The company adopted this policy in Portuguese GAAP by implementing IAS 19 in 1999. For U.S. GAAP the company is using SFAS 87 and SFAS 106 as from 1995.

Thus, differences in accounting for these obligations are basically originated from the date of determination of transition obligation (1989 for U.S. GAAP purposes and 1996 for Portuguese GAAP) and the assumptions relating the adherence rate to the early retirement plan for the period 1999-2002, as well as for recognition the additional pension minimum liability.

h) Accounts receivable

Under Portuguese GAAP a provision for doubtful accounts is established based on historical collection experience and evaluation of the current status of existing receivable balances. However, accounts receivables are only written-off when a customer is declared bankrupt by a court of law. Under U.S. GAAP, the write-off of a receivable would occur when collection is not probable.

In 1998, 1999 and 2000 the Company reached agreements with various municipalities on the terms of the future settlement of various old accounts receivable that under Portuguese GAAP had been fully provided in the past. Under U.S. GAAP, the collection of the receivables in

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question had previously been considered not probable and consequently had been written off. Therefore, under U.S. GAAP the benefit from the recovery of these accounts receivable may only be recorded when the amounts are actually received.

i) Power purchase agreements

As permitted under Portuguese GAAP, REN has recorded the minimum contracted payments made to producers of the Binding sector in connection with PPAs as an expense of the respective periods. U.S. GAAP would require these agreements to be treated as acquisitions of assets and the assumption of capital lease obligations because the power plants' production is fully dedicated and at the direction of REN and the agreements are for the duration of the estimated useful lives of the power plants.

Prior to July 1, 2000, PPAs held by REN were reflected in the balance sheet amounts on the U.S. GAAP basis presented below by recognition of a fixed asset and a capital lease obligation recorded at the inception of

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June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

the term of the agreements equal to the present values of the minimum payments required under the agreements, less estimated executory costs. The reconciliation presented below also reflects the allocation of the minimum payments, less the estimated executory costs, between a reduction in the liability and interest expense. In addition, an adjustment has been made for the depreciation expense of the fixed asset.

In accordance with U.S. GAAP PPAs between REN and CPPE were accounted for as capital lease receivables for CPPE and a capital lease obligations for REN. The generation assets related to the PPAs were recorded in REN's accounts. Prior to July 1, 2000, the effects of the PPAs between the two related companies were eliminated as a result of consolidation.

j) Equity accounting on investments

The Group's equity investments and equity in earnings (primarily of REN and Hidrocontábrico) are affected by certain accounting differences between U.S. GAAP and Portuguese GAAP. The differences affecting the Group's investments and equity in earnings include: revaluation of fixed assets, overheads capitalized, deferred costs, employee termination benefits, distribution to management and employees, PPAs and deferred income taxes. These differences are as described in the respective narratives.

k) Disposal of REN

Under Portuguese GAAP, sale proceeds from the disposal of the EDP 70% interest in REN were equal to the net book value of the interest sold, resulting in no gain or loss recorded on the transaction. Under U.S. GAAP, the net book value of the interest sold was reduced as a result of the accounting differences between Portuguese GAAP and U.S. GAAP; therefore, the proceeds received from the disposal of REN exceeded the net book value of the interest disposed, resulting in a gain on disposal and the remaining investment in REN must be reduced accordingly.

l) Derivative instruments

The EDP Group uses derivative instruments in the normal course of business, to offset fluctuations in earnings and cash flows associated with movements in exchange rates, interest rates and commodity prices. Derivative instruments are not generally held by the company for speculative trading purposes. FAS 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by FAS 137, FAS 138 and FAS 149, was adopted by the Company with effect from January 1, 2001 under U.S. GAAP. FAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. FAS 133 requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. FAS 133 prescribes requirements for designation and documentation of hedging relationships and

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ongoing assessments of effectiveness in orders to qualify for hedge accounting. However, EDP have not designated any hedge relationships for US GAAP.

From January 1, 2003 (as discussed at note 2a) IAS 39 was adopted on Portuguese GAAP, and IAS 39 compliant hedge relationships were designated and documented from January 2004.

m) Amortization of goodwill

As of January 1, 2002 U.S. GAAP requires that goodwill, including previously existing goodwill, and intangible assets with indefinite useful lives are not amortized but are tested for impairment annually. Concession

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EDP - Electricidade de Portugal, S.A. and Subsidiaries

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rights continue to be amortized, as this is a finite lived intangible asset. In June 2003 and June 2004 the goodwill amortization charged to the profit and loss account was adjusted under U.S. GAAP in the amount of Eur 25,704 thousand and Eur 29,644 thousand.

n) Equity Method vs Proportional consolidation

The investment in Hidroantábrico where EDP owns 40% of its share capital is jointly controlled with two other main shareholders with a residual amount of 1.2% of share capital owned by other shareholders. Under Portuguese GAAP, associated companies where the parent company exercises significant influence together with other shareholders, even if the parent company's participation is fewer than 50%, are proportionately consolidated. Under U.S. GAAP these investments are accounted for by the equity method as presented in adjustment j).

o) Tariff adjustments and accounting for rate regulated entities

Prior to 1999, the selling price of electricity in Portugal was based upon a negotiated price between the EDP and the Government. Tariffs were generally based on operating costs incurred during a year associated with average hydrological conditions. However, there were no specific guidelines in place that ensure that the Group would recover actual cost incurred during this time.

On January 1, 1999, and again on January 1, 2002, a new tariff regime was introduced that established formulae for the calculation of the selling price of electricity in Portugal. These tariffs at current market conditions allow for the EDP to recover actual costs incurred; however, not all of the criteria necessary to adopt the U.S. GAAP accounting for regulated industries exist. Therefore, U.S. GAAP requirements applicable to regulated industries have not been applied.

On January 1, 2002, the regulator implemented alternative revenue programs which allow EDP to increase tariffs in future periods to recover allowable revenues. Future tariff increases have been recorded in the current year for Portuguese GAAP and are reversed under U.S. GAAP.

p) Guarantees

Under U.S. GAAP, the guarantees related to the Group's operations with bank loans and other operational activities must be adjusted and presented as a liability. These adjusted amounts are related to the purchase of electricity and the receivable of some subsidies from the government.

q) Regulatory assets

During 2003 the Company set up a restructuring plan, which is intended to be completed by 2006. The costs that will be expensed in those 4 years, were accepted by the Portuguese regulator, to be recovered through the tariffs, in the next 20 years. As such, until June 30, 2004 the Company recorded a regulated asset against a provision for restructuring (no effect on equity) in the amount of Eur 223,3 million. For U.S. GAAP purposes the regulatory asset and regulatory liability and the related regulatory income were reversed as such amounts are not recorded under U.S.GAAP.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****r) Income taxes**

Until December 31, 1998, as permitted under Portuguese GAAP, income taxes were accounted for in accordance with the taxes payable method based on estimated income taxes currently payable as determined by Government regulations. Under U.S. GAAP and, subsequent to January 1, 1999, under Portuguese GAAP, income taxes are provided using the liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences attributable to differences between the financial statement carrying amount of assets and liabilities and their tax bases. A valuation allowance is provided based on the expected realization of the deferred tax assets. Additionally, any deferred tax effect of other U.S. GAAP adjustment is reflected.

s) Operating income

Under U.S. GAAP, except for losses resulting from discontinued operations which would be presented separately, substantially all the amounts in Note 32 would be included in the determination of operating income.

Net income

	Jun 2004	Jun 2004	Jun 2003
	US\$ 000	Euro 000	Euro 000
Net income as reported under Portuguese GAAP	334,083	274,852	182,043
U.S. GAAP adjustments increase (decrease) due to:			
a. Depreciation of revaluation of fixed assets	109,331	89,947	95,629
b. Capitalized overheads	(9,717)	(7,994)	(9,751)
c. Depreciation of exchange differences	13,185	10,847	9,617
d. Deferred costs	23,474	19,312	47,823
e. Hydrological correction adjustments	5,857	4,819	5,948
f. Distribution to management and employees	(15,693)	(12,911)	(12,296)
g. Pension and other post-retirement benefits	60,436	49,721	(20,869)
h. Accounts receivable municipalities	1,504	1,237	1,545
i. Power purchase agreements after REN disposal	(7,184)	(5,910)	(6,099)
j. Equity accounting on investments - REN	23,235	19,116	50,753
j. Equity accounting on investments - Hidrocantábriico	103	85	1,869

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l. Derivative instruments	800	658	81,012
n. Amortization of goodwill	36,032	29,644	25,704
o. Tariff adjustments	135,669	111,616	(14,955)
q. Regulatory assets	(37,797)	(31,096)	(50,149)
Other	(1,291)	(1,062)	(412)
r. Income taxes	(90,019)	(74,059)	(52,175)
	<u>247,925</u>	<u>203,970</u>	<u>153,194</u>
Net adjustments			
	<u>247,925</u>	<u>203,970</u>	<u>153,194</u>
Net income in accordance with U.S. GAAP	582,008	478,822	335,237
	<u>582,008</u>	<u>478,822</u>	<u>335,237</u>
Basic and diluted net income per share	0.20	0.16	0.11
	<u>0.20</u>	<u>0.16</u>	<u>0.11</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****Shareholders' equity**

	Jun 2004	Jun 2004	Dec 2003
	US\$ 000	Euro 000	Euro 000
Shareholders' equity as reported under Portuguese GAAP	6,520,211	5,364,221	5,298,007
U.S. GAAP adjustments increase (decrease) due to:			
a. Revaluation of fixed assets	(1,033,316)	(850,116)	(940,063)
b. Capitalized overheads	(863,038)	(710,027)	(702,033)
c. Exchange differences capitalized	(317,782)	(261,441)	(272,289)
d. Deferred costs	(36,143)	(29,735)	(49,047)
e. Hydrological correction adjustments	389,457	320,409	315,590
f. Distribution to management and employees	(15,693)	(12,911)	(22,519)
g. Pension and other post-retirement benefits	85,949	70,711	20,990
g. Additional minimum pension liability	(469,279)	(386,079)	(293,814)
h. Accounts receivable - municipalities	(82,202)	(67,628)	(68,865)
i. Power purchase agreements - after REN disposal	(277,839)	(228,580)	(222,671)
j. Equity accounting on investments - REN	61,293	50,426	31,310
j. Equity accounting on investments - Hidrocontabrico	(3,540)	(2,912)	(2,997)
k. Gain on disposal of REN	(178,181)	(146,591)	(146,591)
l. Derivative Instruments	3,409	2,804	
m. Amortization of goodwill	116,662	95,979	66,335
o. Tariff adjustments	(19,811)	(16,299)	(127,915)
p. Guarantees	(9,745)	(8,017)	(10,114)
q. Regulatory assets	(85,750)	(70,547)	(39,450)
Other	(2,971)	(2,444)	(1,382)
r. Income taxes	762,607	627,402	664,856
Net adjustments	(1,975,913)	(1,625,596)	(1,800,669)
Shareholders' equity in accordance with U.S. GAAP	4,544,298	3,738,625	3,497,338

Certain significant line items of the balance sheets as presented on a Portuguese GAAP basis would be as follows after application of U.S. GAAP differences:

Group

Dec 03

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	Jun 2004 Euro 000	Euro 000
Fixed assets	7,324,363	7,172,209
Total assets	18,118,138	17,730,012
Total current liabilities	3,414,602	3,279,785
Total long-term liabilities	10,731,077	10,891,738
Total liabilities and minority interests	14,379,513	14,232,674
Shareholders' equity:		
Share capital	2,944,423	2,950,980
Other comprehensive income	(850,762)	(773,711)
Reserves and retained earnings	1,644,964	1,320,069
	<u>3,738,625</u>	<u>3,497,338</u>
Total liabilities and shareholders' equity	<u>18,118,138</u>	<u>17,730,012</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****Comprehensive income**

For purposes of presenting its reconciliation of shareholders' net equity and net income from Portuguese GAAP to U.S. GAAP, in 1998 the Company adopted FAS 130, "Reporting Comprehensive Income". This standard requires reporting the components of comprehensive income, the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources, and the components thereof in an entity's financial statements. The non-owner changes in equity that have not been included in income include accounts such as foreign currency translation adjustments and unrealized gains and losses on available-for-sale securities. The adoption of FAS 130 resulted in revised and additional disclosures for U.S. GAAP reporting purposes, but had no effect on the financial position, results of operations, or liquidity of the Company.

The comprehensive income for June 30, 2004 and 2003 is as follows:

	Group	
	Jun 2004	Jun 2003
	Euro 000	Euro 000
Net income in accordance with U.S. GAAP	478,822	335,237
Change in currency translation adjustment	(12,952)	(44,663)
Unrealized gains (losses) on investments	149,633	
Tax effect of unrealized gains (losses) on investments	(5,677)	
Additional minimum pension liability	(92,265)	(38,698)
Tax effect on additional minimum liability	25,373	12,770
Comprehensive income	542,934	264,646

Earnings per ordinary share

Basic earnings per share is based upon the weighted average number of Ordinary Shares outstanding during the year. Diluted earnings per share is computed on the basis of the weighted average number of Ordinary Shares outstanding during the year plus the effect of Ordinary Shares issuable upon the exercise of employee stock options using the treasury stock method. During 1999, the Company established two employee stock option plans. The shares issued under these plans had no material effect on the weighted average Ordinary Shares outstanding. Ten Ordinary Shares equal one American Depository Share (ADS).

	Group	
	Jun 2004	Jun 2003
	Euro 000	Euro 000
Net income Portuguese GAAP	274,852	182,043
Net income U.S. GAAP	478,822	335,237
Weighted average Ordinary Shares outstanding	2,975,651,332	2,980,342,044
Weighted average ADS outstanding	297,565,133	298,034,204

	Group	
	Jun 2004	Jun 2003
	Euro	Euro
Net income per Ordinary Share:		
Basic and diluted Portuguese GAAP	0.09	0.06
Basic and diluted U.S. GAAP	0.16	0.11
Net income per ADS:		
Basic and diluted Portuguese GAAP	0.92	0.61
Basic and diluted U.S. GAAP	1.61	1.13

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)****Employee stock option plans**

The Company has two fixed option plans. Under the 1999 option plan for members of the Board of Directors of EDP, the Company may grant options for up to 2,450,000 shares of common stock. Under the 1999 option plan for members of the boards of directors of the EDP's operating companies and senior officers of EDP and its subsidiaries, the Company may grant options for up to 16,120,000 shares of common stock. Under both plans, the exercise price of each option equals the market price of the Company's stock on the date of grant and an option's maximum term is 5 years. Options are granted at the discretion of the board of directors of EDP and vest over a two year service period.

A summary of the status of the Company's two fixed stock option plans as of December 31, 2003 and June 30, 2004, and changes during the years then ended on those dates is presented below:

	Shares available for grant under		Weighted average exercise price
	1999 option plans	Option activity	
Balance December 31, 2002	16,413,750	2,286,250	
Options forfeited		(353,992)	
Options granted		490,000	
Balance December 31, 2003	16,413,750	2,422,258	
Options forfeited			
Options granted ⁽¹⁾			
Balance June 30, 2004	16,413,750	2,422,258	

At the general shareholders meeting held on May 10, 2000, an increase in the number of options available under the 1999 options plans was approved to adjust the plans for an increase in the number of directors from 5 to 7.

Of 2,400,000 options granted in 1999, only 2,286,250 were accepted by directors and executive officers.

⁽¹⁾ *The number of options to be granted for 2004 has not yet been determined.*

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The basic and diluted earnings per ordinary share as reported would not change if calculated as if the fair value based method of SFAS 123, Accounting for Stock-Based Compensation, had been applied to all awards.

The following table summarizes information about stock options outstanding and exercisable as of June 30, 2004.

<u>Options outstanding</u>	<u>Weighted average exercise price</u>	<u>Weighted average remaining contractual life</u>	<u>Options exercisable</u>
2,422,258	3.35	0,83 years	

Proportional consolidation

As mentioned on note 2.c) the Company consolidates interests in jointly controlled entities, using the proportional method, namely Hidrocantábrico (HC). For US GAAP purpose investments in jointly controlled entities must be accounted using the equity method. The differences in accounting treatment between

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)**

proportional consolidation and the equity method of accounting have no impact on reported stockholders' equity or net income. Rather, they relate solely to matters of classification and display.

Condensed financial information relating to the Company's pro rata interest in Hidrocantábrico is as follows:

	HC Jun 2004	HC Dec 2003
	Euro 000	Euro 000
Balance sheet information		
Tangible and intangible fixed assets	1,814,054	1,870,271
Current assets	134,497	150,572
Non-current assets	68,137	21,500
Total assets	2,016,688	2,042,343
Loans	666,134	787,675
Current Liabilities	292,498	188,895
Non-current liabilities	79,996	99,191
Total Liabilities	1,038,628	1,075,761
Minority Interests	181,769	175,127
EDP's Investment	796,291	791,455
	HC Jun 2004	HC Jun 2003
	Euro 000	Euro 000
Statement of income information		
Net Revenue	350,498	280,134
Operating Costs, net	(322,258)	(254,833)
Other operating income (costs)	(20,528)	(12,376)
Minority Interests	(3,530)	(774)
Net income	4,182	12,151

38. Relevant and subsequent events

EDP signed a five-year revolving credit facility

On July, 27 2004, EDP - Electricidade de Portugal, S.A. signed a five year Revolving Credit Facility in the amount of EUR 1, 300 million. The Facility replaces EDP's two existing and unutilised credit lines - EUR 600 million revolving credit facility maturing on 22nd August 2004 and the EUR 700 million revolving credit facility dated 27th March, 2003 - and will be used as a back up line for the company's Euro Commercial Paper Programme as well as for general corporate purposes. Current international loan market conditions allowed EDP to extend the term of its credit lines in more favourable terms and to reduce the costs associated with the maintenance of these liquidity lines. The syndication process attracted strong support from EDP's international relationship banks and resulted in a significant over-subscription. Since EDP decided not to increase the facility amount, the participating bank's commitments were scaled back accordingly.

EDP increases stake in hidrocontábrico to 95.7% by acquiring an additional 56.2% stake from ENBW, CAJASTUR and CÁSER

On July 29, 2004, EDP has today entered into a set of agreements with Energie Baden-Württemberg AG (EnBW), Caja de Ahorros de Asturias (Cajastur) and Caja de Seguros Reunidos,Compañía de Seguros y

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EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements (Continued)

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

Reaseguros, S.A. (Cáser) that will lead to the acquisition of an additional 56.2% stake in Hidroeléctrica del Cantábrico, S.A. (Hidrocantábrico), and permit EDP to increase its current stake from 39.5% to 95.7% of Hidrocantábrico's share capital. The total consideration to be paid by EDP within this transaction will be Eur 1.195 million.

Simultaneously, Cajastur will receive shares equivalent to approximately 5.4%-5.8% of EDP share capital to become one of the largest shareholders of EDP, strengthening the strategic partnership between both companies.

This transaction will be financed through a share capital increase by means of a rights issue in the amount of Eur 1.200 million, through the issue of new shares to EDP shareholders. EDP has ensured that a group of financial institutions undertake to subscribe all the shares that are not subscribed for by the shareholders of the company.

The execution of the rights issue is subject to the approval by the Portuguese Government of a privatisation Decree-Law of EDP, and the registration of the subscription public offer with the Comissão do Mercado de Valores Mobiliários. The launching of the offer is expected to occur in October.

The agreements reached with the remaining shareholders of Hidrocantábrico provide for the acquisition of the entire stake held by EnBW in Hidrocantábrico (34.6%) for a consideration of Eur 649 million to be paid in cash, the acquisition of a 17.5% stake held by Cajastur for a consideration of Eur 453 million to be paid with EDP shares and the acquisition of a 4.1% stake held by Cáser for a consideration of Eur 93 million to be paid in cash.

The completion of the transaction will result in the termination of the shareholders agreement of Hidrocantábrico currently in force, allowing for a higher degree of integration of EDP's and Hidrocantábrico's activities.

Within the scope of this new strategic partnership, aimed at the optimisation of the combined operation of EDP and Hidrocantábrico in the Iberian market, Cajastur and Cáser will keep a 3.1% stake in Hidrocantábrico, as well as certain veto rights, particularly in relation with matters concerning regional interests, which will preserve Hidrocantábrico's links with the region of Asturias.

In addition, Cajastur will have the right, for a long period of time, to sell out of Hidrocantábrico's share capital through a put option on EDP. The price of this put option is indexed to the value of EDP shares, ensuring the interests of EDP and Cajastur are unequivocally aligned.

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The number of EDP shares to be delivered to Cajastur will be determined based on the volume weighted average price of EDP's shares during the six months prior to July 28, 2004 (Eur 2.29 per share), adjusted for the technical dilution effect of the capital increase.

The Board of Directors of EDP requested the Chairman of the General Shareholders Meeting to call a general shareholders meeting for October 7, 2004, in order to obtain the approval of the amendment to the articles of association of the company to delegate to the Board of Directors the ability to execute the share capital increase once the new phase of the company's privatisation is approved. The rights issue will ensure certainty of funds to finance the transaction, preserving the Group's balance sheet strength and sustaining profitability per share in the future. EDP has ensured that a group of financial institutions composed by Caixa Geral de Depósitos, Goldman Sachs, Millennium bcp, Morgan Stanley and UBS undertake to subscribe the shares that are not subscribed for by the shareholders of the company.

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EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements (Continued)

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

Completion of the acquisition by EDP of the shares held by Hidrocantábrico's remaining shareholders is subject to certain conditions precedent including the approval of the transaction at the General Shareholders Meeting of EDP, the approval by the EU Commission with respect to the its compliance with EU antitrust rules and the non-opposition by the Spanish authorities.

The strengthening of the partnership through the acquisition of Hidrocantábrico will enable both companies to maximise management flexibility and optimise business integration at the Iberian level. This is a key factor for EDP to successfully implement its business strategy and for the positioning of the Group as a top tier energy player in the Iberian market. This will be achieved through the optimization of the energy generation assets portfolio, based on dispatch centralization and coordinated expansion of generation capacity, the definition and execution of a joint retail strategy for Portugal and Spain and integrated management of the gas assets portfolio.

EDP believes the completion of this transaction will enable it to implement a series of measures to achieve significant synergies between the companies, including cash savings from implementing coordinated strategies for energy generation and commercialisation, joint management of energy trading in the market, and the coordination of gas and other fossil-fuel sourcing activities.

The agreement reached with Cajastur will also allow Hidrocantábrico to focus on its core-business. A divestment of its cable TV assets is expected once the transaction has been executed. Such divestment is expected to generate a substantial capital gain.

EDP concludes Framework Agreement with a view to Acquisition of Control of the Natural Gas Industry in Portugal

On February 6, 2004, within the context of Council of Ministers' Resolution 68/2003 of May 10, in respect of the restructuring of the Portuguese energy sector, EDP concluded a framework agreement with Eni, S.p.A. (Eni), establishing the heads of agreement reached by the parties with regard to bringing together the gas and electricity industries, and also with regard to the final structure of the share capital of GDP, SGPS, S.A. (GDP), 51% of which is expected to be held by EDP and 49% by Eni. However, during the transition period, REN - Rede Eléctrica Nacional may come to have a minority holding in GDP up to the conclusion of the process of separation of regulated assets such as the high-pressure natural gas network.

The direct involvement of these companies in the natural gas business will be undertaken on the basis of a reference figure of Eur 1.2 billion attributed to the whole of the gas assets (including such regulated assets as come to be transferred to REN) currently held by the GALP Energia group. Implementation of this transaction is based on the assumption that the direct involvement of EDP in the natural gas business will be underpinned by the economic value resulting from its sale of its holding in GALP Energia, in which EDP has a 14.7% stake, and for this reason it is not expected that the transaction will require any additional investment by EDP.

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EDP and Eni are now concerning the contracts to structure the operation and to define the corporate governance of GDP, to be concluded by the end of 2004.

The conclusion of the transaction will in any case depend on approval by the respective fair trade authorities.

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EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements (Continued)

June 30, 2004 (unaudited), December 31, 2003 and June 30, 2003 (unaudited)

EDP Clarifies the Market on the Process of Definition of the Compensation Value of the CAEs

On March 5, 2004, EDP informed the market and the public in general that the process of definition of the value of compensation (CMEC Contractual Balance Maintenance Costs) linked to the possible transition of the energy acquisition contracts (CAEs) to the market system within the scope of MIBEL was still underway and had not therefore been concluded.

On March 8, 2004, in response to several requests for clarification in view of the news published in respect of the early termination of the Energy Acquisition Contracts (CAEs), EDP once again stated:

1. That not being party to the work of the European Commission and the Portuguese Government in progress in Brussels, EDP was entirely unaware of any progress or of the content thereof;
2. That investors and the market in general should not base investment decisions on the figures that had been published, which EDP considered totally unfounded and whose calculation criteria it was unable to reconstitute; and
3. That, as it had disclosed on several occasions, EDP would only formalise the early termination of the CAEs, provided that an economically neutral and equivalent alternative were ensured, certified by independent entities, and that it believed that this could occur until the end of year.

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To the Board of Directors of

EDP - Electricidade de Portugal, S.A.

Report of Independent Registered Public Accounting Firm

In our opinion, the accompanying consolidated balance sheets and the related consolidated profit and loss account, consolidated statement of cash flows and changes in consolidated statement of shareholders' equity present fairly, in all material respects, the financial position of EDP Electricidade de Portugal, S.A. and its subsidiaries at December 31, 2003 and December 31, 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in Portugal. These 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 of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Additionally, as described in Note 2 to the accounts, the Company has changed its accounting policy for recognition and measurement of financial instruments and impairment of assets during the year ended December 31, 2003.

Accounting principles generally accepted in Portugal vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in the Note 39 to the consolidated financial statements.

/s/ PricewaterhouseCoopers

Lisbon, Portugal

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March 15, 2004, except for the contents of Note 40,

as to which date is June 29, 2004

PricewaterhouseCoopers - Auditores e Consultores, Lda.

Sede: Avenida da Liberdade 245 8º A, 1269 - 034 Lisboa

Contribuinte nº. 504193279 Capital social Euros 750.000

Matriculada na Conservatória do Registo Comercial sob o nº. 7297

Table of Contents**EDP - ELECTRICIDADE DE PORTUGAL, S.A. AND SUBSIDIARIES****Consolidated Balance Sheets as at December 31, 2003 and 2002**

	Notes	2003 USD 000 (*)	2003 Euro 000	2002 Euro 000
Assets				
Cash and cash equivalents	4	349,883	287,496	213,973
Accounts receivable - trade, net	5	1,348,514	1,108,064	970,860
Accounts receivable - other, net	6	793,293	651,843	740,543
Inventories	7	193,790	159,236	150,305
Prepaid expenses and other current assets				1,772
Total Current Assets		2,685,480	2,206,639	2,077,453
Long term receivables	8	530,420	435,842	260,584
Investments, net	9	1,974,523	1,622,451	1,965,984
Fixed assets, net	10	14,179,996	11,651,599	11,204,237
Other assets, net	11	3,327,446	2,734,138	2,616,932
Total Non-Current Assets		20,012,385	16,444,030	16,047,737
Total Assets		22,697,865	18,650,669	18,125,190
Liabilities and Shareholders Equity				
Short term debt and current portion of long term debt	12	1,921,801	1,579,130	1,887,033
Accounts payable - trade	13	952,456	782,626	1,018,571
Accounts payable - other	14	227,898	187,262	173,677
Accrued cost	15	287,862	236,534	294,499
Taxes payable	16	327,498	269,103	49,752
Deferred revenue	17	286,925	235,764	94,855
Total Current Liabilities		4,004,440	3,290,419	3,518,387
Long term debt	12	7,196,826	5,913,579	6,107,042
Accrued pension and post retirement liabilities	18	684,274	562,263	608,256
Deferred revenue and other liabilities	19	3,605,253	2,962,410	2,008,013
Total Non-Current Liabilities		11,486,353	9,438,252	8,723,311
Total Liabilities		15,490,793	12,728,671	12,241,698
Minority interests	20	287,802	236,485	65,199
Hydrological correction account	21	471,595	387,506	324,111
Share capital	22	3,651,000	3,000,000	3,000,000
Treasury stock	24	(59,657)	(49,020)	(43,494)
Reserves and retained earnings	25	2,392,522	1,965,918	2,202,460

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Consolidated net profit	25	463,810	381,109	335,216
		<u> </u>	<u> </u>	<u> </u>
Total Shareholders' Equity		6,447,675	5,298,007	5,494,182
		<u> </u>	<u> </u>	<u> </u>
Total liabilities and Shareholders' equity		22,697,865	18,650,669	18,125,190
		<u> </u>	<u> </u>	<u> </u>

(*) Converted at 1.217 USD

See accompanying notes to the Consolidated Financial Statements

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Table of Contents**EDP - ELECTRICIDADE DE PORTUGAL, S.A. AND SUBSIDIARIES****Consolidated Profit and Loss Account****for the years ended December 31, 2003, 2002 and 2001**

	Notes	2003 USD 000 (*)	2003 Euro 000	2002 Euro 000	2001 Euro 000
<i>Revenues</i>					
Sales	26	7,857,391	6,456,361	5,988,140	5,299,242
Services rendered	26	634,251	521,159	398,417	351,132
		<u>8,491,642</u>	<u>6,977,520</u>	<u>6,386,557</u>	<u>5,650,374</u>
<i>Operating costs and expenses, net</i>					
Raw materials and consumables	26	4,771,913	3,921,046	3,687,097	3,078,864
Personnel costs	27	786,956	646,636	624,771	591,973
Depreciation and amortization	28	1,029,085	845,592	739,541	664,691
Supplies and services	29	769,774	632,518	675,070	651,230
Own work capitalized	30	(286,753)	(235,623)	(241,769)	(232,519)
Concession and power-generating rents		213,758	175,643	158,176	149,114
Provisions	31	92,134	75,706	100,645	115,986
Other operating expenses / (income)	32	12,486	10,260	(5,678)	(42,498)
		<u>7,389,353</u>	<u>6,071,778</u>	<u>5,737,853</u>	<u>4,976,841</u>
Operating Margin		1,102,289	905,742	648,704	673,533
Interest and related income	33	376,083	309,025	381,720	251,422
Interest and related expenses	33	(813,011)	(668,045)	(604,564)	(456,755)
Other non-operating income / (expenses)	34	(17,577)	(14,443)	(138,939)	125,989
Profit before tax		647,784	532,279	286,921	594,189
Provision for income taxes	35	291,173	239,255	171,168	244,012
Provision for deferred taxes	35	(53,208)	(43,721)	571	(41,059)
Profit after tax		409,819	336,745	115,182	391,236
Minority interests		(53,992)	(44,364)	(220,034)	(59,559)
Consolidated Net Profit		463,811	381,109	335,216	450,795
Net Profit per share - Basic - Euros	22	0.15 USD	0.13 euros	0.11 euros	0.15 euros

(*) Converted at 1.217 USD

See accompanying notes to the Consolidated Financial Statements

Table of Contents**EDP - ELECTRICIDADE DE PORTUGAL, S.A. AND SUBSIDIARIES****Consolidated Statement of Cash Flows**

for the years ended December 31, 2003, 2002 and 2001

	2003	2003	2002	2001
	USD 000	Euro 000	Euro 000	Euro 000
<i>Cash Flow from Operating Activities</i>				
<i>Operating activities :</i>				
Cash receipts from customers	8,362,401	6,871,324	6,215,764	5,350,306
Cash paid to suppliers	(5,178,720)	(4,255,316)	(4,085,818)	(3,336,852)
Cash paid to staff	(860,703)	(707,233)	(685,792)	(632,241)
Concession rents paid	(209,019)	(171,749)	(158,176)	(149,114)
	2,113,959	1,737,026	1,285,978	1,232,099
Cash flows provided by operating activities				
Income tax received / (paid)	(177,722)	(146,033)	(277,444)	(111,607)
Other variations of operating	181,338	149,004	(62,527)	121,177
	3,616	2,971	(339,971)	9,570
Cash flow before Extraordinary items	2,117,575	1,739,997	946,007	1,241,669
Proceeds in respect of extraordinary items	203,007	166,809	28,026	16,779
Payments in respect of extraordinary items	(162,113)	(133,207)	(76,363)	(37,274)
	40,894	33,602	(48,337)	(20,495)
Net Cash flow provided by Operating Activities	2,158,469	1,773,599	897,670	1,221,174
<i>Cash Flow from Investing Activities</i>				
<i>Cash receipts resulting from:</i>				
Investments and long term-receivables	555,950	456,820	193,377	175,839
Tangible and intangible fixed assets	40,896	33,604	77,603	5,710
Fixed assets subsidies	90,130	74,059	56,448	132,106
Interest	16,145	13,266	4,083	
Dividends	44,619	36,663	40,042	16,831
Disposal of investments in subsidiaries			315,000	
	747,740	614,412	686,553	330,486
<i>Cash payments resulting from:</i>				
Investments	(49,409)	(40,599)	(55,511)	(734,091)
Tangible fixed assets	(1,137,667)	(934,813)	(931,346)	(709,201)
Intangible fixed assets	(82,650)	(67,913)	(42,981)	(130,178)
Aquisition of subsidiaries and associates	(121,986)	(100,235)	(798,124)	
	(1,391,712)	(1,143,560)	(1,827,962)	(1,573,470)
Net Cash Flow used in Investing Activities	(643,972)	(529,148)	(1,141,409)	(1,242,984)

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Cash Flow from Financing Activities

Cash receipts resulting from:

Loans obtained	16,349,978	13,434,657	12,905,666	4,639,262
	<u>16,349,978</u>	<u>13,434,657</u>	<u>12,905,666</u>	<u>4,639,262</u>

Cash payments resulting from:

Loans repaid	(16,823,088)	(13,823,408)	(11,884,708)	(4,040,265)
Interest and similar costs	(555,036)	(456,069)	(375,734)	(254,104)
Dividends	(326,491)	(268,275)	(337,675)	(415,922)
Acquisition of treasury stock	(6,725)	(5,526)	(10,399)	(25,057)
	<u>(17,711,340)</u>	<u>(14,553,278)</u>	<u>(12,608,516)</u>	<u>(4,735,348)</u>

Net Cash Flow used in Financing Activities	(1,361,362)	(1,118,621)	297,150	(96,086)
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Variation of cash and cash equivalents	153,135	125,830	53,411	(117,896)
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Effect of currency translation differences	(32,836)	(26,981)	7,857	(9,681)
Cash and cash equivalents at the beginning of the period	(495,634)	(407,259)	(468,527)	(340,951)

Cash and cash equivalents at the end of the period (*)	(375,335)	(308,410)	(407,259)	(468,528)
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(*) See note 4 to the Financial Statements, detailing the breakdown of Cash and Cash equivalents

See accompanying notes to the Consolidated Financial Statements

Table of Contents**EDP - ELECTRICIDADE DE PORTUGAL, S.A. AND SUBSIDIARIES****Changes in Consolidated Statements of Shareholders' Equity**

for the years ended December 31, 2003, 2002 and 2001

	(Thousands of Euros)					
	Total	Share	Reserves		Fair value reserves and other valuation	Treasury stock
			Shareholders	Legal and special		
	Equity	capital	reserve	earnings		
Balance as at December 31, 2000	6,204,730	3,000,000	259,641	2,953,127		(8,038)
Transfer to reserves:						
Legal and special reserves			27,449	(27,449)		
Dividends paid (Eur 0.14 per share)	(418,990)			(418,990)		
Purchase and sale of treasury stock	(25,057)					(25,057)
Net profit for the year	450,795			450,795		
Other reserves arising on consolidation	(114,720)			(114,720)		
Balance as at December 31, 2001	6,096,758	3,000,000	287,090	2,842,763		(33,095)
Transfer to reserves:						
Legal and special reserves			22,541	(22,541)		
Bonus to employees	(22,073)			(22,073)		
Dividends paid (Eur 0.11 per share)	(337,675)			(337,675)		
Purchase and sale of treasury stock	(10,399)					(10,399)
Net profit for the year	335,216			335,216		
Exchange differences arising on consolidation	(300,028)			(300,028)		
Fair value of investments available for sale	(268,975)				(268,975)	
Other reserves arising on consolidation	1,358			1,358		
Balance as at December 31, 2002	5,494,182	3,000,000	309,631	2,497,020	(268,975)	(43,494)
Transfer to reserves:						
Legal and special reserves			16,760	(16,760)		
Bonus to employees	(25,062)			(25,062)		
Dividends paid (Eur 0.09 per share)	(268,275)			(268,275)		
Purchase and sale of treasury stock	(5,526)					(5,526)
Net profit for the year	381,109			381,109		
Deferred taxes (see note 8)	(252,296)			(252,296)		
Effects arising from the implementation of IAS 36 and 39 in EDP Group:						
- Financial instruments / Derivatives	131,181			131,181		
- Reclassification of impairment of BCP in 2002(*)				(247,750)	247,750	
- Fair value of investments available for sale	10,758				10,758	
- Reversion of Fair value of Iberdrola in 2002	21,223				21,223	
Exchange differences arising on consolidation	(193,032)			(193,032)		
Other reserves arising on consolidation	3,745			3,745		
Balance as at December 31, 2003	5,298,007	3,000,000	326,391	2,009,880	10,756	(49,020)

(*) This reclassification is caused by the implementation of IAS 39 and IAS 36 in 2003, specifically the application of the concept of impairment loss in the event of conditions that can be considered as being of a permanent nature. It is considered that the depreciation in value of the financial investment in BCP has these characteristics and, consequently, that the impairment loss would be recorded within retained earnings in the opening balance sheet of 2003, whilst the amount remains within equity as a fair value adjusted for 2002 in accordance with the principles of adopting new standards within the Portuguese accounting framework.

See accompanying notes to the Consolidated Financial Statements

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EDP - ELECTRICIDADE DE PORTUGAL, S.A. AND SUBSIDIARIES

Notes to the Financial Statements

December 31, 2003, 2002 and 2001

1. The business operations of the EDP Group

The EDP Group operates mainly in the Iberian and Brazilian markets in the electricity and telecommunications sectors.

Activity in the Energy Sector on the Iberian Peninsula

In Portugal, the National Electricity System (SEN) is based on the coexistence of a Public Service Electricity System (SEP) and of an Independent Electricity System (SEI), the latter comprising the Non-binding Electricity System (SENV) and the Special Regime Producers (PRE).

The SEP comprises the National Transport Network (RNT), Binding Producers, Binding Distributors and Binding Customers. The RNT, under concession to REN - Rede Eléctrica Nacional, S.A., is in charge with providing electricity transport and with the overall technical management of the SEP. Binding Producers are tied to RNT by long-term exclusive supply contracts. Binding Distributors are obliged to supply their customers in accordance with fixed prices, under the law, by the Energy Services Regulatory Entity (ERSE). Binding Customers are entities and individuals that cannot opt for a SENV supplier (currently low-tension consumers), or either those that are able to do so, but opt to acquire electricity from their respective binding distributor under conditions determined by the ERSE. The SENV essentially comprises Non-binding Producers and Non-binding Customers, the latter being entitled to use the SEP networks using fixed tariffs determined by ERSE under the terms of the law.

Special Regime Producers operate in the renewable energies and cogeneration areas, delivering their electricity to the SEP networks under special legislation. In accordance with the law, the ERSE is in charge with exercising the regulation of the sector, through the preparation, issue, and application of regulations, and also through the definition of the tariffs both for the use of infrastructure and for the supply of electricity to SEP customers. Through the generation and distribution companies, the EDP Group plays a fundamental role in the entire SEN, and has a relevant position within the SEP, and also owns generation companies that operate within the SEI both at the level of the SENV and at the level of the PREs.

In Spain, the EDP Group has a 40% shareholding in Group Hidroeléctrica del Cantábrico, S.A. (Hidrocantábrico), a company in which it undertakes operational management. Hidrocantábrico is the parent company that carries on the business in the electricity (generation, transport, distribution and supply), gas (distribution and supply) and telecommunications sectors. This EDP shareholding in Hidrocantábrico constitutes part of a reasoning for the integration and consolidation of the Iberian energy market.

Activity in the Energy Sector in Brazil

In Brazil, the EDP Group operates in the electricity sector, namely in generation, distribution and supply. In distribution it has a 96.5% shareholding in Bandeirante Energia S.A., and 99.97% of IVEN, S.A., which controls Escelsa Espírito Santo Centrais Eléctricas, S.A., and Enersul Empresa Energética do Mato Grosso do Sul S.A.

In the electricity generation sector, the EDP Group has holdings in Usina Hidroeléctrica (UHE), Lajeado (27.65%), Usina Termoeléctrica (UTE) and Fafen (79.6%); in partnership with the Rede Group of Brazil was successful in the auctions for the concession of the construction and operation of Peixe Angical and Couto Magalhães hydroelectric power stations.

In the supply business, in addition to the business carried on by the distribution companies, the EDP Group operates in the electricity trading market through Enertrade, a wholly owned Group company.

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EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements (Continued)

December 31, 2003, 2002 and 2001

Low-tension Electricity Distribution Concession Regime

In accordance with specific legislation (Decree-Law 344-B/82), the right to distribute low-tension electricity in Portugal is in the hands of the municipalities (local authorities). However, EDP is allowed to carry on this activity, under concession, by entering into concession contracts generally with a 20 year term, which can be revoked with 2 years notice. Since 1994, when EDP was restructured as a Group by splitting into new companies, these concession terms were maintained in relation to the 4 electricity distribution companies set-up at that time and later merged in 2000 into EDP Distribuição S.A. In respect to these concessions, a rent is paid to the concessor municipalities.

Activity in the Telecommunications Sector

In the telecommunications sector, the EDP Group holds 56.03% of the share capital of ONI SGPS (ONI), the remaining capital is held by BCP, GALP Energia and Brisa. ONI operates in fixed telecommunications, providing voice and data services in the Portuguese market (both corporate and residential customers) and in the Spanish market (in the corporate segment).

Activity in the Information Technologies Sector

The EDP Group operates in the information technologies through EDINFOR - Sistemas Informáticos S.A., a wholly owned subsidiary which holds 57.8% of ACE, engaged namely in consultancy, systems integration, processing, application outsourcing, IT infrastructure, georeferenced solutions, printing solutions, and finishing.

Public Domain Assets

In Portugal some fixed assets allocated to electricity generation and distribution within the SEP are subject to the public domain regime. However, EDP has the authority to operate and manage these assets in the binding sector only, and never for any other purpose. In Brazil the fixed assets used in the distribution and supply of electricity are tied to those services and cannot be withdrawn, sold, assigned or mortgaged without the prior express consent of the Regulator. ANEEL has already created regulations releasing the assets of the Public Electricity Service concessions, granting prior authorisation for the release of assets of no use to the concession, provided they are to be sold, further determining that the product of the sale be deposited in a tied bank account, to be used in the concession.

2. Accounting policies

a) Basis of presentation

The Group's parent company, EDP – Electricidade de Portugal, S.A. (hereinafter known as EDP), was incorporated in 1976 as a consequence of the nationalisation and consequent merger of the principal companies of the electricity sector operating in mainland Portugal. Its registered office is in Lisbon at Praça Marquês de Pombal, 12, 6°. During 1994, as established by Decree-Law 7/91 and 131/94, the EDP Group was established (hereinafter known as EDP Group or Group) following the split of EDP, which led to a number of subsidiaries wholly owned by EDP itself, directly or indirectly. The Group's businesses are currently focused on the generation, distribution and supply of electricity, on the distribution and supply of gas, on telecommunications and on information technologies. Although complementary, the Group currently operates as well in related areas such as water, engineering, laboratory tests, vocational training and property management.

The Consolidated Financial Statements of the EDP Group have been prepared in accordance with accounting principles generally accepted in Portugal (Portuguese GAAP), except as provided in notes 9, 18, 37

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EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements (Continued)

December 31, 2003, 2002 and 2001

and 39, particularly as a result of the adoption of International Accounting Standards IAS 19, IAS 22, IAS 32, IAS 36 and IAS 39. The Consolidated Financial Statements have been prepared from the accounting records of EDP and its subsidiary companies listed below. Portuguese GAAP differs in certain significant respects from generally accepted accounting principles in the United States of America (U.S. GAAP). A description of these differences and their effects on consolidated net income and shareholders' equity are set forth in Note 40. The financial statements also include certain reclassifications and additional disclosures in order to conform more closely to the form and content of financial statements required by the Securities and Exchange Commission of the United States of America.

The accounting standards are consistent with those applied in the previous year, except for the changes resulting from the early adoption of IAS 32, IAS 36 and IAS 39.

The translation of the euro amounts into U.S. dollars is disclosed in the accompanying financial statements solely for the convenience of the readers and has been made at the rate of US\$ 1,217 to Euro 1.00, the exchange rate at June 24, 2004. No representation is made that the euro amounts could have been, or could be, converted into U.S. dollars at that or any other rate.

The preparation of the financial statements in conformity with Portuguese GAAP, together with the reconciliation to U.S. GAAP, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Some of the more significant estimates and assumptions relate to the hydrological correction account, depreciation and impairment of long lived assets, fair value of financial investments, provision for employee retirement benefits and deferred taxes. Actual results could differ from those estimates.

c) Basis of consolidation

The consolidated financial statements reflect the assets, liabilities and results of EDP, S.A., and of its subsidiary companies, as defined in Note 7, and the proportional part of assets, liabilities and results of joint ventures in respect of the years ended December 31, 2003 and 2002.

Shareholdings in subsidiaries

Shareholdings in subsidiaries and in companies in which the Group directly or indirectly holds more than 50% of the voting rights at General Meetings of Shareholders or is able to control the financial and operating policies of a company have been included in the consolidated financial statements using the purchase method. The subsidiaries are included in the consolidation as from the date on which control is acquired up to the date on which it actually ends. The purchase method is used in accounting for the acquisition of subsidiaries. The acquisition cost corresponds to

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the fair value of the assets delivered, shares issued and liabilities assumed on the date of acquisition, plus those costs directly attributable to the acquisition.

Intra-group transactions, dividends distributed between Group companies, balances and unrealized gains on transactions between Group companies are eliminated. The value corresponding to the third-party holdings is carried under minority interests. The results of subsidiaries acquired or sold during the year are included in the profit and loss account from the date they are included in the consolidation perimeter up to the date of their sale. The companies consolidated using the purchase method are detailed in Note 9.

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EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements (Continued)

December 31, 2003, 2002 and 2001

Shareholdings in associate companies under the form of joint control

The interests of the Group in jointly-controlled entities are consolidated using the proportional method, namely Hidrocantábrico. The Group consolidates its proportion of costs and revenues, of the assets and liabilities and of the cash flows of the joint undertakings on a line-by-line basis with the respective similar components of the Group's financial statements.

Shareholdings in associated companies

Investments in associated companies are carried at the value resulting from the application of the equity method criteria. The differentials attributed by way of fair values are additionally considered. In accordance with this method, the consolidated financial statements include the Group's share of the total gains and losses recognised from the date on which significant influence begins up to the date on which it actually ends. Associates are entities in which the Group holds between 20% and 50% of the voting rights, or over which the Group has significant influence, although cannot exercise control over them. Unrealised gains or losses on transactions between the Group and its associates are eliminated.

The Group's investment in associates includes goodwill (net of accumulated amortisation) on the acquisition. When the share of the losses of an associate exceeds the investment in the associate, the Group recognises additional losses, if the Group shall have to incur in additional liabilities in benefit of the associate.

Shareholdings in subsidiaries resident abroad

In the consolidation, the value of assets and liabilities of subsidiaries resident abroad are recorded at their value in euros translated at the official exchange rates ruling on the balance sheet date. The results of the subsidiaries are consolidated using their value in euros at the average monthly exchange rate for the year. Currency differences resulting from translation into euros of the balance sheet at the beginning of the year and of the results of the year, at the official exchange rate ruling on the balance sheet date, are recorded against reserves.

Goodwill

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The Goodwill arising from the acquisition of shareholdings in subsidiaries and associates is defined as the difference between cost and the proportional fair value of the assets acquired. Positive Goodwill is recorded under intangible assets and amortized over the estimated useful life, usually of 20 years. Negative Goodwill is recorded in the same way, unless it can be attributed to future losses or to items of fixed assets. The value of the Goodwill carried on the balance sheet, as an intangible fixed asset, is reviewed annually, and adjustments are made in respect of permanent loss of value as necessary.

Concession rights in Brazil (investments in Bandeirante, Escelsa and Enersul)

The Concession rights in Brazil, namely the investments in Bandeirante, Escelsa and Enersul, are the result of the application of calculations and methodologies identical to those of the Goodwill, that is, the difference between the cost and the proportional fair value of the assets acquired. Concession rights are recorded under intangible fixed assets and are amortized over the useful life of the concession, usually of 30 years.

d) Investments Implementation by the EDP Group of International Accounting Standard 39 to financial instruments

Departing from accounting principles generally accepted in Portugal, the EDP Group has made early implementation of International Accounting Standard 39 - Recognition and Measurement of financial instruments during fiscal year of 2003, having calculated the retroactive effects as to December 31, 2002.

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EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements (Continued)

December 31, 2003, 2002 and 2001

Consequently, the EDP Group classifies its investments in accordance with this international accounting standard, particularly with regard to the types of financial instruments and their recognition and measurement, carrying them under the following categories of financial assets: Trading; Held to maturity; and Available for sale. The classification depends on the purpose for which the investments were acquired.

The Board of Directors determines the classification of these investments on the date of acquisition and re-assesses this classification on a regular basis.

Trading account securities

Investments acquired primarily for the purpose of being traded in the very short term are classified as Trading Securities and are recorded as current assets. For the purpose of these consolidated financial statements, short term is defined as 3 months. Realized and unrealized gains and losses caused by changes to the fair value of trading securities are recorded in the profit and loss account during the period in which they occur.

Medium and long-term investment portfolio (investment securities available for sale)

Investments expected to be held for an undetermined period of time and that can be sold to meet liquidity requirements or in the event of changes to interest rates, are classified as Available for sale under non-current assets, unless the board of directors has the express intention of holding the investments during a period of less than 12 months from the balance sheet date or if there is a need to sell them to generate operating capital, in which case they are carried under current assets. Acquisition cost includes transaction costs. Investments available for sale are accounted at their fair value.

Unrealised gains and losses caused by changes to the fair value of investments classified as available for sale are recognised against reserves. The fair value of investments is based on the listed prices or on amounts derived from cash-flow models. The fair values of unlisted shareholders equity instruments are estimated using applicable price/earnings or price/cash-flow ratios, adjusted to reflect any specific circumstances of the securities issuers. Shares for which fair values cannot be reliably measured are recognised at cost less impairment losses.

When instruments classified as available for sale are sold or subject to impairment losses, the cumulative adjustments of fair value are accounted in the profit and loss account as gains or losses.

e) Impairment of long-term assets

In addition to implementation of IAS 39, the EDP Group has implemented IAS 36, which deals with impairments. Tangible fixed assets and other non-current assets, including goodwill, concession rights and intangible fixed assets, are subject to annual review to determine the existence or otherwise of impairment when events or circumstances indicate that their carrying amount cannot be recovered. An impairment loss is recognised for the excess of the carrying amount of an asset over its recoverable amount, which is defined as the greater of the net value of the sale of the asset and its value in use. For the evaluation of possible impairment, assets are grouped together in the smallest identifiable group of assets generating separate cash flows.

f) Assets and liabilities expressed in foreign currencies

All assets and liabilities expressed in foreign currency have been translated into euros using the exchange rate ruling on the balance sheet date. Favourable and unfavourable currency translation differences caused by

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differences between the exchange rate ruling on the date of the transaction and those ruling on the collection, payment or balance sheet date are recorded as gains or losses in the profit and loss account.

*g) Tangible fixed assets**Fixed assets owned by the Group*

Tangible fixed assets, except those assets existing at the time of the split of EDP in 1994, which are carried at the amounts resulting from the valuation undertaken in 1992, are recorded at cost (acquisition or construction), net of accumulated depreciation. Fixed assets include financial costs and currency translation differences capitalised during the construction stage, resulting from loans taken out to finance them, as well as overheads.

Fixed assets contributed in kind/cash by third parties are amortized on the same basis and at the same rates as the Group's other fixed assets, the respective counter costs compensated in extraordinary income, by the straight-line amortisation of such compensation (recorded under Accruals & Deferrals - Investment Subsidies) on the same basis and at the same rates as the respective contributed fixed assets. Current fixed asset repair and maintenance costs are considered costs for the year in which they are incurred. Expenditures on major repairs and improvements are treated as deferred costs and are amortised over a maximum period of 6 years.

The depreciation and amortisation rates are calculated on the straight-line basis taking into consideration the useful life of each type of fixed assets analysed as follows:

	Rates in Years
Buildings and related improvements	8-50
Plant, machinery and equipment:	
Hydroelectric generation	32-60
Thermoelectric generation	25-30
Renewables generation	30
Distribution	10-30
Other plant and equipment	5-10
Transport equipment	4-25
Administrative equipment	4-10

Fixed assets allocated to the EDP Distribuição concessions

Under the terms of Decree-Law 344-B/82, as mentioned in note 1, low-tension electricity distribution concessions do not involve the sale of the assets of the conessor municipalities, which remain their property, without prejudice to their allocation to operation by the Group. In accordance with the foregoing, the fixed assets allocated to the concession are carried under tangible fixed assets, with a contra entry under medium-and long-term liabilities (Other Debtors and Creditors - DL 344-B/82 Regularisation Account).

The amounts of these fixed assets are carried at the costs arising from the valuation made in 1992, net of accumulated depreciation. The fixed assets allocated to the concession are amortised on the same basis and at the same rates as those of the Company's own fixed assets, the respective cost being compensated under extraordinary income (Note 27), by the reduction, on an equal amount, of the liability towards Municipalities carried under liabilities. The Group is responsible for the maintenance and repair of these fixed assets during the life of the concession contract, the costs being recorded in the same basis with those of the Group's own fixed assets.

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Multipurpose Hydroelectric Plants of Companhia Portuguesa de Produção de Electricidade (CPPE)

Multipurpose Hydroelectric Plants correspond to that part of the hydroelectric power stations built by the Group that is used for sundry purposes that do not lie within the scope of its electricity generating business (irrigation, water supplies to the population, etc.), and for this reason they are subsidised by the State. These fixed assets are carried at construction cost, which includes overheads, as indicated for the Group's own fixed assets. These fixed assets are not amortised. The value attributed to the investment for which the State is responsible in multipurpose hydroelectric plants has been determined by application of provisional percentages to the accumulated direct costs of these facilities. Part funding received from State in respect of these facilities is carried under medium-and long-term liabilities.

h) Financial investments in properties

Financial investments in Properties are carried at the amount of the valuation undertaken during 1992, the difference between this and historic costs have been recorded under revaluation reserves. These investments are amortised over the useful life of the property.

i) Intangible fixed assets

Excluding the goodwill and the concession rights in Brazil balances, intangible fixed assets include set-up costs, research and development costs, and intellectual property and other rights. These balances are amortized using the straight-line method over a period of three to six years.

Those investments that increase the performance of software programs over and above their original specifications are added to the original cost of the software. Software development costs recognised as assets are amortised using the straight-line method over their useful life, generally 3 to 6 years. The Group's major corporate, information and managements IT systems developed on SAP platforms are amortised using the straight-line method over their useful life of 10 years.

j) Deferred costs

Deferred costs stated within other assets in the accompanying balance sheet, include amounts incurred in connection with the issuance of long term debt and major repairs and improvements to fixed assets. Debt issuance costs are amortized over the term of the bonds or long term debt. Costs for major repairs and improvements are amortized over a maximum period of six years.

k) Inventories

Stocks are carried at cost or at market price if less than cost, warehouse outgoings (consumption) are valued at average cost.

l) Recognition of costs and revenues

Costs and revenues are recorded during the year to which they relate regardless of when paid or received. Differences between amounts received and paid and the corresponding revenue and expenditure are recorded under accruals and deferrals. Revenues comprises the amounts invoiced on the sale of products or of services provided, net of value added tax, rebates and discounts, after elimination of intra-group sales. The invoicing of electricity sales is undertaken on a monthly basis. Monthly electricity invoices are based on real meter reading or on estimated consumptions based on the historic data of each consumer. In Portugal ERSE establishes the SEP electricity tariffs.

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EDP - Electricidade de Portugal, S.A. and Subsidiaries

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Revenues from the telecommunications businesses are recorded in the period which they occurred. These services are billed monthly and invoiced based on real meter reading or on estimated consumptions based on actual traffic.

Interest earned is recognised using the accrual accounting principle, taking into account the amount owed and the real interest-rate during the period to maturity. Dividends are recognised based on a cash basis.

m) Accounts receivable

Accounts receivable are recorded at their net realisable amount, considering the necessary provisions for doubtful debt. These provisions are quantified and recorded based on the valuation of estimated losses from non-collection of accounts receivable at the end of each year.

n) Liabilities for holiday pay and holiday subsidies

The amount of liabilities for holiday pay and holiday subsidies and the respective Social Security charges for the current year, payable in the following year, are recorded as costs of the current year, against accrued costs.

o) Social benefits extended to EDP Group employees

The Group records costs resulting from pensions and associated charges in accordance with the IAS 19, replacing the Portuguese Accounting Directive 19, that results from the adoption to Portuguese law of the earlier version of IAS19. Social benefits are detailed in Note 18 to the consolidated financial statements, as is the quantification of the effects of such alteration.

EDP and some of its subsidiaries have a commitment to supplement retirement and survivors' pensions to the extent that these are not covered by the government's social security plan. Employees may apply for early retirement, subject to certain conditions relating to applicable regulations namely pre-defined age and length of service requirements being met.

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Pension costs for defined benefit plans are recorded using the projected unit credit method. Under this method, the cost of providing pensions is charged to the profit and loss account to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who carry out a full valuation of the plans every year. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates of government securities that have terms to maturity approximating the terms of the related liability. Pension costs for defined contribution plans are expensed to income as incurred.

Wherever post-retirement medical assistance is also provided to retirees, the entitlement to these benefits is usually based on the employee remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment, using an accounting method similar to that for defined benefit pension plans. Independent qualified actuaries perform valuations of these obligations.

The assets of these plans are held in separate trustee-administered funds. The pension plans are generally funded by payments from the relevant Group companies, taking into account the recommendations of the independent qualified actuaries.

p) Hydrological correction account

The hydrological correction account constitutes a legally mandated mechanism for compensating the variable costs of electric-power generation. In low rainfall years, the thermoelectric generating system is

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EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements (Continued)

December 31, 2003, 2002 and 2001

over-utilized and consequently, expenditure on fuel and electricity imports increases substantially. In years with abundant rainfall the opposite occurs. Tariffs can not be modified to take into account the changes in variable costs incurred resulting from hydrological conditions. In this context and with a view to avoiding major distortions in operating results due to favorable or unfavorable hydrological conditions, the hydrological correction account is adjusted upwards or downwards based upon average hydrological conditions.

The annual changes in the hydrological correction account consist of the following:

the difference between the economic costs of generating electricity and the economic reference costs is charged to REN for inclusion in the Binding Sector costs (prior to June 2000 this difference was charged to the income statement);

a financial charge associated with the hydrological correction account's accumulated balance;

an adjustment, which may be either an income or an expense item, corresponding to the amount necessary to make the expected balance, in a time scale of 10 years, equal to an adequate reference level.

The amount of the accumulated balance and the movements during the year are approved by the Government on an annual basis.

q) Own work capitalized

Using specific criteria, costs incurred by the Group (essentially materials, staff costs and financial charges) in the construction of fixed assets on a cost-plus basis, which are recorded in the profit and loss account by nature of expense, are included under fixed assets with a contra entry in this account.

r) Treasury stock

The EDP Group periodically acquires own shares mainly to satisfy obligations in connection with Company stock option plans. Shares acquired are recorded at acquisition cost.

s) Dividends payable

Dividends payable are recorded in the Group's financial statements during the year in which they are approved by the shareholders of the parent company EDP, S.A.

t) Statements of cash flows

The statements of cash flows are prepared using the direct and indirect methods.

Cash and cash equivalents presented on the balance sheets represent highly liquid investments purchased with original maturities of three months or less. Cash and equivalents in the statements of cash flows include cash and cash equivalents, net of bank overdrafts.

u) Taxation

Income tax is calculated on the basis of the taxable income of companies included in the consolidation and considers deferred taxation. Deferred taxes are calculated, using the balance sheet liability method, on the temporary differences between the book values of assets and liabilities and their respective taxable bases.

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Notes to the Financial Statements (Continued)

December 31, 2003, 2002 and 2001

The taxable base of assets and liabilities is determined so as to reflect the consequences of taxation resulting from the way in which the company expects, on the balance sheet date, to recover or to pay the recorded amount of its assets and liabilities. In determining deferred tax, the rate in effect or substantially activated on the balance sheet date is used. Recognised deferred tax assets are reduced to the recoverable amount that can be compensated against future expected profits.

3. Financial-risk management policies

Financial-risk management

The businesses of the EDP Group are exposed to a variety of financial risks, including the effects of changes to market prices, exchange rates and interest rates. The Group's exposure to financial risks lies essentially in its debt and derivatives portfolio, arising from the interest-rate risk, the exchange-rate risk and, to a limited extent, the risk of non-compliance by the counterparty in each operation.

The maturity of the financial markets is analysed on an ongoing basis in accordance with the Group's risk management policy. To minimise potential adverse effects on its financial performance, interest-rate and/or exchange-rate and derivatives instruments are employed, including collars (floors and caps).

The management of the financial risks of EDP, SA, and of EDP Finance, B.V. (and other entities) are undertaken by the central treasury in accordance with policies approved by the board of directors. Central treasury identifies, evaluates and submits to the Board for approval hedging mechanisms appropriate to each exposure. The board of directors is responsible for the definition of general risk-management principles and of exposure limits. All transactions undertaken using derivatives instruments require the prior approval of the board of directors, which defines the parameters of each transaction and approves formal documents describing the objectives.

Exchange-rate risk management

The Group operates internationally and is exposed to exchange-rate risk resulting from exposure to various currencies, mainly U.S. dollars and Brazilian reais. Currently, the exposure to the USD/EUR currency fluctuation risk results from the Brazilian companies that have financial debt expressed in US dollars. Debt contracted by the holding company is fully denominated in euros. Bonds issued by EDP Finance BV under the Medium Term Notes Programme in JPY and GBP are immediately converted into euros on the date of issue and to floating interest-rates through exchange-rate and interest-rate derivatives. Central Treasury is responsible for monitoring the evolution of the currencies referred above, seeking to mitigate the impact of currency fluctuations on the financial costs of the Group companies and, consequently on consolidated net profit, using

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exchange-rate derivatives and/or other hedging instruments, and restructuring these debts if required.

The Brazilian subsidiaries exposed to USD/BRL currency fluctuation through their debt in U.S. dollars use forward rate agreements and currency swaps to hedge this risk. Additionally, investments in the Brazilian subsidiaries, whose net assets are exposed to exchange-rate risks, are monitored through analysis of the evolution of the BRL/EUR exchange-rate. Given the long-term nature of investments in the Brazilian subsidiaries, the Group has decided not to use financial instruments to hedge the exchange-rate risk inherent to the investment in these subsidiaries. This position is further strengthened by the short-term nature of the exchange-rate fluctuations that have been seen. Nevertheless, these investment positions are duly monitored, taking into consideration the evolution of the respective exchange rates.

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EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements (Continued)

December 31, 2003, 2002 and 2001

The policy implemented by the EDP Group consists of undertaking derivatives operations for the purpose of hedging risks with characteristics similar to those of hedged liability. The operations are monitored throughout their useful life and, periodically, their effectiveness in controlling and hedging the risk that gave rise to them is evaluated. At the same time, these operations are revalued to market on an ongoing basis.

Interest-rate risk management

The Group's operating and financing cash flows are substantially independent from fluctuation of the interest-rate markets. The Group has no substantial volume of interest-earning assets. The aims of the interest-rate risk management policies are: i) to reduce debt financial charges and, subsequently; ii) to immunise the cash flows from debt market fluctuations by the settlement of derivatives instruments to fix the debt rates (swaps and caps), taking into consideration a comfortable margin compared with its regulated operating cash flows. Therefore, in floating-rate financing, the Group settles interest-rate instruments and derivatives to hedge cash flows associated with future interest payments, which have the effect of converting floating-interest rate loans into fixed-interest rate loans. Long-term loans settled at fixed rates are, when appropriate, converted into floating rates through interest-rate instruments and derivatives designed to reduce financial charges and to level them to market conditions. In addition to these derivatives operations, more structured collar operations are settled, as necessary, to mitigate exposure of debt cash flows to market rate fluctuations.

All these operations are undertaken on liabilities in the Group's debt portfolio and mainly involve perfect hedging, through matching the periodicity of payments/revenues between the operations and also considering their principal repayment profiles. The Group has a portfolio of interest-rate derivatives with maturities between approximately 1 and 15 years, and does not intend to cancel them before the date initially planned. The Group's Central Treasury undertakes sensitivity analyses of the fair value of financial instruments to interest-rate fluctuations.

Counter party credit-rate risk management in financial transactions

The EDP Group policy in terms of the counter party risk of financial transactions is governed by an analysis of the technical capacity, competitiveness, credit notation and exposure of each counter-party, avoiding significant concentrations of credit risks. Counter parties in derivatives and financial transactions are restricted to high-quality credit institutions, therefore, the Group does not believe that there is significant risk of counter party non-compliance. No collateral is required in these transactions.

The Group has adopted the best market practices in respect of documentation of its financial transactions. To this end, all derivatives operations are contracted under the ISDA Master Agreements, and bond issues are undertaken under a Debt Instrument Issue Programme. Regarding the third-party debt generated by the Group's day-to-day business, the credit risks arise essentially from the legal obligation of providing continuous low-tension electricity to municipalities that normally incur delays insofar as payment is concerned. This risk is considered to be mitigated by the large number of customers and their diversity in terms of sectors of activity and by the large volume of residential customers.

Liquidity risk

The EDP Group undertakes prudent management of the liquidity risk, contracting and maintaining credit lines and financing facilities with a firm underwriting commitment by national and international financial institutions of high credit rating notation, allowing immediate, flexible access to funds. These lines are used to complement and backup national and international commercial paper programmes, allowing the Group's short-term financing sources to be diversified.

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EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements (Continued)

December 31, 2003, 2002 and 2001

Accounting for financial instruments

The EDP Group implemented early International Accounting Standard 39 Recognition and Measurement of Financial Instruments, or IAS 39, for fiscal year 2003, having calculated the retroactive effects from December 31, 2002. Consequently, we classified our investments in accordance with this IAS 39, particularly with regard to the types of financial instruments and their recognition and measurement, carrying them under the following categories of financial assets: trading, held to maturity and available for sale. The classification depends on the purpose for which the investments were acquired. Our board of directors determines the classification of these investments on the date of acquisition and re-assesses this classification on a regular basis.

Changes in the fair value of derivatives identified as fair-value hedging instruments qualified as effective, are recognised as a gain or loss and taken to the profit and loss account together with the changes in the fair value of the asset or liability for which the hedging risk was attributed.

Changes in the fair value of derivatives identified and classified as cash-flow hedging instruments are recognised against reserves. When the planned transaction or firm commitment leads to recognition of an asset or liability, the gains and losses previously recorded against reserves are included in the initial measurement of the cost of the respective asset or liability. In any other case, the amounts recorded against reserves are transferred to the profit and loss account and classified as income or expense during the period in which the firm commitment or planned transaction impacted on the profit and loss account. For any transaction which, despite economic hedging in accordance with the Group's risk-management policies, is not classified as hedging in accordance with IAS 39, the gains and losses are recognised in the profit and loss account during the period to which they refer.

On the date on which the hedging instruments expires or is sold, or when the hedging transaction no longer meets the requirements for hedge accounting in accordance with IAS 39, any cumulative gain or loss recorded against reserves is maintained until such time as the planned transaction or firm commitment is recognised the profit and loss account. If the planned transaction or firm commitment is no longer expected, the cumulative gain or loss reported against reserves is transferred to the profit and loss account.

The hedging of a net investment in a foreign entity is recorded in a manner similar to cash-flow hedging. If the hedging instrument is a derivative, any gain or loss on the hedging instrument in respect of the effective part of the hedge is recognised against reserves. The gain or loss on the ineffective part is recognised immediately in the profit and loss account. However, if the hedging instrument is not a derivative, all gains and losses on exchange-rate fluctuations are recognised against reserves.

To achieve hedge accounting on the date of commencement of the transaction, the Group documents the relationship between the hedging instrument and the hedged items, as well as the respective risk-management objectives and strategies underlying the respective hedging transactions. This process includes the link between all derivatives identified as hedging instruments for assets and liabilities or for specific transactions or firm commitments. The Group also documents in its evaluation, at the inception of the hedge and during the life of the hedge,

whether the derivatives used in the hedging transactions are highly effective to compensate the fair value or the cash flows of the hedged items.

Estimate of the fair value of financial instruments

The fair value of derivatives traded on liquid markets and of assets available for sale is based on their listed prices on the balance sheet date. The fair value of interest-rate swaps is calculated on the basis of the present value of future estimated cash flows.

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

The estimated value of future cash flows is used to determine the fair value of other financial instruments. The book values of financial assets and liabilities with a maturity of less than one year are assumed to be close to their fair values.

4. Cash and cash equivalents

The balance **Cash and cash equivalents** is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
	_____	_____
Cash:		
- Cash in hand	20,375	1,427
	_____	_____
	20,375	1,427
	_____	_____
Bank deposits:		
- Current deposits	116,205	27,428
- Short term deposits	6,963	9,860
	_____	_____
	123,168	37,288
	_____	_____
Negotiable securities:		
- Other securities	56,291	92,691
	_____	_____
	56,291	92,691
	_____	_____
Other treasury placements:		
- Financial products at domestic banks	85,300	82,367
- Financial products at foreign banks	2,368	206
	_____	_____
	87,668	82,573
	_____	_____
Provision	(6)	(6)
	_____	_____
	287,496	213,973

With reference to the consolidated statement of cash flows, the breakdown for the purpose of determination and detailing the Cash and Cash equivalents components, is as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
Cash components:		
- Cash	20,375	1,427
- Bank deposits	123,168	37,288
- Negotiable securities	56,291	92,691
	<u>199,834</u>	<u>131,406</u>
Cash equivalents:		
- Other treasury securities	87,668	82,573
- Overdrafts	(595,912)	(621,238)
	<u>(508,244)</u>	<u>(538,665)</u>
Cash and cash equivalents	<u>(308,410)</u>	<u>(407,259)</u>

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****5. Accounts receivable - Trade, net**This balance **Accounts receivable - Trade, net** is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
	<u> </u>	<u> </u>
<i>Resident customers:</i>		
State and official entities	36,234	29,353
Local authorities	31,041	32,652
Corporate sector and individuals	789,986	651,686
Unbilled receivables	85,193	106,227
Trade accounts - bills receivable	46	14
	<u> </u>	<u> </u>
	942,500	819,932
	<u> </u>	<u> </u>
<i>Non-resident customers:</i>		
Corporate sector and individuals	158,490	142,280
	<u> </u>	<u> </u>
	158,490	142,280
	<u> </u>	<u> </u>
	1,100,990	962,212
	<u> </u>	<u> </u>
Doubtful debt	188,689	159,511
Provision for doubtful debt	(181,615)	(150,863)
	<u> </u>	<u> </u>
	1,108,064	970,860
	<u> </u>	<u> </u>

6. Accounts receivable - Other, net

This balance is analysed as follows:

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	Group	
	2003	2002
	Euro 000	Euro 000
Other accounts receivable - Short term / Current		
State and other public entities:		
- Income tax	73,398	
- Value added tax	100,730	102,657
- Other taxes	5,647	17,762
Other related companies	1,178	
Advances to suppliers	2,478	3,298
Other debtors:		
- Account with the Pension Fund	12,120	12,075
- Performance bonds and tied deposits		13,878
- Amounts owed to staff	8,536	7,092
- Amounts owed by the State and Concessors	6,879	9,523
- Debtors in respect of other goods and services	102,934	163,041
- Regulatory assets	51,732	51,062
- NAG/EDP Protocol - Alqueva	26,082	
- Other debtors and sundry operations	7,344	136,724
	<u>399,058</u>	<u>517,112</u>
Provision for short-term debtors	(9,335)	(13,901)
	<u>389,723</u>	<u>503,211</u>
Accrued income		
- Interest receivable	193,234	137,575
- For sales and services provided	7,368	49,997
- From hydrological correction account		16,113
- Other accrued income	61,518	33,647
	<u>262,120</u>	<u>237,332</u>
	<u>651,843</u>	<u>740,543</u>

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****7. Inventories**

This balance is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
	<u> </u>	<u> </u>
Merchandise	15,794	10,143
Purchases and advances on account of purchases	2,291	5,864
Finished and intermediate products	569	583
Products and work in progress	3,648	4,863
Sub-products, waste, residues and scrap	1,989	
Raw and subsidiary materials and consumables:		
Coal	24,920	38,827
Fuel	47,530	46,985
Other consumables	62,495	44,220
	<u> </u>	<u> </u>
	159,236	151,485
Provision for inventories		(1,180)
	<u> </u>	<u> </u>
	159,236	150,305
	<u> </u>	<u> </u>

8. Long term receivables, netThe balance **Long term receivables, net** is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
	<u> </u>	<u> </u>

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Trade accounts receivable - Medium and long-term / Non Current:		
Resident customers:		
Customers - Local government - Debt at December 31, 1988 (i)	181,689	185,343
Corporate sector and individuals	5,017	
Trade accounts - bills receivable	413	
	<u>187,119</u>	<u>185,343</u>
Provision for local government customers at December 31, 1988	(101,322)	(101,322)
	<u>85,797</u>	<u>84,021</u>
Trade accounts receivable - Medium and long term / Non Current		
Other related companies		18,744
Other debtors:		
- Fixed assets in compensated integration (ii)	9,270	19,246
- Regulatory assets (iii)	275,608	71,290
- Performance bonds and tied deposits	44,991	29,771
- Other debtors and sundry operations	20,176	49,933
	<u>350,045</u>	<u>188,984</u>
Provision for medium-/long-term debtors - Non current		(12,421)
	<u>350,045</u>	<u>176,563</u>
	<u>435,842</u>	<u>260,584</u>

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

- (i) The amount of this heading is shown net of the compensation of debits related to assets undergoing integration to be transferred to the Group and of the rents owed by the Group on that date.
- (ii) Compensated fixed assets undergoing integration correspond to the net amounts, on integration date, of the debts of local authorities up to December 31, 1988, compensated by means of the respective assets undergoing integration (Tangible Fixed Assets under the regime of Decree-law 344-B/82). The transfer of these amounts to tangible fixed assets is awaiting formalisation of the concession contracts or debt regularisation protocols to be entered into by EDP and the local authorities.
- (iii) The regulatory assets heading shows the costs associated with the 2003 Human Resources Rationalisation Plan, which were accepted by the Energy Services Regulatory Entity as an investment amortizable over a period of 20 years, beginning in 2005.

9. Investments

This balance is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
<i>Shareholdings</i>		
Subsidiary companies	1,305	202,518
Associate companies	441,449	483,295
Medium/long-term investments (available for sale)	1,293,517	1,314,863
Other companies	58,441	81,635
	<u>1,794,712</u>	<u>2,082,311</u>
<i>Investment in properties</i>		
Buildings and other constructions	1,417	536
	<u>1,417</u>	<u>536</u>
<i>Other financial investments</i>		
Bank deposits		58
Public debt securities	19	19
Other securities	70,143	86,442
Other financial investments	4,029	5,085
Amounts recoverable for the sale of Oniway	39,667	70,000
Fixed assets in progress		2
	<u></u>	<u></u>

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	113,858	161,606
	<u>1,909,987</u>	<u>2,244,453</u>
<i>Provision for financial assets :</i>		
Shareholdings	(285,790)	(276,734)
Other financial investments	(1,391)	(1,391)
	<u>(287,181)</u>	<u>(278,125)</u>
<i>Amortization of investment in properties</i>	(355)	(344)
	<u>(355)</u>	<u>(344)</u>
	<u>(287,536)</u>	<u>(278,469)</u>
	<u>1,622,451</u>	<u>1,965,984</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

The financial investment in CERJ - Companhia de Electricidade do Estado do Rio de Janeiro SA, is carried net of the value of Goodwill amortized up to the year 2000, until which time the EDP Group held significant influence allowing it to account for the investment with the equity method. As of January 1, 2001, the EDP Group no longer holds such influence, holding since then 11.27% of the share capital. In accordance with the Portuguese Official Plan of Accounts, under these circumstances the equity method is no longer applicable, and the financial investment is therefore carried in the books as a cost method investment.

The breakdown of **Shareholdings** is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
Investment in subsidiary companies:		
EDP Investimentos, Lda		32,698
Calibre		137,898
135 Participações		3,093
Electra de Cabo Verde		27,213
Other	1,305	1,616
	<u>1,305</u>	<u>202,518</u>
Investment in associated companies:		
DECA - Distribucion Eléctrica Centroamerica, SA	67,894	68,423
Companhia de Electricidade de Macau	65,129	
REN - Rede Eléctrica Nacional, SA	254,223	236,366
Associated Companies of Hidrocantábrico Group	39,398	100,399
Portsines - Terminal de Sines	7,501	7,907
Turbogás - Produtora Energética	5,211	22,221
Other	2,093	47,979
	<u>441,449</u>	<u>483,295</u>
Medium-/long-term investment (available for sale)		
CERJ - Companhia Eléctrica do Estado Rio Janeiro	97,767	97,767
Iberdrola		382,340
Galp, SGPS	328,211	322,566
BCP - Banco comercial Português	552,789	512,190
OPTEP (Optimus)	314,750	

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	1,293,517	1,314,863
	<u> </u>	<u> </u>
Investments in other companies:		
Elcogás	2,166	2,166
Tagusparque	1,097	1,097
Tejo Energia, SA	4,988	4,988
Valor Sul	2,469	2,469
Efacec	3,566	3,566
EDA - Eléctrica dos Açores	6,891	6,891
Costa Rica Energética, Lda	2,073	2,509
Other	35,191	57,949
	<u> </u>	<u> </u>
	58,441	81,635
	<u> </u>	<u> </u>
	1,794,712	2,082,311
	<u> </u>	<u> </u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

During the end of September 2003 and the beginning of October 2003, the EDP Group sold its entire shareholding in Iberdrola, generating a book gain in the amount of Eur 17.8 million.

The **Medium/long-term investments** classified as investments available for sale, in the Group, results from the full implementation from January 1, 2003, for the first time, by the EDP Group, of IAS 39: Recognition and Measurement of Financial Instruments. Movements during the year, as well as the effects of this transition from the Portuguese accounting standards from 2003, are reviewed in the following points.

The year's movements under the Medium/long-term investments classified as available for sale, in the Group, are recorded in the books as follows:

Gains on the investments are added to their acquisition cost

Provisions are set aside for losses on the investments, with a contra-entry against:

profit and loss, in the case of non-temporary potential losses (impairment);

reserves, in the case of potential temporary losses.

As at December 31, 2003, the breakdown of the Medium/long-term investments classified as available for sale in the Group is analysed as follows:

	Group			
	Carrying	Market	Unrealized	
	value	value	gain	Unrealized loss
	Euro 000	Euro 000	Euro 000	Euro 000
CERJ - Companhia Eléctrica do Estado Rio Janeiro	97,767	88,717		(9,050)
Galp, SGPS	322,566	328,211	5,645	
BCP - Banco comercial Português	552,789	277,149		(275,640)
OPTEP (Optimus)	315,000	314,749		(251)

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1,288,122	1,008,826	5,645	(284,941)
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As an immediate consequence of the full implementation by the EDP Group, for the first time, of IAS 39: Recognition and Measurement of Financial Instruments, the Medium/long-term investments classified as investments available for sale in the Group, includes booking of an asset consisting of the whole of the holding in OPTEP (whose assets included 25.72% of the share capital of Optimus SA), and a liability of the EDP Group to the entity that acquired this asset in 2002, since there is with the latter an agreement which includes an adjustment mechanism of the selling price of Optimus/OPTEP. Consequently, in accordance with IAS 39, it cannot be classified as a definitive sale/commitment. In accordance with the international standard, the assets sold in 2002 are recorded in full under assets, and the respective liability, also in full, and the price fluctuations are recognized as investments available for sale for as long as the referred clause remains in force up to March 22, 2005.

During 2003 the following changes took place to the consolidation structure of the EDP Group:

In the wake of Hidroantábrico (HC) taking control of 62% of the share capital of the Naturcorp Group, as a result of a privatisation process finalised at the end of 2003, the Naturcorp Group was included in the accounts of the HC Group using the purchase method, and consequently were included in the accounts of the EDP Group through the proportional consolidation of the 40% held in the HC Group.

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The impact of the acquisition of 62% of the Naturcorp Group by the Hidrocantábrico Group on the Consolidated Financial Statements of EDP was as follows:

	2003
	40%
	Naturcorp
	Euro 000
ASSETS	
Fixed assets	398,640
Investments	1,840
Accounts receivables	36,560
Cash and cash equivalents	14,440
Other assets	320
	451,800
LIABILITIES	
Provisions for contingencies and liabilities	5,840
Financial debt	6,960
Other liabilities	42,960
	55,760
	2003
	40%
	Naturcorp
	Euro 000
PROFIT AND LOSS ACCOUNT	
Sales	175,680
Cost of sales	(122,160)
	53,520
Personnel costs	6,200
Other costs (net)	8,520

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Depreciation and provisions	11,760
	<u>26,480</u>
	27,040
Financial profit/(loss)	(12,440)
Other non Operating income (expenses)	440
	<u>15,040</u>
Income tax for the year	5,040
	<u>10,000</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**The movements in **Provisions for Investments** are analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
<i>Provision for shareholdings:</i>		
Balance as at January 1	276,734	5,547
Charge for the year	8,585	2,213
Charge against reserves - Available for sale adjustments	15,967	268,974
Write-backs	(15,496)	
Balance as at December 31	285,790	276,734
<i>Provision for other financial placements:</i>		
Balance as at January 1	1,391	1,391
Balance as at December 31	1,391	1,391
	287,181	278,125

The Subsidiary Companies fully consolidated at December 31, 2003, were as follows:

Subsidiary Companies	Head office	Share capital / Currency	Shareholders Equity 31-Dec-03 Euro 000	Net Profit	
				31-Dec-03 Euro 000	% Group
Group's parent holding company :					
EDP, S.A.	Lisbon	3 000 000 000 EUR	5,298,007	381,109	
Electricity Business - Portugal :					
<i>Electricity Generation:</i>					

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EDP Produção, S.A.	Lisbon	1 250 000 000 EUR	1,906,280	328,522	100.00%
EDP Produção Bioelétrica S.A.	Lisbon	4 000 000 EUR	11,095	(2,057)	100.00%
CPPE, S.A.	Lisbon	1 234 000 000 EUR	2,495,933	347,618	100.00%
TER, S.A.	Lisbon	500 000 EUR	303	(164)	100.00%
Enernova, S.A.	Lisbon	7 500 000 EUR	21,234	3,664	100.00%
EDP Cogeração, S.A.	Lisbon	5 740 000 EUR	4,550	884	100.00%
Hidrocenel, S.A.	Seia	45 500 000 EUR	56,255	2,975	100.00%
HDN, S.A.	Braga	24 500 000 EUR	32,133	3,652	100.00%
O & M Serviços, S.A.	Mortágua	500 000 EUR	848	232	60.00%
EDP Energia, S.A.	Lisbon	50 100 200 EUR	86,959	14,477	100.00%
Hidrobasto	Cabeceiras	100 000 EUR	100	(4)	60.00%
Hidrinor, SA	Ponte de Lima	648 437 EUR	748	102	100.00%
Soporgen	Lisbon	50 000 EUR	2,466	2,663	82.00%
Energin Azóia	Lisbon	50 000 EUR	(2,055)	(2,106)	65.00%
<i>Electricity Distribution:</i>					
EDP Distribuição, S.A.	Lisbon	1 024 500 000 EUR	1,566,925	134,366	100.00%

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

Subsidiary Companies	Head office	Share capital / Currency	Shareholders Equity 31-Dec-03 Euro 000	Net Profit	
				31-Dec-03 Euro 000	% Group
Electricity Business - Brazil:					
<i>Electricity Generation:</i>					
EDP Lajeado, S.A.	São Paulo	100 000 000 BRL	2,812	(22,250)	100.00%
Fafen Energia, S.A.	Camaçari	62 501 000 BRL	(625)	(7,582)	79.60%
Enerpeixe, S.A.	São Paulo	213 333 438 BRL	58,224		60.00%
<i>Electricity Distribution:</i>					
Escelsa, S.A.	Espirito Santo	153 946 942 BRL	103,120	48,288	54.76%
Enersul, S.A.	Mato Grosso Sul	463 415 296 BRL	120,346	3,762	35.70%
Bandeirante Energia, S.A.	São Paulo	254 628 684 BRL	195,437	26,925	96.50%
Telecommunications Business - Portugal:					
ONITELECOM	Lisbon	274 630 000 EUR	69,604	(58,104)	56.02%
ONI Multimédia, S.A.	Lisbon	50 000 EUR	(77,780)	(25,500)	56.02%
U Call, S.A.	Lisbon	50 000 EUR	(55)	(62)	73.61%
Autor, S.A.	Aveiro	50 000 EUR	(452)	(408)	56.02%
ONI Madeira	Funchal	50 000 EUR	(78)	(111)	39.21%
ONI Açores	P.Delgada	250 000 EUR	425	229	33.61%
ONI Plataformas, S.A.	Lisbon	50 000 EUR	47	(0)	56.02%
ONI Web	Lisbon	50 000 EUR	(9,263)	(9,263)	56.02%
ONI Way	Lisbon	300 000 000 EUR	5,810	(14,369)	56.02%
FCTE, S.A.	Lisbon	500 000 EUR	(258)	(83)	44.82%
Telecommunications Business - Espanha :					
Germinus XXI	Madrid	4 112 749 EUR	(3,219)	(3,718)	79.77%
Intercom Internet	Barcelona	3 017 EUR	3	(0)	100.00%
Ola Internet	Madrid	405 010 EUR	781	1,636	100.00%
Information Technologies Business - Portugal:					
EDINFOR, S.A.	Lisbon	17 000 000 EUR	53,962	(6,167)	100.00%
Onsource, S.A.	Lisbon	1 250 000 EUR	1,525	30	57.77%
Case Edinfor II, S.A.	Lisbon	500 000 EUR	(658)	(1,844)	57.77%
Netion, S.A.	Lisbon	50 000 EUR	183	122	46.22%
Case Edinfor, ACE	Lisbon	498 798 EUR	498	(0)	57.77%
Integer, S.A.	Lisbon	250 000 EUR	695	(97)	57.77%
Inovis, S.A.	Lisbon	50 000 EUR	344	23	57.77%
Consulteam, S.A.	Lisbon	60 000 EUR	(701)	(700)	57.77%
ACEBENET, S.A.	Lisbon	250 000 EUR	65	(382)	57.77%
ACE BI, S.A.	Lisbon	250 000 EUR	200	(66)	57.77%
ACE Sistemas Comerciais, S.A.	Lisbon	250 000 EUR	503	66	57.77%
ACE QS, S.A.	Lisbon	250 000 EUR	387	22	57.77%

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Sigmaplano, S.A.

Lisbon

174 579 EUR

524

246

57.77%

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

Subsidiary Companies	Head office	Share capital / Currency	Shareholders Equity	Net Profit	
			31-Dec-03 Euro 000	31-Dec-03 Euro 000	% Group
Onalp, Lda	Lisbon	5 000 EUR	14	6	57.77%
S- Tecno, S.A.	Estoril	250 000 EUR	(24)	(69)	57.77%
Case, S.A.	Lisbon	250 000 EUR	2,282	(3,083)	57.77%
Centralbiz, S.A.	Oporto	50 000 EUR	9	(48)	57.77%
ACE Heathcare, S.A.	Paço d Arcos	200 000 EUR	137	(65)	43.62%
ACE Plus, S.A.	Funchal	250 000 EUR	(510)	(753)	46.22%
PSI-DOC, S.A.	Lisbon	150 000 EUR	(111)	(49)	57.77%
No Limits, S.A.	Lisbon	250 000 EUR	414	83	40.44%
IT - LOG, S.A.	Lisbon	1 000 000 EUR	3,889	1,846	100.00%
IT - GEO, S.A.	Lisbon	50 000 EUR	2,064	1,828	100.00%
Copidata, S.A.	Odivelas	4 491 000 EUR	8,354	60	99.33%
Copidata, Lda,	Odivelas	598 558 EUR	1,203	1	99.40%
Escritomática, Lda	Odivelas	44 892 EUR	327	3	99.60%
Central-E, S.A.	Lisbon	5 000 000 EUR	(6,894)	(2,915)	52.80%
Information Technologies Business - Brazil:					
ACE Sistemas Informação, Ltda	São Paulo	1 871 713 BRL	196	5	57.77%
Edinfor Soluções Informáticas, Ltda	São Paulo	2 783 497 BRL	2,439	(883)	100.00%
Information Technologies Business - Mozambique:					
ACESI, Ltda	Maputo	200 000 000 MZM	(193)	25	59.85%
Other :					
EDP Produção EM, S.A.	Oporto	2 250 000 EUR	6,412	1,636	100.00%
Tergen, S.A.	Carregado	250 000 EUR	243	(5)	80.00%
Enerfin, S.A.	Oporto	50 000 EUR	(15)	(19)	74.88%
HIDROEM, SA	Oporto	1 000 000 EUR	308	73	100.00%
HIDRORUMO, SA	Oporto	2 800 000 EUR	6,110	325	100.00%
EDP Energia Ibérica, SA	Madrid	60 200 EUR	(514)	(573)	100.00%
EDP Valor, S.A.	Lisbon	4 550 000 EUR	7,136	635	100.00%
EDP Serviços, S.A.	Lisbon	750 000 EUR	479	(360)	100.00%
MRH, S.A.	Lisbon	750 000 EUR	(505)	(1,117)	100.00%
Sãvida, S.A.	Lisbon	450 000 EUR	1,781	942	100.00%
SCS, S.A.	Lisbon	50 000 EUR	(629)	(699)	100.00%
EDP Imobiliária, S.A.	Lisbon	5 000 000 EUR	6,167	(717)	100.00%
EDIPOMBAL, S.A.	Lisbon	750 000 EUR	2,994	(28)	100.00%
ONI S.G.P.S.	Lisbon	400 119 796 EUR	(132,764)	(133,626)	56.02%
TLD	Vigo	1 235 092 EUR	(25,616)	(3)	56.02%
Comunitel Global, S.A.	Vigo	52 031 843 EUR	8,861	(18,867)	55.98%
ACE S.G.P.S.	Lisbon	11 683 383 EUR	7,254	(9,395)	57.77%

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ACE Consulting, Ltda	Luanda	45 000 EUR	(537)	(188)	71.84%
ACE Global, S.A.	Lisbon	250 000 EUR	(2,443)	(2,950)	57.77%

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

Subsidiary Companies	Head office	Share capital / Currency	Net Profit		
			Shareholders Equity	Profit	%
			31-Dec-03 Euro 000	31-Dec-03 Euro 000	Group
Primitiva, S.A.	Lisbon	87 097 EUR	345	150	57.77%
Case Internacional, Lda	Funchal	5 000 EUR	(132)	11	100.00%
Mecaresopre, S.A.	Lisbon	150 000 EUR	390	45	80.00%
EDP Águas, S.A.	Lisbon	5 000 000 EUR	7,362	(116)	100.00%
Valorágua, S.A.	Lisbon	2 500 000 EUR	1,598	42	100.00%
EDP Estudos e Consultadoria, S.A.	Lisbon	50 000 EUR	82	22	100.00%
EDP Serviner, S.A.	Lisbon	50 000 EUR	922	686	100.00%
Edalpro, Lda	Lisbon	748 197 EUR	1,728	353	100.00%
Labelec, S.A.	Sacavém	2 200 000 EUR	6,481	2,126	100.00%
EDP Participações S.G.P.S.	Lisbon	125 000 000 EUR	1,033,566	37,875	100.00%
Balwerk, Lda	Lisbon	5 000 EUR	(204,710)	(19,988)	100.00%
EDP Internacional S.G.P.S	Lisbon	37 500 000 EUR	817,386	(24,408)	100.00%
EDP Brasil S.A.	São Paulo	1 303 839 767 BRL	347,798	(42,872)	100.00%
Internel, S.A.	Lisbon	50 000 EUR	498	(231)	100.00%
Fundo Aphelion	Cayman Islands	752 290 071 USD	498,592	(205)	100.00%
Iven, S.A.	São Paulo	322 334 857 BRL	56,044	24,230	100.00%
Magistra, S.A.	São Paulo	668 482 734 BRL	176,963	6,006	54.76%
Enercorp, Ltda	São Paulo	4 035 000 BRL	708	(1,126)	100.00%
Enertrade, S.A.	São Paulo	23 047 514 BRL	5,412	1,429	100.00%
Energest, S.A.	São Paulo	46 242 339 BRL	(3)	(3,214)	100.00%
Enercouto, S.A.	São Paulo	1 000 BRL			99.90%
EDP Finance BV	Amsterdam	20 000 EUR	(35,519)	(20,942)	100.00%
EDP Irlanda	Dublin	1 000 000 EUR	659	(61)	100.00%
EDP - Investimentos, Lda	Macau	200 000 MOP	41,552	9,035	99.00%

The Associated Companies included in the consolidation using the proportional consolidation method as at December 31, 2003, were as follows:

Associated Companies	Head office	Share capital / Currency	Net Profit		
			Shareholders Equity	Profit	%
			31-Dec-03 Euro 000	31-Dec-03 Euro 000	Group
Investco S.A.	São Paulo, Brazil	665 643 638 BRL	171,264	(2,518)	27.65%

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Hidroeléctrica Del Cantábrico S.A.	Oviedo. Spain	425 721 430 EUR	1,690,536	30,973	40.00%
Affinis S.A.	Lisbon -Portugal	1 500 000 EUR	46	(489)	45.00%

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

The Associated Companies included in the consolidation using the equity method as at December 31, 2003, were as follows:

Associated Companies	Head office	Share capital / Currency	Shareholders	Net	%
			Equity 31-Dec-03 Euro 000	Profit 31-Dec-03 Euro 000	
REN S.A.	Lisbon - Portugal	534 000 000 EUR	847,409	93,489	30.00%
Bioelétrica SPA	Pisa - Itália	2 998 775 EUR	484	(550)	24.00%
BIZFIRST S.A.	Lisbon - Portugal	250 000 EUR	(269)	(301)	35.00%
Campos Envelopagem S.A.	Palmela - Portugal	74 850 EUR	623	86	30.00%
Ecogen S.A.	Loures - Portugal	100 000 EUR	(303)	(195)	34.99%
Portsines S.A.	Sines - Portugal	10 000 000 EUR	17,431	(1,424)	39.60%
Geoterceira	Açores - Portugal	1 000 000 EUR	564	(324)	49.90%
CEM S.A.	Macau	580 000 000 MOP	249,104	44,704	21.19%
Carriço Cogeração, SA	Vila Rei-Portugal	50 000 EUR	37		35.00%
Portábil, SA	Lisbon - Portugal	1 125 000 EUR	1,320	69	35.00%
Turbogás, SA	Oporto-Portugal	13 308 000 EUR	26,056	5,331	20.00%
LBC Tanquipor, SA	Barreiro-Portugal	1 350 000 EUR	3,088	274	28.89%
Electra	S.Vicente-Cabo Verde	600 000 000 CVE	(8,386)	(4,975)	30.60%
DECA-II	Guatemala	2 077 092 000 GTQ	65,339	2,554	21.00%
Eólica da Alagoa, SA	Arcos Val.-Portugal	50 000 EUR	50		40.00%

10. Fixed assets

This balance is analysed as follows:

	Group	
	2003 Euro 000	2002 Euro 000
Fixed assets under the Decree Law 344-B/82 regime	240,607	259,916
Land and natural resources	128,169	122,260
Buildings and other constructions	410,982	336,746
Plant and machinery:		

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Hydroelectric generation	6,952,258	6,936,948
Thermoelectric generation	3,405,254	3,446,991
Renewables generation	42,795	42,795
Electricity distribution	12,675,981	11,648,649
Other plant and machinery	714,415	417,636
Transport equipment	75,761	73,900
Office equipment and utensils	344,250	325,556
Other tangible fixed assets	22,393	17,486
Fixed assets in progress	1,187,302	1,022,066
	<u>26,200,167</u>	<u>24,650,949</u>
<i>Accumulated depreciation</i>		
Depreciation charges for the year	(803,091)	(706,106)
Other accumulated depreciation	(13,745,477)	(12,740,606)
	<u>(14,548,568)</u>	<u>(13,446,712)</u>
	<u>11,651,599</u>	<u>11,204,237</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

Tangible fixed assets under the Decree-Law 344-B/82 regime are those assets allocated to low-tension in electricity distribution transferred from the local authorities under the concession regime. These assets, though operated by the Group, continue to be the property of the local authorities and are accounted as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
Fixed assets under the DL 344-B/82 regime	240,607	259,916
Accumulated depreciation	(231,528)	(243,265)
Net amount	9,079	16,651

Part of these assets may be transferred to Group ownership by settlement, by offsetting accounts in respect of debts of the respective municipalities (see Note 5) pending settlement.

Tangible fixed assets during 2003, for the Group, are analysed as follows:

	Balance January 1st	Acquisitions / Charge year	Disposals	Transfers	Changes in Subsidiaries / Other	Balance December 31st
	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000
<i>Cost :</i>						
Fixed assets under the DL 344-B/82 regime	259,916				(19,309)	240,607
Land and natural resources	122,260	14	(179)	326	5,748	128,169
Buildings and other constructions	336,746	709	(8,211)	28,656	53,082	410,982
Plant and machinery	22,493,019	126,178	(67,720)	395,141	844,085	23,790,703
Transport equipment	73,900	4,777	(7,457)	605	3,936	75,761
Office equipment and utensils	325,556	8,133	(1,291)	92,867	(81,015)	344,250
Other tangible fixed assets	17,486	283	(40)	3,011	1,653	22,393
Fixed assets in progress	1,022,066	801,542		(520,606)	(115,700)	1,187,302
	24,650,949	941,636	(84,898)		692,480	26,200,167

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<i>Accumulated depreciation :</i>					
Fixed assets under the DL 344-B/82 regime	243,265	3,229		(14,966)	231,528
Buildings and other constructions	143,317	9,703	(6,698)	20,081	166,403
Plant and machinery	12,839,248	739,364	(55,701)	388,662	13,911,573
Transport equipment	46,622	10,418	(5,656)	3,148	54,532
Office equipment and utensils	169,455	38,267	33	(27,646)	180,109
Other tangible fixed assets	4,805	2,110	(24)	(2,468)	4,423
	13,446,712	803,091	(68,046)	366,811	14,548,568

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

The Changes in Subsidiaries/Other column includes (i) adjustments to fair values arising from the economic revaluations of the tangible fixed assets of Escelsa / Enersul performed during 2003 as part of the final purchase price allocation, (ii) exchange-rate variations during the year, and (iii) the inclusion of the Naturcorp Group in the consolidation perimeter following acquisition of control by the Hidrocantábrico Group in July 2003.

In accordance with the accounting criteria defined in Note 2, the following amounts of financing interest were capitalized during the year under Fixed assets in progress:

	Group	
	2003	2002
	Euro 000	Euro 000
Electricity generation	6,166	10,215
Electricity distribution	7,701	5,269
Studies and projects	10,101	533
	23,968	16,017

11. Other assets

The balance **Other assets** is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
Intangible assets	950,182	1,657,085
Goodwill	899,514	186,034
Deferred taxes	609,338	545,979
Deferred costs	275,104	227,834

	2,734,138	2,616,932
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The balance **Intangible assets** is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
<i>Intangible assets</i>		
Set-up costs	85,157	93,056
Research and development costs	103,302	140,434
Industrial property and other rights	158,057	145,355
Fixed assets in progress and other fixed assets	21,944	13,229
Other intangible assets on telecommunications business	40,209	
Concession rights in Brazil and Spain	835,366	1,515,405
	1,244,035	1,907,479
<i>Accumulated amortization</i>		
Amortization of concession rights during the year	(30,439)	(42,359)
Amortization of intangible fixed assets during the year	(42,501)	(33,435)
Other accumulated amortization	(220,913)	(174,600)
	(293,853)	(250,394)
	950,182	1,657,085

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Intangible assets during 2003 are analysed as follows:

	Balance January 1st Euro 000	Acquisitions / Charge year Euro 000	Disposals Euro 000	Transfers Euro 000	Changes in Subsidiaries / Other Euro 000	Balance December 31st Euro 000
<i>Cost :</i>						
Set-up costs	93,056	1,633		2,976	(12,508)	85,157
Research and development costs	140,434	968	(35,369)	10,347	(13,078)	103,302
Industrial property and other rights	145,355	4,273		1,300	7,129	158,057
Fixed assets in progress and other fixed assets	13,229	14,555		(14,623)	8,783	21,944
Other intangible assets on telecommunications business		40,209				40,209
Concession rights in Brazil and Spain	1,515,405			(568,431)	(111,608)	835,366
	1,907,479	61,638	(35,369)	(568,431)	(121,282)	1,244,035
<i>Accumulated amortization :</i>						
Set-up costs	50,471	15,145	(68)		(693)	64,855
Research and development costs	35,502	17,294	(90)		(8,100)	44,606
Industrial property and other rights	41,884	7,164			(16,672)	32,376
Other intangible assets on telecommunications business		2,898			11,673	14,571
Concession rights in Brazil and Spain	122,537	30,439		(15,510)	(21)	137,445
	250,394	72,940	(158)	(15,510)	(13,813)	293,853

In the **Changes in subsidiaries/Other** column includes the adjustments related to the Concession rights in Brazil, namely arising from the fair values/economic revaluations of the tangible fixed assets of Escelsa / Enersul undertaken in 2003 as part of the final purchase price allocation.

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The **Concession rights** heading, resulting from the difference between cost and the proportional fair value of the company's assets on the date of acquisition, is analysed as follows for the following acquisitions:

	2003			2002		
	Net Amount Euro 000	Accumulated amortization Euro 000	Concession Rights Euro 000	Net Amount Euro 000	Accumulated amortization Euro 000	Concession Rights Euro 000
Electricity Business - Spain						
Hidroantábrico Group				552,921	(15,510)	568,431
Electricity Business - Brazil						
Bandeirante Energia	220,796	(54,483)	275,279	229,415	(45,648)	275,063
Escelsa / Enersul	477,125	(82,962)	560,087	610,532	(61,379)	671,911
	<u>697,921</u>	<u>(137,445)</u>	<u>835,366</u>	<u>1,392,868</u>	<u>(122,537)</u>	<u>1,515,405</u>
<i>Amortization charges for the year</i>		<u>(30,439)</u>			<u>(42,359)</u>	

On December 31, 2003, the Concession rights over Hidroantábrico Group were transferred to Goodwill as a result of incorporation and start-up of the new Iberian Electricity Open Market (Mibel).

The **Concession rights** over the Brazilian electricity distribution subsidiaries, particularly over Bandeirante Energia SA, Escelsa - Espírito Santo Centrais Eléctricas SA, and Enersul - Empresa Energética do Mato Grosso do Sul SA, are amortized using the straight-line method over the life of the concessions, up to 2025, 2030 and 2030 respectively.

As at December 31, 2003, by business area, the main **Research and development projects** are as follows:

	Amount invested Euro 000	Accumulated amortization Euro 000	Net Amount Euro 000
Development projects by business area:			
Electricity generation	18,175	(10,609)	7,566

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Information technologies	8,475	(4,708)	3,767
Telecommunications	73,026	(28,467)	44,559
Other	3,626	(822)	2,804
	<u>103,302</u>	<u>(44,606)</u>	<u>58,696</u>

As at December 31, 2003, the breakdown of the **Industrial property and other rights** assets, is as follows:

	<u>EDP Group Company</u>	<u>Amount invested Euro 000</u>	<u>Accumulated amortization Euro 000</u>	<u>Net Amount Euro 000</u>
Software licensing	Brazil and Hidrocantábrico	47,397	(24,975)	22,422
Optic fibre usage rights	ONI Telecom	108,932	(6,609)	102,323
Other	Other companies	1,728	(792)	936
		<u>158,057</u>	<u>(32,376)</u>	<u>125,681</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**The breakdown of **Goodwill** is as follows:

	2003			2002		
	Net	Accumulated	Goodwill	Net	Accumulated	Goodwill
	Amount	amortization		Amount	amortization	
	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000
Electricity Business						
Hydrocantábrico Group	706,357	(46,319)	752,676			
Investco	2,050	(127)	2,177	1,767	(106)	1,873
Enerpeixe	1,625	(4)	1,629			
	<u>710,032</u>	<u>(46,450)</u>	<u>756,482</u>	<u>1,767</u>	<u>(106)</u>	<u>1,873</u>
Telecommunications Business						
Comnexo	12,704	(8,399)	21,103	14,815	(6,288)	21,103
Comunitel Global	63,268	(22,889)	86,157	71,798	(14,359)	86,157
Other	11,394	(1,385)	12,779	11,580	(135)	11,715
	<u>87,366</u>	<u>(32,673)</u>	<u>120,039</u>	<u>98,193</u>	<u>(20,782)</u>	<u>118,975</u>
Information Technology Business						
ACE, SGPS	50,017	(8,827)	58,844	52,960	(5,884)	58,844
Case Edinfor	2,528	(1,084)	3,612	2,890	(722)	3,612
Copidata	203	(3,861)	4,064	1,016	(3,048)	4,064
S-Tecno Serviços TI	2,748	(1,178)	3,926	3,159	(767)	3,926
Other	6,399	(2,428)	8,827	7,313	(1,273)	8,586
	<u>61,895</u>	<u>(17,378)</u>	<u>79,273</u>	<u>67,338</u>	<u>(11,694)</u>	<u>79,032</u>
Other Businesses						
Affinis Serviços	12,036	(689)	12,725	12,672	(53)	12,725
Turbogás	17,266	(908)	18,174			
Companhia Electricidade Macau	9,650	(6,893)	16,543			
Other	1,269	(858)	2,127	6,064	(1,132)	7,196
	<u>40,221</u>	<u>(9,348)</u>	<u>49,569</u>	<u>18,736</u>	<u>(1,185)</u>	<u>19,921</u>
	<u>899,514</u>	<u>(105,849)</u>	<u>1,005,363</u>	<u>186,034</u>	<u>(33,767)</u>	<u>219,801</u>

<i>Amortization charges for the year</i>	(54,439)	(23,072)
--	----------	----------

Goodwill in respect of subsidiary and associate companies is amortized using the straight-line method over the estimated useful life (10 years in general, and 20 years for ACE, Affinis, Turbogás and Hidrocantábrico).

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

In respect of **Deferred tax assets**, the EDP Group records in its accounts the tax effect arising from temporary differences between the assets and liabilities determined from an accounting standpoint and from a taxation standpoint, and this is broken down by company as follows:

	Deferred Tax Assets	
	2003	2002
	Euro 000	Euro 000
Individual - EDP, SA	336,924	300,245
ONI Group	107,831	89,864
EDP Produção Group	1,037	
EDP Brazil Group	131,707	143,140
Hidrocantábrico Group	12,814	12,524
EDP Finance BV	18,510	
Other	515	206
EDP Group	609,338	545,979

The breakdown of **Deferred Tax Assets** is as follows:

	Group
	Euro 000
Balance as at January 1, 2003	545,979
<i>Profit and loss account charge:</i>	
Tax losses	14,023
Provisions	970
Depreciation	3,917
Book revaluations	12,692
Tariff adjustments	1,181
Other	9,317
Charge for the year	42,100
<i>Reserve s charge:</i>	
Book revaluations	24,703

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Other	(3,444)
Charge against reserves	21,259
Balance as at December 31, 2003	609,338

The balance **Deferred costs** is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
Deferred costs :		
- Rents	1,771	5,309
- Expenditure on concessions	11,499	11,886
- Accrued maintenance	18,172	4,150
- Compensation of fuel costs	159,716	78,884
- Deferred retirement benefit obligation	50,993	62,330
- Advertising and propaganda costs	346	2,361
- Cost of negotiating loans (EIB)	24,537	29,012
- Discounts on bond issues	6,434	6,616
- Other deferred costs	1,636	27,286
	275,104	227,834

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****12. Debt - Short and long term**

This balance is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
	<u> </u>	<u> </u>
Short term loans - Current		
Overdrafts :		
- EDP, SA		44,243
- ONI Group	592,298	571,519
- Other	3,614	5,476
	<u>595,912</u>	<u>621,238</u>
Bank loans:		
- EDP, SA	315,711	271,110
- ONI Group	51,395	2,534
- Brazil Group	225,530	222,556
- Hidrocantábrico Group	24,360	178,622
- EDP Finance BV	93,524	
- Other	46,977	21,028
	<u>757,497</u>	<u>695,850</u>
Bonds issued - Non convertible:		
- EDP, SA	10,221	12,261
- EDP Finance BV	45,500	
	<u>55,721</u>	<u>12,261</u>
Commercial paper		
- EDP, SA	170,000	557,684
	<u>170,000</u>	<u>557,684</u>
	<u>1,579,130</u>	<u>1,887,033</u>

Medium and long term loans - Non Current		
Bank loans:		
- EDP, SA	631,021	946,593
- ONI Group	41,732	48,000
- Brazil Group	237,662	328,873
- Hidrocantábrico Group	761,800	629,947
- EDP Finance BV	550,000	643,524
- Other	67,032	17,994
	<u>2,289,247</u>	<u>2,614,931</u>
Bonds issued - Non convertible:		
- EDP, SA	2,476,551	2,341,958
- EDP Finance BV	963,694	1,009,194
- Grupo Brazil	84,087	40,959
	<u>3,524,332</u>	<u>3,392,111</u>
Commercial paper		
- EDP, SA	100,000	100,000
	<u>100,000</u>	<u>100,000</u>
	<u>5,913,579</u>	<u>6,107,042</u>
	<u>7,492,709</u>	<u>7,994,075</u>

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

As of December 31, 2003, the scheduled repayments of the long-term portion of the group's debt was as follows:

	Euro 000
2005	606,100
2006	924,600
2007	903,500
2008	721,900
2009 and following years	2,757,479
	5,913,579

At the EDP, SA, level, the Group has short-term credit facilities in the sum of Eur 746 million, indexed to the Euribor rate for the agreed period of use, with margin conditions agreed in advance, of which Eur 726 million have a firm underwriting commitment. There is also a Eur 350 million commercial paper programme with guaranteed placement. As far as medium-term credit facilities are concerned, Eur 700 million is available to EDP, SA, with a firm underwriting commitment, also indexed to Euribor under previously agreed conditions. As at December 31, 2003, Eur 50 million had been used of the total credit facilities.

The bank loans in Brazil involve floating-rate interest on the real, mostly indexed to the CDI. On the other hand, bank loans in euros are associated with floating-rate interest indexed to the three- or six-month Euribor rates.

The breakdown of Bonds issued as at December 31, 2003 is as follows:

Issuer	Issue date	Interest rate	Repayment/ conditions	Group Euro 000
Issued by EDP, S.A.				
EDP, SA 22nd Issue	May 30, 1996	Euribor 6 months - 0.10%	(i)	20,636
EDP, SA 23rd Issue	Dec 20, 1996	Euribor 6 months - 0.125%	(ii)	10,332
EDP, SA 24th Issue	Dec 22, 1997	Euribor 6 months + 0.10%	(iii)	6,525
EDP, SA 25th Issue	Nov 23, 1998	Euribor 6 months + 0.225%	(iv)	299,279
EDP, SA 26th Issue	Mar 26, 2003	Euribor 6 months + 0.5%	On Mar 26, 2013	150,000
				486,772

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Issued by EDP within the Euro Medium Term Notes Programme

EDP, SA 1st Issue	Oct 29, 1999	Fixed rate EUR 6.40%	On Oct 29, 2009	1,000,000
EDP, SA 2nd Issue	Mar 28, 2001	Fixed rate EUR 5.875%	On Mar 28, 2011	1,000,000
EDP Finance BV 3rd Issue (*)	Oct 29, 2001	JPY Libor 3 months + 0.20%	On Oct 29, 2004	45,500
EDP Finance BV 4th Issue	Nov 26, 2001	Coupon Zero	On Nov 26, 2009	22,455
EDP Finance BV 5th Issue (*)	Nov 28, 2001	Fixed rate JPY 0.70%	On Nov 28, 2006	27,882
EDP Finance BV 6th Issue (*)	Aug 9, 2002	Fixed rate GBP 6.625%	On Aug 9, 2017	320,000
EDP Finance BV 7th Issue	Dec 16, 2002	Fixed rate EUR 5.00%	On Dec 16, 2008	500,000
EDP Finance BV 8th Issue	Dec 23, 2002	Fixed rate EUR 2.661%	On Dec 23, 2022	93,357

3,009,194

Issued by Escelsa (Brazil) (International Bond)

Escelsa USD 430 Million (**)	On Jul 28, 1997	Fixed rate USD 10.0%	On Jul 15, 2007	58,041
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Issued by Investco (Brazil) (Domestic bond)

Investco 1st Issue	Nov 1, 2001	IGPM + 12.80%	On Nov 1, 2011	19,721
Investco (FINAM)	Nov 14, 2003	TJLP + 4%	On Nov 14, 2011	6,325

26,046

3,580,053

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

- (i) : 4 annual payments beginning in June 2, 2003. It may be repaid early at the request of bondholders.
- (ii) : 4 annual payments beginning in December 20, 2008. As from December 20, 2006 it may be repaid in part or in full at the request of EDP to all the bondholders.
- (iii) : 4 annual payments beginning in January 5, 2002.
- (iv) : 6 semi-annual payments beginning in May 23, 2006.
- (*) : These issues by EDP Finance BV have associated floating-interest-rate euro currency swaps.
- (**) : The EDP Group holds 83% of the value of this issue in an intra-group portfolio, as a result of the international takeover bid launched in 2002.

The breakdown of Loans by maturity is as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
Bank loans and overdrafts :		
Up to 1 year	1,523,409	1,874,772
1 to 5 years	2,312,265	2,544,263
Over 5 years	76,982	170,668
	3,912,656	4,589,703
Bond issues :		
Up to 1 year	55,721	12,261
1 to 5 years	877,830	232,266
Over 5 years	2,646,502	3,159,845
	3,580,053	3,404,372
	7,492,709	7,994,075

The analysis of total debt by interest is as follows:

	Group	
	2003	2002

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	<u>Euro 000</u>	<u>Euro 000</u>
Bonds and bank loans		
Below 5%	5,491,216	
5% to 7.5%		1,512,084
7.5% and above	547,279	55,222
Variable rates (weighted average rate: 3.467% at 12/31/02; 2.845% at 12/31/03)	588,302	5,147,921
Other debt		
Commercial paper (weighted average rate: 3.212% at 12/31/02; 2.1629% at 12/31/03)	270,000	657,618
Bank overdrafts (4.2325% at 12/31/02; 3.38% at 12/31/03)	595,912	621,230
	<u>7,492,709</u>	<u>7,994,075</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

The breakdown of the fair value of the EDP Group's debt, that is the market value of the debt, is as follows:

	2003		2002	
	Carrying Value Euro 000	Market Value Euro 000	Carrying Value Euro 000	Market Value Euro 000
Short term loans - Current	1,579,130	1,579,130	1,887,033	1,887,033
Medium and long term loans - Non current	5,913,579	6,251,355	6,107,042	6,406,804
	7,492,709	7,830,485	7,994,075	8,293,837

The market value of the medium/long-term loans is calculated on the basis of the cash flows discounted at the rates ruling on December 31, 2003. In current short-term debt, the book value is considered to be the market value.

13. Accounts payable - Trade

This balance is analysed as follows:

	Group	
	2003 Euro 000	2002 Euro 000
Short term creditors - Current		
Suppliers	678,741	787,361
Supplies of fixed assets	103,885	230,393
Other		817
	782,626	1,018,571

14. Accounts payable - Other

This balance is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
Other shareholders	10,541	10,443
Advances to customers	1,204	518
Other creditors		
- Employees	20,625	
- Supply of other goods and services	12,946	19,992
- Concession rents	6,690	6,477
- Creditors for collections	20,115	28,529
- For interest and financial credits	13,960	29,540
- INAG/EDP Protocol - Alqueva	35,893	
- Other	6	19,302
- Corporate income tax (IRC) - payments by the holding company	123	
- Other creditors and sundry operations	65,159	58,876
	187,262	173,677

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****15. Accrued cost**The balance **Accrued cost** is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
Accrued costs:		
- Holiday pay, bonus and other charges	68,393	60,032
- Interest payable	121,874	169,371
- Other accrued costs	46,267	65,096
	236,534	294,499

16. Taxes payables

This balance is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
<i>State and other public entities:</i>		
- Income tax	173,924	9,081
- Withholding tax	11,686	8,415
- Social security contributions	11,359	10,542
- Value added tax	12,197	18,665
- Other taxes	59,937	3,049
	269,103	49,752

17. Deferred revenue

The balance **Deferred revenue** is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
Deferred revenue:		
- Gains on sales to be realised		70,072
- Equal Installment Account EDP Distribuição	101,096	
- Other deferred revenue	134,668	24,783
	235,764	94,855

18. Accrued pension and post retirement liabilities

The balance **Accrued pension and retirement liabilities** is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
Defined benefit pension plan	149,636	211,543
Post retirement medical benefits	412,627	396,713
	562,263	608,256

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EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements (Continued)

December 31, 2003, 2002 and 2001

Some companies of the EDP Group grant their employees post-retirement benefits, both under the form of defined-benefit plans and under the form of defined-contribution plans. These include pension benefits that pay complimentary old-age, disability and surviving-relative pension complements, and also early retirement pensions. In some cases medical care is provided during the period of retirement and of early retirement, through mechanisms complementary to those of the National Health Service.

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

I. Pension Plans - *Defined-Benefit Type*

In Portugal, the companies of the EDP Group resulting from the split of EDP in 1994 have defined benefits plan financed through a closed Pension Fund, covered by a specific provision. This Pension Fund covers liabilities for retirement pension benefits (old age, disability and surviving relative) as well as liabilities for early retirement.

In Brazil, Bandeirante has two defined-benefit plans managed by the CESP Foundation, a closed complementary welfare entity with its own assets, segregated from those of the Sponsors (Bandeirante and other Brazilian electricity companies) with no contributive solidarity:

BD Plan in force up to March 31, 1998, a Balance Benefit Plan that grants Balanced Proportional Supplementary Benefit (BSPS) in the form of an annuity payable to participants enrolled by March 31, 1998, of an amount defined in proportion to past length of service accumulated by the reference date, based on compliance with regulatory granting requirements. The company is liable in full for the cover of any actuarial insufficiencies of this Plan.

BD Plan in force after March 31, 1998, which grants an annuity in proportion to the accumulated past length of service after March 31, 1998, on the basis of 70% of the average actual monthly wage for the last 36 months in service. In the event of death or disability caused by works accident, beneficiaries incorporate the whole of the past service (including that accumulated up to March 31, 1998), not just the past service accumulated after March 31, 1998. The Company and the participants equally share liability for the cover of the actuarial insufficiencies of this plan.

The change in benefit obligation of consolidated liabilities for past services linked to these pension plans has been as follows:

2003

2002

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	Portugal	Brazil	Group	Portugal	Brazil	Group
	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000
<i>Change in benefit obligation</i>						
Liabilities at the beginning of period	1,394,075	54,658	1,448,733	1,354,910	78,273	1,433,183
Cost of current services	11,193	1,047	12,240	11,977	1,243	13,220
Cost of Interest	78,843	6,006	84,849	83,123	5,703	88,826
Benefits paid	(139,459)	(1,516)	(140,975)	(142,738)	(1,539)	(144,277)
Actuarial losses	67,889	4,147	72,036	86,803	9,439	96,242
Currency fluctuation		407	407		(38,461)	(38,461)
<i>Liabilities at the end of the period</i>	1,412,541	64,750	1,477,291	1,394,075	54,658	1,448,733

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

In calculating the liabilities inherent in these pension plans within the EDP Group the following financial and actuarial assumptions were used:

	2003		2002	
	Portugal Euro 000	Brazil Euro 000	Portugal Euro 000	Brazil Euro 000
Assumptions				
Rate of return of the Funds	5.70%	10.24%	6.50%	10.24%
Discount rate	5.20%	10.24%	6.00%	10.24%
Wage growth rate	3.30%	7.12%	3.30%	7.12%
Pension growth rate	2.25%	7.12%	2.25%	7.12%
Social Security wage appreciation rate	2.00%	4.00%	2.00%	4.00%
Inflation rate	2.00%	4.00%	2.00%	5.00%
Mortality table	TV 88/90	AT-49(qx)	TV 73/77	AT-49(qx)
Disability table	50% EKV 80	Light-Average (ix)	50% EKV 80	Light-Average (ix)
Expected % of subscription by employees eligible for early retirement	(a)	Not applicable	(a)	Not applicable

- (a) In 2002, 100% of the eligible population (employees entitled to early retirement in accordance with the Collective Bargaining Agreement: 36 years service aged at least 60 or 40 years service of any age) and 70% of employees aged 55 or more. As from 2003, 40% of the eligible population.

As mentioned above, only part of the liabilities for the Pension Plan is financed through the Pension Funds, the remainder being recognised in accordance with IAS 19, by means of a provision detailed hereunder:

	2003			2002		
	Portugal Euro 000	Brazil Euro 000	Group Euro 000	Portugal Euro 000	Brazil Euro 000	Group Euro 000
Provision for Pension Plans						
Liabilities at the end of the period	1,412,541	64,750	1,477,291	1,394,075	54,658	1,448,733
Fund assets at the end of the period	(785,147)	(31,355)	(816,502)	(727,258)	(22,687)	(749,945)
Unfunded liabilities	627,394	33,395	660,789	666,817	31,971	698,788
Deferred actuarial losses (i)	(506,600)	(4,553)	(511,153)	(474,033)	(13,212)	(487,245)
	120,794	28,842	149,636	192,784	18,759	211,543

Value of the provision at the end of the period

-
- (i) The international accounting standards adopted by EDP allowed deferred actuarial gains/losses to be recognised systematically in the statement of income for the year by amortising the amount that exceeded, in the previous year, 10% of the value of the greater of the liabilities or assets of the Fund. Such amortisations are calculated for the period corresponding to the average remaining length of service of the active population.

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The components of consolidated net cost recognised during the period with these plans are as follows:

	2003			2002		
	Portugal Euro 000	Brazil Euro 000	Group Euro 000	Portugal Euro 000	Brazil Euro 000	Group Euro 000
<i>Cost for the period</i>						
Cost of the service	11,193	1,047	12,240	11,977	1,243	13,220
Cost of interest	78,843	6,006	84,849	83,123	5,703	88,826
Return on the Funds assets	(44,286)	(5,800)	(50,086)	(54,063)	(1,968)	(56,031)
Worker contributions		(552)	(552)		(706)	(706)
Amortization of deferred actuarial losses	25,718		25,718	17,045		17,045
<i>Net cost for the period</i>	71,468	701	72,169	58,082	4,272	62,354

The plan assets of the Pension Funds was as follows

	2003			2002		
	Portugal Euro 000	Brazil Euro 000	Group Euro 000	Portugal Euro 000	Brazil Euro 000	Group Euro 000
<i>Change in plan assets</i>						
Assets at the beginning of period	727,258	22,687	749,945	754,270	27,016	781,286
Group Contributions	54,340	3,947	58,287	48,596	4,073	52,669
Worker contributions		552	552		706	706
Pensions paid during the period	(50,340)	(1,516)	(51,856)	(52,058)	(1,539)	(53,597)
Return of the Funds	44,286	5,800	50,086	54,063	1,968	56,031
Actuarial gains (losses)	9,603	(413)	9,190	(77,613)	4,846	(72,767)
Currency fluctuation		297	297		(14,383)	(14,383)
<i>Assets at the end of the period</i>	785,147	31,355	816,502	727,258	22,687	749,945

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The assets of the Pension Fund in Portugal are managed by four independent pension fund management companies of recognised merit. As of December 31, 2003 the composition of and returns on the fund portfolio are as follows:

Allocation of assets by type					
	Cash	Bonds	Shares	Real Estate	Total
	%	%	%	%	%
Break down of funds assets	5.6%	45.6%	23.7%	25.1%	100.0%
Effective return on investments		1.5%	2.4%	1.9%	5.7%

As a result of the fact that in accounting the costs of pensions and associated charges the EDP Group transposed the provisions of IAS 19 earlier than required, derogating in this way and to this extent the provisions of Accounting Director of 19 which transposed to Portuguese accounting standards the earlier version of the international standard we present hereunder the effects and impacts on the said the derogation. In analysing the differences in this particular case, the EDP Group makes use of the corridor method to recognise actuarial

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

gains and losses, allowing deferral of their impact on results. This technique is one of the options provided for in IAS 19 in paragraphs 92 and 93. Accounting Directive 19, on the contrary, imposes in this matter recognition of actuarial losses and gains directly in results for the year in which they occur and does not accept the corridor alternative or allow deferral of actuarial gains and losses in excess of the said corridor. It therefore imposes a systematic method of immediate recognition in results.

II. Pension Plans - Defined Contribution Type

Hidrocantábrico in Spain and Bandeirante and Escelsa in Brazil have social benefits Defined-contribution plans that complement those benefits granted by the Social Welfare Systems to the Group companies' employees, under which they pay a contribution to these plans each year, calculated in accordance with the rules established in each case.

III. Liability for Medical Care Plans - Defined Benefit Type

In Portugal, Group companies resulting from the split of EDP in 1994 have a Medical Care Plan of the defined-benefit type, supported through a provision that covers the whole of these liabilities. The evolution of consolidated liabilities for past services inherent in the EDP Group medical care plan has been as follows:

	Group - Portugal	
	2003	2002
	Euro 000	Euro 000
	—	—
<i>Change in benefit obligation</i>		
Liabilities at the beginning of the period	496,201	474,371
Cost of current services	5,942	6,540
Cost of interest	29,049	30,096
Benefits paid	(24,099)	(22,735)
Actuarial losses	153,162	7,929
	—	—
<i>Liabilities at the end of the period</i>	660,255	496,201
	—	—

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The following financial and actuarial assumptions were used in calculating the liabilities associated with this medical care plan:

	Group - Portugal	
	2003	2002
	Euro 000	Euro 000
<i>Assumptions</i>		
Discount rate	5.20%	6.00%
Annual growth rate of medical services costs	4.5%(a)	4.5%(a)
Mortality table	(b)	(b)
Disability table	(b)	(b)
Expected % of subscription by employees eligible for early retirement	(b)	(b)

- (a) 4.5% during the first 10 years and 4.0% during the remaining years
 (b) As mentioned in the Pension Plan assumptions

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

As mentioned above, Medical Care Plan liabilities are recognised in the Group's accounts through a provision, which is presented below:

	Group - Portugal	
	2003	2002
	Euro 000	Euro 000
<i>Provision for Medical Care Plans</i>		
Liabilities at the end of the period	660,255	496,200
Deferred actuarial losses (i)	(247,628)	(99,487)
<i>Value of the provision at the end of the period</i>	412,627	396,713

- (i) The international accounting standards adopted by EDP allowed deferred actuarial gains/losses to be recognised systematically in the statement of income through amortisation of the amount exceeding, in the previous year, 10% of the amount of the greater of the liabilities or of the assets of the Fund. These amortisations are calculated for the period corresponding to the estimated average remaining length of service of the active population.

The components of net consolidated cost recognised during period with this plan are as follows:

	Group - Portugal	
	2003	2002
	Euro 000	Euro 000
<i>Cost for the period</i>		
Cost of the service	5,942	6,540
Cost of interest	29,049	30,096
Amortization of the deferred transitory obligation (i)	5,022	4,873
<i>Net cost for the period</i>	40,013	41,509

19. Deferred revenue and other liabilities

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The balance **Deferred revenue and other liabilities** is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
Subsidies for investment in fixed assets	1,546,101	1,339,085
Deferred taxes	616,056	344,122
Provision for financial assets	92,696	
Provisions for other contingencies and liabilities	164,615	198,027
Concession fixed assets held - (Reg. DL 344-B/82)	9,079	16,650
State share in Multipurpose hydroelectric power stations	14,996	19,740
Reclassifications between headings of customers and other debtors	39,843	41,239
Recognition of liabilities on the sale of OPTEP in 2002	315,000	
Supplies of fixed assets	74,618	
Electricity tariff compensations in Brazil	35,013	
Other creditors and sundry operations	54,393	49,150
	2,962,410	2,008,013

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

As an immediate consequence of the full application by the EDP Group for the first time of IAS 39: Measurement and Recognition of financial instruments, the Creditors Medium/long-term heading of the Group, includes an entry of the EDP Group's liability as a result of the sale of 100% of the OPTEP/Optimus asset (see Note 7) in 2002, since there is an Optimus/OPTEP selling price adjustment mechanism clause with the buyer, and consequently, in accordance with the IAS 39, it cannot be specified as a sale/firm commitment. In accordance with the international standard, the asset sold in 2002 is carried in full under assets and the respective liability, also in full, is carried under the Group's liability, while price fluctuations are recognized as though the matter was one of investments available for sale for as long as the said clause is in force until March 22, 2005.

In respect of **Deferred tax liabilities**, the EDP Group records in its accounts the tax effect arising from temporary differences between the assets and liabilities determined from an accounting standpoint and from a taxation standpoint, and this is broken down by company as follows:

	Deferred Tax Liabilities	
	2003	2002
	Euro 000	Euro 000
Individual - EDP, SA	474,839	285,789
ONI Group	719	779
EDP Brasil Group	103,066	25,132
Hidrocantábrico Group	37,432	32,422
EDP Group	616,056	344,122

The breakdown of **Deferred Tax Liabilities** is as follows:

	Group
	Euro 000
Balance as at January 1, 2003	344,122
<i>Profit and loss account charge:</i>	
Provisions	920
Depreciation	(24,036)
Book revaluations	(3,014)
Tariff deviation	23,579
Other	930

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Charge for the year	(1,621)
<hr/>	
<i>Reserve s charge:</i>	
Revaluation of tangible fixed assets	220,050
Book revaluations	34,637
Other	18,868
<hr/>	
Charge against reserves	273,555
<hr/>	
Balance as at December 31, 2003	616,056
<hr/>	

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

The movements in provisions for **Financial Assets** were as follows:

	Group	
	2003 Euro 000	2002 Euro 000
Opening balance		
Increases	114,695	
Decreases	(21,999)	
Closing balance	92,696	

The movements in provisions for **Other Contingencies and Liabilities** were as follows:

	Group	
	2003 Euro 000	2002 Euro 000
Opening balance	198,027	147,601
Changes in subsidiaries		77,527
Increases	39,978	3,972
Decreases	(73,390)	(31,073)
Closing balance	164,615	198,027

20. Minority interests

This balance is analysed as follows:

	Group	
	2003 Euro 000	2002 Euro 000
ONI Group	(89,141)	(11,449)
Edinfor Group	3,222	7,090
Brazil Group	150,273	71,122
Hidrocantábrico Group	175,336	
Other	(3,205)	(1,564)
	<u>236,485</u>	<u>65,199</u>

21. Hydrological correction account

The balance **Hydrological correction account** is analysed as follows:

	Group	
	2003 Euro 000	2002 Euro 000
Opening balance on January 1	324,111	387,506
Differential for the year.	71,916	(76,080)
Hydrological correction bonuses	(19,350)	
Financial charges	10,829	12,685
Closing balance on December 31.	<u>387,506</u>	<u>324,111</u>

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

The Hydrological Correction Account is a mechanism that was legally instituted (Decree-Law 338/91) to compensate variable electricity production costs. In dry years the thermoelectric system is overused and the spending on fuel or on the import of electricity increases significantly. In wet years the situation is reversed. Electricity supply tariffs for the customers of the SEP cannot be altered in the light of the cost fluctuations caused by the hydraulicity. In accordance with Order-in-Council 987/2000, the hydrological correction account is assigned to the EDP accounts and, consequently, it is carried in an account under liabilities in its balance sheet, and the corresponding movements for the year are detailed in the notes to the financial statements.

The annual amount of the hydrological correction is calculated in accordance with parameters established by law, and includes:

(i) The differential between the economic cost of electricity production and the reference economic cost, which is borne by REN as the RNT concessionaire and sole manager of the hydrological correction account. EDP pays REN each month the positive differentials and receives from REN the negative differentials. These payments and revenues are recorded with a contra entry in the hydrological correction account;

(ii) the financial costs or income associated with the accumulated balance of this account constitute an EDP cost or income; (iii) the part corresponding to the amount necessary to make the expected value of the balance, within 10 years, equal to an adequate benchmark, when it reflects a debit to the hydrological correction account, constitutes EDP income, when it reflects a credit, the REN is obliged to make the respective payment to EDP. The corresponding cost is included in the REN electricity-selling tariff to the tied distribution company (EDP Distribuição), constituting a cost for the latter to be recovered through its customer selling prices. Movements under the hydrological correction account are subject to approval by ministerial order.

22. Share capital

The share capital amounts to Euro 3 billion represented by 3,000,000,000 ordinary shares each of a par value of 1 euro, and is fully paid-up.

The breakdown of the earnings per share (EPS) is as follows:

Group	
2003	2002

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Consolidated net profit in Euros	381,108,991	335,215,826
Average number of shares in the year	3,000,000,000	3,000,000,000
Net Profit per share - Basic - Euros	0.13 euros	0.11 euros

EDP, which began as a state-owned Company, was successively transformed into a *sociedade anónima* (limited liability company under Portuguese law) wholly owned by the public sector and then into a *sociedade anónima* with a majority of its share capital owned by the public sector. It is currently a *sociedade anónima* in whose share capital the State and other Public Entities have a minority holding. The privatisation process began in 1997, and the second and third stages of the privatisation took place in 1998 and the fourth stage in 2000, following which the State now holds about 30% of the share capital, directly and indirectly.

The EDP Group calculates its basic and diluted earnings per share in accordance with IAS 33, under the terms of which earnings per share are calculated using the weighted average of the shares issued during the reporting period.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****23. Legal reserve**

In accordance with article 295 of Companies Code and with the EDP articles of association, the Legal Reserve must be increased by a minimum of 5% of the annual profits until such time as its value equals 20% of the company's share capital. This reserve may be used only to cover losses or to increase share capital.

24. Treasury stock

This balance is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
Book value of EDP, SA shares	49,020	43,494
Number of EDP SA shares	21,430,964 shares	17,428,926 shares
Market price of EDP, SA shares as at December 31	2.09 euros	1.59 euros
Market value of EDP, SA shares as at December 31	44,791	27,712

The treasury shares held by EDP, S.A., lie within the limits established by the Company's articles of association and by the Companies Code.

25. Reserves and retained earnings

This balance is analysed as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
Legal reserves	326,391	309,631
Revaluation reserves	89,449	1,172,729
Other reserves and retained earnings	3,031,892	1,287,194
Fair-value adjustments of investments available for sale	10,756	(268,975)
Net profit	381,109	335,216
Currency translation arising on consolidation	(572,500)	(379,468)
Other reserves arising on consolidation	(920,070)	81,349
	2,347,027	2,537,676

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

The balance of potential gains and losses on the balance sheet date in respect of investments available for sale is carried in a specific account under shareholders' equity, namely fair value adjustments. The breakdown of the movement during the year under this heading in respect of Medium/Long-term investments classified as available for sale in the Group, impacting directly in this account, is as follows :

	Group	
	Gains	Losses
	Euro 000	Euro 000
Net balance of fair value adjustments as at January 1, 2003		(268,975)
CERJ - Companhia Eléctrica do Estado Rio Janeiro		(9,050)
Iberdrola (cancellation due to sale)		21,223
Galp, SGPS	5,644	
Reclassification of the 2002 loss on BCP shares to retained earnings as a result of the implementation in full of IAS 36 and 39 (see Note 39)		247,750
BCP - Banco comercial Português		(27,889)
OPTEP (Optimus)	42,303	(250)
Balance of fair value adjustments as at December 31, 2003	47,947	(37,191)
Net balance of fair value adjustments as at December 31, 2003		10,756

The amount resulting from the fluctuation in local currency of the Shareholders' Equity of the Subsidiary and Associate Companies expressed in foreign currencies resulting from the fluctuation of the respective exchange rates is recorded under Currency Translation arising on consolidation. The exchange rates used in the preparation of the Financial Statements are as follows:

Currency		Exchange rates in 2003		Exchange rates in 2002	
		Rates Closing	Average exchange-rate	Rates Closing	Average exchange-rate
American dollar	USD	1.2630	1.1312	1.0487	0.9456
Brazilian Real	BRL	3.6640	3.4590	3.7120	2.8010
Macao Pataca	MOP	10.0990	9.0340	8.4000	7.5900

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The contra entry of the adjustments made to the headings of tangible fixed assets and financial investments in properties caused by the various revaluations undertaken, net of amounts used to increase the share capital and to cover retained losses, and the corresponding deferred taxes are carried under Revaluation Reserves. These revaluations were undertaken pursuant to the following legislation:

Decree-law no. 430/78	Decree-law no. 111/88
Decree-law no. 219/82	Decree-law no. 7/91
Decree-law no. 399-G/84	Decree-law no. 49/91
Decree-law no. 171/85	Decree-law no. 264/92
Decree-law no. 118-B/86	

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

Article 8 of Decree-Law 7/91, of January 8, which determined the formation of new *sociedades anónimas* constituted by means of the simple split of EDP, called for the valuation of EDP's assets, the valuation having been undertaken by entities selected from among those previously qualified by the Finance Ministry for the purpose and subjected to the approval of the Finance Minister. This evaluation, pursuant to Decree-Law 22/92 of February 14, is used for tax purposes, particularly with regard to the calculation of depreciation charges for the year. The following is a comparison of the book value of the tangible fixed assets with their respective historic costs:

	2003			2002		
	Historic costs	Revaluation	Revalued amounts	Historic costs	Revaluation	Revalued amounts
	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000
Gross assets	14,558,852	10,454,013	25,012,865	13,174,870	10,454,013	23,628,883
Depreciation	(5,034,618)	(9,513,950)	(14,548,568)	(4,124,019)	(9,322,693)	(13,446,712)
Net assets	9,524,234	940,063	10,464,297	9,050,851	1,131,320	10,182,171

During fiscal 2003, of the overall amount of the revaluation reserve, (i) the sum of Eur 136,838,000 was constituted/transferred by way of deferred taxes, and (ii) the sum of Eur 946,442,000 was transferred to retained earnings in respect of revalued assets wholly depreciated and written off. Following these transfers, final amount of the Revaluation Reserve stood at Eur 89,449,000 as at December 31, 2003.

The reserves under Decrees-Law 46031 and 46914 for Self-financing and for Complement of the Financial Amortization were set up in accordance with the provisions of loan contracts entered into with the International Bank for Reconstruction and Development, the outstanding principal of which was repaid in full during 1991.

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****26. Revenues**

The **Revenues**, with breakdown by **Sales and Services rendered**, and by contribution of each business, is analysed as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
Sales by sector of activity/business:			
Electricity	6,296,103	5,876,158	5,201,275
Steam and ashes	22,061	18,651	12,361
Gas	105,311		
Information systems and technologies	26,850	50,861	29,800
Telecommunications	3,889	23,701	30,125
Other Businesses	2,147	18,769	25,681
	6,456,361	5,988,140	5,299,242
Services rendered by sector of activity/business:			
Associated with electricity sales	80,122	18,996	9,235
Thermo/Hydro electricity engineering	6,457	5,311	9,347
Information systems and technologies	69,999	65,174	108,679
Telecommunications	312,334	273,780	151,839
Consultancy and services	12,283	4,536	20,964
Other	39,964	30,620	51,068
	521,159	398,417	351,132
TOTAL TURNOVER by business:			
Electricity	6,376,225	5,895,154	5,210,510
Steam and ashes	22,061	18,651	12,361
Thermo/Hydro electricity	6,457	5,311	9,347
Gas	105,311		
Information systems and technologies	96,849	116,035	138,479
Telecommunications	316,223	297,481	181,964
Other	54,394	53,925	97,713
	6,977,520	6,386,557	5,650,374

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EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements (Continued)

December 31, 2003, 2002 and 2001

The breakdown of **Sales** is as follows:

	2003			2002		
	Iberian	Brazilian	Total	Iberian	Brazilian	Total
	Market	market		Market	market	
Electricity:						
To the National Transport network	1,339,411		1,339,411	1,323,894		1,323,894
To final customers:						
- Very high tension	9,509		9,509	37,936	5,629	43,565
- High tension	368,126	242,604	610,730	167,222	126,130	293,352
- Medium tension	738,351	289,371	1,027,722	812,018	172,582	984,600
- Low tension (>39,6 KVA)	313,193		313,193	271,247		271,247
- Low tension	2,424,190	388,807	2,812,997	2,380,945	398,188	2,779,133
- Low tension (Public lightning)	95,731		95,731	86,614	14,977	101,591
Embedded generation	37,062		37,062	38,285		38,285
Discounts and tariff difference	49,748		49,748	45,304	(4,813)	40,491
	<u>5,375,321</u>	<u>920,782</u>	<u>6,296,103</u>	<u>5,163,465</u>	<u>712,693</u>	<u>5,876,158</u>
Other Sales:						
- Steam and ashes	19,748	2,313	22,061	18,651		18,651
- Gas	105,311		105,311			
- Printed forms	10,492		10,492	10,942		10,942
- Telecommunications equipment	3,711		3,711	23,701		23,701
- Data network equipment				23,236		23,236
- PC equipment	13,409		13,409	24,470		24,470
- Other	5,274		5,274	10,982		10,982
	<u>157,945</u>	<u>2,313</u>	<u>160,258</u>	<u>111,982</u>		<u>111,982</u>
	<u>5,533,266</u>	<u>923,095</u>	<u>6,456,361</u>	<u>5,275,447</u>	<u>712,693</u>	<u>5,988,140</u>

2001

Iberian	Brazilian	Total
Market	market	

Electricity:

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To the National Transport network	1,214,073		1,214,073
To final customers:			
- Very high tension	36,837	19,924	56,761
- High tension	175,100	208,259	383,359
- Medium tension	782,980	186,254	969,234
- Low tension (>39,6 KVA)	261,227		261,227
- Low tension	1,965,301	268,373	2,233,674
- Low tension (Public lightning)	83,918	12,514	96,432
Embedded generation	12		12
Discounts and tariff difference	(8,682)	(4,815)	(13,497)
	<u>4,510,766</u>	<u>690,509</u>	<u>5,201,275</u>
Other Sales:			
- Steam and ashes	12,361		12,361
- Gas			
- Printed forms	11,352		11,352
- Telecommunications equipment	30,125		30,125
- Data network equipment	253		253
- PC equipment	29,548		29,548
- Other	14,328		14,328
	<u>97,967</u>	<u></u>	<u>97,967</u>
	<u>4,608,733</u>	<u>690,509</u>	<u>5,299,242</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**The breakdown of **Gross profit on Sales** is as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
Sales:			
Electricity	6,296,103	5,876,158	5,201,275
Steam and ashes	22,061	18,651	12,361
Gas	105,311		
Information systems and technologies	26,850	50,861	29,800
Telecommunications	3,889	23,701	30,125
Other Businesses	2,147	18,769	25,681
	<u>6,456,361</u>	<u>5,988,140</u>	<u>5,299,242</u>
Cost of sales - Raw materials and consumables :			
Electricity	3,360,268	3,005,526	2,524,293
Fuel, steam and ashes	398,034	465,527	377,192
Information technologies	19,143	36,207	39,969
Telecommunications	6,571	53,378	20,683
Other activities	137,030	126,459	116,727
	<u>3,921,046</u>	<u>3,687,097</u>	<u>3,078,864</u>
	<u>2,535,315</u>	<u>2,301,043</u>	<u>2,220,378</u>

The breakdown of **Services rendered** is as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
	<u> </u>	<u> </u>	<u> </u>

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Associated with electricity sales	80,122	18,996	9,235
Engineering studies and designs	6,457	5,311	9,347
IT services	69,999	65,174	108,679
Voice services - urban calls	227,181	191,437	108,839
Other telecommunications services	85,153	82,343	43,000
Provision of collection services	11,004	8,787	7,630
Consultancy, management and co-ordination	1,279	4,536	20,964
Other services provided	39,964	21,833	43,438
	<u>521,159</u>	<u>398,417</u>	<u>351,132</u>

The breakdown of **Revenues by geographic market** is as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
Portugal	5,143,257	5,203,731	4,887,232
Spain	856,848	452,150	61,545
Brazil	977,415	730,676	701,597
	<u>6,977,520</u>	<u>6,386,557</u>	<u>5,650,374</u>

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****27. Personnel costs**The balance **Personnel costs** is analysed as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
Corporate officers remuneration	15,258	15,988	16,278
Employees remuneration	413,552	411,630	386,122
Charges on remuneration	192,539	156,540	139,692
Other staff costs	25,287	40,613	49,881
	646,636	624,771	591,973

The breakdown by management positions and professional category of the permanent staff as at December 31, 2003, 2002 and 2001 is as follows:

	Group		
	2003	2002	2001
Managers/ Head of Department	462	621	535
Senior management	2,755	3,167	2,054
Middle management	2,484	2,252	528
Intermediate management	247	353	220
Highly-skilled workers	8,612	7,630	2,718
Skilled workers	1,123	423	4,641
Semi-skilled workers	927	845	983
Unskilled workers	778	906	30
	17,388	16,197	11,709

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As at December 31, 2003, the number of employees in service, including those on temporary contract, totalled 17,664 (18,455 in 2002). These figures include all the employees of all the consolidated companies (purchase or proportional method), regardless of the EDP holding in the share capital.

As at December 31, 2002, the employees assigned to ONI in Spain and the employees assigned to Hidrocantábrico were not included.

The remuneration of the corporate officers of EDP - Electricidade de Portugal, S.A., was as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
Board of Directors	3,089	2,815	2,815
External Auditor and Official auditor (EDP, S.A. only)	82	82	82
	3,171	2,897	2,897

During 2003 the EDP Remuneration Committee, in keeping with the mandate that had been given to it at the General Meeting held in May 2003, granted the members of the Board of Directors extraordinary remuneration in respect of the 2002 results, in the total sum of Eur 606,000 of which Eur 585,000 were for executive directors and Eur 21,000 for non-executive directors.

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****28. Depreciation and amortization**The balance **Depreciation and amortization** is analysed as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
<i>Tangible fixed assets:</i>			
Fixed assets under concession the Decree-law 344-B/82	3,229	4,284	4,882
Buildings and other constructions	9,703	6,442	6,162
Plant and machinery			
Hydroelectricity generation	128,850	129,004	125,406
Thermoelectric generation	103,778	98,101	96,507
Electricity distribution	445,808	385,319	339,511
Other plant and machinery	60,928	48,906	45,991
Transport equipment	10,418	8,189	7,558
Administrative equipment	37,850	24,314	18,170
Other tangible fixed assets	2,527	1,547	1,790
	803,091	706,106	645,977
<i>Intangible fixed assets:</i>			
Set-up costs	15,145	14,856	13,393
Research and development costs	17,294	15,471	3,883
Industrial property and other rights	7,164	3,108	1,438
Other intangible assets on telecommunications business	2,898		
	42,501	33,435	18,714
	845,592	739,541	664,691

29. Supplies and services

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This balance is analysed as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
<i>Subcontracts:</i>			
Subcontracts	209,239	179,074	113,097
Other subcontracts	5,916		
<i>Supplies and services:</i>			
Water, electricity and fuel	12,335	8,261	9,650
Utensils and office material	5,066	6,511	6,952
Leases and rents	52,010	51,186	40,555
Communications	30,967	21,246	33,650
Insurance	19,636	18,386	10,886
Transport, travel, and the board and lodging	12,972	12,503	13,685
Commissions and fees	10,887	16,724	18,789
Maintenance and repairs	94,127	99,886	95,042
Advertising and propaganda	12,545	20,970	23,557
Specialised work	130,757	187,548	231,475
Other supplies and services:	36,061	52,775	53,892
	632,518	675,070	651,230

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****30. Own work capitalized**

This balance is analysed as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
Consumption of materials	99,327	70,695	84,020
Direct internal costs and overheads	105,401	113,220	83,083
Financial charges	24,005	16,036	14,478
Other own work capitalized	6,890	41,818	50,938
	235,623	241,769	232,519

31. Provisions for the year

This balance is analysed as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
Charge for doubtful debt	9,649	24,372	20,464
Charge for pension liabilities	17,008	14,687	63,042
Charge for healthcare liabilities	40,014	57,614	32,480
Charge for other contingencies and liabilities	9,035	3,972	
	75,706	100,645	115,986

32. Other operating expenses net

This balance is analysed as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
<i>Other operating income:</i>			
Supplementary income	7,768	8,067	39,961
Operating subsidies	685	453	1,899
Other operating income	9,628	22,094	22,614
	<u>18,081</u>	<u>30,614</u>	<u>64,474</u>
<i>Other operating expenses:</i>			
Direct taxes	398	2,811	898
Indirect taxes	19,092	13,824	12,850
Other operating costs and losses	8,851	8,301	8,228
	<u>28,341</u>	<u>24,936</u>	<u>21,976</u>
<i>Other net operating income / (expenses)</i>	<u>(10,260)</u>	<u>5,678</u>	<u>42,498</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****33. Interest and related income and expenses**The balance **Interest and related income and expenses**, are analysed as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
<i>Interest and related income :</i>			
Interest income	65,530	128,599	140,437
Income on application of the equity method	46,464	36,450	25,105
Investment income	36,740	40,042	16,831
Favourable exchange differences	47,559	90,260	62,321
Updating losses on rationing (Brazil)	30,358	15,731	
Other financial gains	82,374	70,638	6,728
	309,025	381,720	251,422
<i>Interest and related expenses :</i>			
Interest expense	399,970	329,860	287,137
Banking services	28,372	57,025	12,647
Losses on application of the equity method	13,308	115,184	13,485
Unfavourable exchange differences	58,273	22,846	63,666
Other financial losses	75,702	14,218	49,029
	575,625	539,133	425,964
Amortization of investments (Goodwill):			
- Concession rights	30,439	53,535	12,683
- Goodwill assets	54,439	11,896	18,108
- Other intangible assets on telecommunications business	7,542		
	92,420	65,431	30,791
	668,045	604,564	456,755
<i>Net Financial Income / (Expenses)</i>	(359,020)	(222,844)	(205,333)



Only in 2001 and 2002 EDP has recorded in interest income, respectively, a financial gain of Eur 88,557 thousand and Eur 89,174 thousand related to early extinguishment of Bandeirante and Escelsa debt.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****34. Other non-operating income / (expenses)**The balance **Other non-operating income / (expenses)** is analysed as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
<i>Other non-operating income</i>			
Gains on fixed assets	44,147	53,264	27,682
Recovery of debt	2,652	168	398
Reduction of provisions			
- For customer debt	1,444		
- For financial assets	21,774		
- For other contingencies and liabilities	50,736	76,371	18,681
Corrections to previous years	15,147	9,692	13,305
Compensation of depreciation of part-funded fixed assets	79,822	71,767	63,887
Residual value of Oniway		70,000	
Hydrological correction	19,350		47,466
Other extraordinary gains	45,159	22,694	15,176
	280,231	303,956	186,595
<i>Other non-operating (expenses)</i>			
Losses on stocks	1,442	2,279	2,635
Losses on fixed assets	14,850	41,332	2,635
Bad debt	15,086	9,084	1,385
Fines and penalties	3,228	2,248	74
Corrections to previous years	46,755	13,934	7,467
Extraordinary depreciation			
- Intangible fixed assets		1,991	
- Fixed assets in progress		278,944	
Extraordinary provisions			
- Financial assets	114,695		
- For other debtors	3,461		
- For other contingencies and liabilities	12,535	18,297	3,068
Additional income tax assessment in respect of 1995/97/98		15,926	
Loss on Baixa UTE Campo Grande (Enersul)	6,950	13,963	
Cost of human resources rationalisation	47,810		

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Other extraordinary losses	27,862	44,897	43,342
	<u>294,674</u>	<u>442,895</u>	<u>60,606</u>
<i>Net Non-Operating Results</i>	<u>(14,443)</u>	<u>(138,939)</u>	<u>125,989</u>

35. Provisions for income taxes

In accordance with prevailing legislation, tax returns are subject to review and correction by the tax authorities during subsequent years. In Portugal this period is five years, and 1998 was the last year considered to be definitively liquidated by the tax authorities.

Tax losses calculated for given year, also subject to inspection and adjustment, may be deducted from taxable profits during subsequent years. The companies of the EDP Group are taxed, whenever possible, under the consolidated systems allowed by the tax law of the respective countries.

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

The breakdown of income tax expense is as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
Tax base			
Income before income taxes	532,279	286,921	594,188
Permanent differences	192,740	302,779	76,300
	<u>725,019</u>	<u>589,700</u>	<u>670,488</u>
Normal charge	239,256	194,602	234,671
Adjustments	(43,722)	(22,863)	(31,718)
Income tax expenses	<u>195,534</u>	<u>171,739</u>	<u>202,953</u>
Current income taxes	239,255	171,168	244,012
Deferred income taxes	(43,721)	571	(41,059)
Income tax expense	<u>195,534</u>	<u>171,739</u>	<u>202,953</u>

The breakdown of the reconciliation between the nominal and the actual income tax (IRC) rate for the Group in 2003 is as follows:

	2003		
	Tax Base	Tax	Rate
	Euro 000	Euro 000	%
Nominal tax on profits	532,279	175,652	33.0%
- Main effects at taxation level:			
Net depreciation	30,153	9,950	1.9%
Amortization Resulting from revaluation fixed assets	76,503	25,246	4.7%

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Net provisions	(25,338)	(8,362)	-1.6%
Corrections to previous years	11,722	3,868	0.7%
Book losses not compensated	303,463	100,143	18.8%
Effects of untaxed equity method	(31,574)	(10,419)	-2.0%
Tariff deviation in electricity business in Portugal	(73,105)	(24,125)	-4.5%
Elimination of double economic taxation	(36,595)	(12,076)	-2.3%
Employee profit-sharing	(21,296)	(7,028)	-1.3%
Excess tax estimate for 2002	(39,602)	(13,069)	-2.5%
Other adjustments to taxable income	(1,591)	(525)	-0.1%
	<u> </u>	<u> </u>	<u> </u>
Effective rate and actual tax on profits	725,019	239,255	44.8%
	<u> </u>	<u> </u>	<u> </u>

Corporate income tax returns are subject to review and correction by the income tax authorities for a period of six years after the filing of such returns. Accordingly, the last taxation year that can be considered definitively assessed by the income tax authorities in 1998.

36. Segmental reporting

The Segmental Reporting is provided in an appendix subsequent to these notes to the financial statements and it was prepared in accordance with Portuguese Accounting Directive 27 and with international best practices.

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****EDP Group Business by Business Segment****Information by business segment - 2003****(Amounts expressed in thousands of euros)**

	Portugal		Spain			Brazil		Telecoms	Information Technology	Services and Other Adjustments	EDP Group
	Generation ^(a)	Distribution + Supply	Generation	Distribution + Supply	Gas ^(b)	Generation	Distribution + Supply				
Turnover											
Sales of electricity	1,318,853	3,610,621	256,791	287,655		27,414	928,963			(134,194)	6,296,103
Other sales	19,748	1,946	1,990	28,948	75,867	2,314		7,290	27,023	(4,868)	160,258
Services rendered	26,629	60,246	1,116	12,357	10,108	11,536	37,609	323,820	159,323	(121,585)	521,159
	1,365,230	3,672,813	259,897	328,960	85,975	41,264	966,572	331,110	186,346	(260,647)	6,977,520
Raw materials and consumables											
Purchase of electricity	65,344	2,412,534	50,113	262,196	48,153	5,597	650,926			(134,595)	3,360,268
Fuel costs	312,346		84,078	1,438			265			(93)	398,034
Other materials	3,453	111,336	454	15,862	52	2,294	7,897	6,571	24,453	(9,628)	162,744
	381,143	2,523,870	134,645	279,496	48,205	7,891	659,088	6,571	24,453	(144,316)	3,921,046
Gross Margin	984,087	1,148,943	125,252	49,464	37,770	33,373	307,484	324,539	161,893	(116,331)	3,056,474
Other operating income / (costs)											
Supplies and services	(74,960)	(210,632)	(16,969)	(14,614)	(5,352)	(16,677)	(45,550)	(265,307)	(70,053)	87,596	(632,518)
Personnel costs	(120,339)	(397,060)	(17,971)	(14,902)	(4,227)	(517)	(63,441)	(50,973)	(66,431)	89,225	(646,636)
Own work capitalized	38,232	184,816	2,508	1,266	222			8	8,397	174	235,623
Concession and power-generating rents	(3,894)	(171,749)									(175,643)
Other operating income / (costs)	(6,152)	(778)	1,232	912	(1,186)	(777)	(17,821)	886	294	13,129	(10,261)
	(167,113)	(595,403)	(31,200)	(27,338)	(10,543)	(17,971)	(126,812)	(315,386)	(127,793)	190,124	(1,229,435)

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Gross Operating Margin	816,974	553,540	94,052	22,126	27,227	15,402	180,672	9,153	34,100	73,793	1,827,039
Depreciation and amortization	234,351	348,926	27,416	25,156	7,529	4,311	53,954	72,744	24,301	46,904	845,592
Provisions	12,742	42,793	295	766	19		11,039	5,076	508	2,468	75,706
Operating Margin	569,881	161,821	66,341	(3,796)	19,679	11,091	115,679	(68,667)	9,291	24,421	905,741
Financial income / (expense)	(76,188)	(37,468)	(18,847)	(9,964)	(5,586)	(15,363)	(14,226)	(38,858)	(7,134)	(42,966)	(266,600)
(Amortization of goodwill and concession rights)		(11)	(20,379)	(11)	(7,600)	(71)	(1)	(19,461)	(5,360)	(39,526)	(92,420)
Current results	493,693	124,342	27,115	(13,771)	6,493	(4,343)	101,452	(126,986)	(3,203)	(58,071)	546,721
Extraordinary gains / (losses)	(4,075)	80,226	(1,118)	1,344	437	(26,414)	14,350	(21,745)	(4,069)	(53,379)	(14,443)
Profit before taxes	489,618	204,568	25,997	(12,427)	6,930	(30,757)	115,802	(148,731)	(7,272)	(111,450)	532,278
Income taxes	164,130	51,065	4,820	(4,350)	2,426	1,190	36,857	(17,658)	2,967	(45,913)	195,534
Minority interests	(164)		181		5,034	(2,172)	22,825	(58,055)	(4,041)	(7,973)	(44,365)
Net attributable profit	325,652	153,503	20,996	(8,077)	(530)	(29,775)	56,120	(73,018)	(6,198)	(57,564)	381,109
Other information :											
Tangible fixed assets	4,367,736	4,477,925	711,682	219,064	157,618	259,135	665,181	233,623	95,401	464,234	11,651,599
Intangible fixed assets	6,663	756	139,837	199,870	14,567	978	29,403	181,814	8,878	367,417	950,183
Current assets	1,108,217	1,072,971	76,661	81,144	43,894	38,933	781,218	170,896	110,993	(420,111)	3,064,816
Shareholders equity	4,101,294	1,658,780	368,534	194,150	113,526	108,043	428,732	(204,018)	53,835	(1,524,869)	5,298,007
Current liabilities	3,423,871	3,502,151	105,685	80,416	33,229	127,582	618,986	854,089	207,351	(4,130,949)	4,822,411
Investment in fixed assets	281,812	405,211	37,874	20,736	11,918	59,091	74,215	28,564	58,784	25,069	1,003,274

- (a) The electricity generation includes the renewables segment
(b) The commercial activity of the Gas segment is aggregated with the Distribution and Supply

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****EDP Group Business by Business Segment****Information by business segment - 2002****(Amounts expressed in thousands of euros)**

	Portugal		Spain			Brazil		Services and Other		EDP Group
	Generation	Distribution + Supply	Generation	Distribution + Supply	Gas ^(a)	Distribution	Telecoms	Information Technology	Adjustments	
Turnover										
Sales of electricity	1,425,432	3,503,395	145,063	150,126		668,597			(16,454)	5,876,158
Other sales	18,651	1,738	2,501	7,587	10,477		46,729	35,510	(11,210)	111,983
Services rendered	18,212	33,075	773	6,262	1,062		274,057	188,494	(123,518)	398,417
	<u>1,462,295</u>	<u>3,538,208</u>	<u>148,337</u>	<u>163,975</u>	<u>11,539</u>	<u>668,597</u>	<u>320,786</u>	<u>224,004</u>	<u>(151,183)</u>	<u>6,386,558</u>
Raw materials and consumables										
Purchase of electricity	37,277	2,386,353	33,600	120,511		486,530			(58,745)	3,005,526
Fuel costs	465,527		38,270	1,056					(39,326)	465,527
Other materials	4,377	80,121	190	1,128	3,314	3,979	53,378	31,640	37,917	216,044
	<u>507,182</u>	<u>2,466,474</u>	<u>72,060</u>	<u>122,695</u>	<u>3,314</u>	<u>490,509</u>	<u>53,378</u>	<u>31,640</u>	<u>(60,155)</u>	<u>3,687,097</u>
Gross Margin	<u>955,114</u>	<u>1,071,734</u>	<u>76,277</u>	<u>41,280</u>	<u>8,225</u>	<u>178,088</u>	<u>267,408</u>	<u>192,364</u>	<u>(91,028)</u>	<u>2,699,461</u>
Other operating income / (costs)										
Supplies and services	(72,963)	(209,157)	(14,491)	(26,859)	(1,538)	(36,038)	(293,736)	(75,121)	54,833	(675,070)
Personnel costs	(119,559)	(380,554)	(9,358)	(8,013)	(954)	(39,569)	(89,691)	(75,470)	98,398	(624,771)
Own work capitalized	26,183	161,777	(385)	2,866	173	793	30,225	12,633	7,503	241,769
Concession and power-generating rents	(3,664)	(154,008)							(504)	(158,176)
Other operating income / (costs)	5,393	8,832	42	433	92	(6,293)	5,685	862	(9,368)	5,678
	<u>(164,610)</u>	<u>(573,110)</u>	<u>(24,193)</u>	<u>(31,574)</u>	<u>(2,227)</u>	<u>(81,107)</u>	<u>(347,516)</u>	<u>(137,096)</u>	<u>150,862</u>	<u>(1,210,570)</u>
Gross Operating Margin	<u>790,504</u>	<u>498,624</u>	<u>52,084</u>	<u>9,705</u>	<u>5,999</u>	<u>96,981</u>	<u>(80,108)</u>	<u>55,268</u>	<u>59,833</u>	<u>1,488,890</u>

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Depreciation and amortization	228,231	333,619	17,103	7,515	2,251	34,227	66,852	18,924	30,819	739,541
Provisions	11,612	65,331	2,283	291	279	1,393	7,881	781	10,793	100,645
Operating Margin	550,661	99,674	32,697	1,899	3,468	61,362	(154,841)	35,563	18,221	648,704
Financial income / (expense)	(90,135)	(47,164)	(16,184)	(5,497)	(1,718)	2,755	(26,579)	(8,503)	35,611	(157,413)
(Amortization of goodwill and concession rights)			(5,692)	(6,326)	(2,325)		(16,012)	(5,353)	(29,724)	(65,431)
Current results	460,526	52,510	10,822	(9,924)	(574)	64,117	(197,432)	21,707	24,108	425,860
Extraordinary gains / (losses)	7,066	85,660	(3,366)	(1,739)	(90)	(23,688)	(259,328)	(6,890)	63,436	(138,939)
Profit before taxes	467,592	138,170	7,456	(11,663)	(664)	40,429	(456,760)	14,817	87,544	286,921
Income taxes	170,643	41,836	1,558	(2,711)	(618)	(29,772)	(33,483)	6,617	17,668	171,739
Minority interests			(391)			24,338	(230,066)	394	(14,309)	(220,034)
Net attributable profit	296,949	96,334	6,289	(8,951)	(47)	45,862	(193,212)	7,806	84,185	335,216
Other information :										
Tangible fixed assets	4,324,116	4,329,978	721,619	212,378	49,647	673,956	242,869	85,464	564,210	11,204,237
Intangible fixed assets	5,877	143	148,667	209,204	569	12,403	219,646	9,259	498,395	1,104,164
Current assets	842,134	811,182	96,099	76,259	11,440	812,274	347,794	169,594	(530,905)	2,635,871
Shareholders equity	3,862,590	1,519,190	412,067	195,503	56,786	344,281	(86,287)	67,779	(877,727)	5,494,182
Current liabilities	726,865	2,477,066	198,193	105,604	26,785	294,985	1,076,689	183,107	(231,822)	4,857,472
Investment in fixed assets	238,365	384,823	55,216	33,258	13,880	25,382	228,619	28,199	47,911	1,055,653

(a) The commercial activity of the Gas segment is aggregated with the Distribution and Supply

(b) Profit and loss account of Hidrocantábrico Group included in EDP Group's accounts by the proportional method with a 40% interest shareholding

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	Portugal		Brazil		Services		EDP
	Generation ^(a)	Distribution + Supply	Distribution + Supply	Telecoms	Information Technology	and Other Adjustments	Group
Turnover							
Sales of electricity	1,267,922	3,282,544	690,509			(39,701)	5,201,275
Other sales	12,361	1,620		30,893	39,149	13,944	97,967
Services rendered	14,600	19,895		157,031	149,883	9,722	351,132
	<u>1,294,883</u>	<u>3,304,060</u>	<u>690,509</u>	<u>187,924</u>	<u>189,032</u>	<u>(16,034)</u>	<u>5,650,374</u>
Raw materials and consumables							
Purchase of electricity	3,653	2,060,291	497,387			(37,038)	2,524,293
Fuel costs	377,192						377,192
Other materials	3,909	107,544	2,785	20,683	34,164	8,294	177,379
	<u>384,754</u>	<u>2,167,836</u>	<u>500,172</u>	<u>20,683</u>	<u>34,164</u>	<u>(28,744)</u>	<u>3,078,864</u>
Gross Margin	<u>910,129</u>	<u>1,136,224</u>	<u>190,337</u>	<u>167,241</u>	<u>154,868</u>	<u>12,710</u>	<u>2,571,510</u>
Other operating income / (costs)							
Supplies and services	(69,595)	(215,878)	(36,367)	(219,072)	(65,665)	(44,654)	(651,230)
Personnel costs	(113,481)	(368,621)	(43,876)	(75,885)	(65,398)	75,288	(591,973)
Own work capitalized	23,900	153,756		38,535	21,680	(5,351)	232,519
Concession and power-generating rents	(3,437)	(145,659)				(18)	(149,114)
Other operating income / (costs)	3,644	18,132	(4,743)	5,930	4,400	15,134	42,498
	<u>(158,969)</u>	<u>(558,270)</u>	<u>(84,986)</u>	<u>(250,492)</u>	<u>(104,983)</u>	<u>40,399</u>	<u>(1,117,300)</u>
Gross Operating Margin	<u>751,161</u>	<u>577,954</u>	<u>105,351</u>	<u>(83,251)</u>	<u>49,885</u>	<u>53,110</u>	<u>1,454,210</u>
Depreciation and amortization	225,182	327,827	35,827	48,868	17,796	9,191	664,691
Provisions	9,805	54,730	4,911	3,742	960	41,839	115,986
Operating Margin	<u>516,175</u>	<u>195,397</u>	<u>64,613</u>	<u>(135,861)</u>	<u>31,129</u>	<u>2,080</u>	<u>673,533</u>
Financial income / (expense)	(92,414)	(25,076)	32,793	(31,842)	(4,235)	(84,559)	(205,333)
(Amortization of goodwill and concession rights)				(9,861)	(5,250)	15,111	

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Current results	423,761	170,321	97,406	(177,565)	21,644	(67,367)	468,200
Extraordinary gains / (losses)	6,448	90,427	(10,769)	4,470	(795)	36,208	125,989
Profit before taxes	430,209	260,748	86,637	(173,095)	20,849	(31,159)	594,189
Income taxes	141,631	73,297	19,242	(51,526)	7,716	12,593	202,953
Minority interests	(151)			(62,918)	3,285	226	(59,559)
Net attributable profit	288,729	187,451	67,395	(58,651)	9,848	(43,978)	450,795

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	Brazil							Spain		
	2003				2002			2001	2003	2002
	Distribution + Supply				Distribution			Distribution		
	Bandeirante	Escelsa	Enersul	Enertrade	Bandeirante	Escelsa	Enersul	Bandeirante	HC Group ^(a)	HC Group ^(a)
Turnover										
Sales of electricity	467,235	255,768	159,779	46,181	567,781	68,036	32,780	690,509	542,228	295,128
Other sales									105,310	20,048
Services rendered	16,834	17,055	3,154	566					15,007	6,176
	484,069	272,823	162,933	46,747	567,781	68,036	32,780	690,509	662,545	321,351
Raw materials and consumables										
Purchase of electricity	356,965	167,728	83,334	42,899	429,063	39,316	18,151	497,387	358,245	154,054
Fuel costs	265								85,513	39,326
Other materials	2,029	2,497	3,371		2,866	469	644	2,785	6,301	2,190
	359,259	170,225	86,705	42,899	431,929	39,785	18,795	500,172	450,059	195,570
Gross Margin	124,810	102,598	76,228	3,848	135,852	28,251	13,985	190,337	212,486	125,781
Other operating income / (costs)										
Supplies and services	(21,742)	(12,428)	(10,307)	(1,073)	(27,683)	(4,322)	(4,033)	(36,367)	(33,369)	(41,068)
Personnel costs	(26,689)	(20,531)	(15,410)	(811)	(31,769)	(4,372)	(3,428)	(43,876)	(37,100)	(18,325)
Own work capitalized					793				3,996	2,654
Concession and power-generating rents										
Other operating income / (costs)	(2,749)	(10,341)	(4,683)	(48)	(4,759)	(1,534)		(4,743)	(2,608)	(1,254)
	(51,180)	(43,300)	(30,400)	(1,932)	(63,418)	(10,228)	(7,461)	(84,986)	(69,081)	(57,993)
Gross Operating Margin	73,630	59,298	45,828	1,916	72,434	18,023	6,524	105,351	143,405	67,789
	21,053	17,097	15,787	17	26,304	3,981	3,942	35,827	60,101	26,869

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Depreciation and amortization										
Provisions	1,623	5,174	4,242			1,393		4,911	1,080	2,853
Operating Margin	50,954	37,027	25,799	1,899	46,130	12,649	2,582	64,613	82,224	38,066
Financial income / (expense)	(22,770)	19,746	(10,930)	(272)	(34,517)	38,659	(1,387)	32,793	(34,397)	(23,399)
(Amortization of goodwill and concession rights)		(1)							(27,990)	(14,342)
Current results	28,184	56,772	14,869	1,627	11,614	51,308	1,195	97,406	19,837	325
Extraordinary gains / (losses)	1,359	18,774	(5,919)	136	(6,489)	(2,573)	(14,626)	(10,769)	663	(5,194)
Profit before taxes	29,543	75,546	8,950	1,763	5,125	48,735	(13,431)	86,637	20,500	(4,870)
Income taxes	1,021	30,018	5,568	250	(5,290)	(24,482)		19,242	2,896	(1,771)
Minority interests	998	20,597	1,177	53	(162)	33,137	(8,637)		5,215	(391)
Net attributable profit	27,524	24,931	2,205	1,460	10,576	40,080	(4,794)	67,395	12,389	(2,708)
Other information :										
Tangible fixed assets	248,828	224,633	191,589	131	307,581	195,301	171,074		1,088,364	983,644
Intangible fixed assets	14,921	8,700	5,745	37	4,163	8,240			354,274	358,441
Current assets	300,381	325,005	145,383	10,449	333,317	335,755	143,202		148,284	183,798
Shareholders equity	197,033	105,668	120,535	5,496	170,073	59,055	115,153		676,210	664,356
Current liabilities	317,934	183,305	110,919	6,828	167,226	93,979	33,780		165,987	330,582
Investment in fixed assets	37,580	17,596	15,279		25,413				70,528	102,354

(a) Profit and loss account of Hidrocantábrico Group included in EDP Group's accounts by the proportional method with a 40% interest shareholding

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****37. Commitments**

As at December 31, 2003, the breakdown of financial commitments not shown in the balance sheet in respect of guarantees provided (no mortgages have been provided) is as follows:

<u>Commitments</u>	<u>Group Euro 000</u>
Guarantees of a financial nature	
Guarantees provided by Group entities - Portugal	
to domestic banks	80,672
to foreign banks	154,521
to other domestic entities	68,231
to other foreign entities	7,942
Guarantees provided by Group entities - Spain	
to foreign banks	38,363
to other foreign entities	9,198
Guarantees provided by Group entities - Brazil	
to foreign banks	52,211
	411,138
Guarantees of an operational nature	
Guarantees provided by group entities - Portugal	
to other domestic entities	59,246
to foreign banks	16,976
to other foreign entities	32,434
Guarantees provided by group entities - Spain	
to foreign banks	63,925
to other foreign entities	577
	173,158
	584,296
Bank guarantees provided for operational activities are as follows:	
	Group Euro 000
Domestic banks	16,356

Foreign banks	87,757
	<u>104,113</u>

The breakdown of financial commitments in respect of swap contracts outstanding on the balance sheet date is as follows:

	Group			
	2003		2002	
	Assets Euro 000	Liabilities Euro 000	Assets Euro 000	Liabilities Euro 000
Interest rate swaps :				
EUR	3,057,371	3,450,753	3,152,203	3,545,585
GBP	200,000		200,000	
JPY	8,000,000		8,000,000	

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On the date of the first application of IAS 32 and IAS 39, EDP did not have all the documents required to be able to comply with the requirements for hedge accounting. Therefore, all changes in the fair value of derivatives have been recorded in accordance with amounts reflected for U.S. GAAP standard FAS 133 in EDP's 2002 Form 20-F as filed with the U.S. Securities and Exchange Commission. Consequently, all variations to the fair value of these instruments have been recognised in the statement of income for the year as from the date of the adoption.

However, owing to the process of transition to the IFRS, in which the EDP Group has been involved for some time, the preparation of the documentation required for these financial derivatives to be considered as hedging instruments has already been started, and hedge accounting will commence during 2004.

Taking into account the fact that financial instrument assets are recorded under accruals and deferrals assets and that financial instrument liabilities are recorded under accruals and deferrals liabilities, the relevant information is as follows:

	Group 2003			
	Nominal Value Euro 000	Total Euro 000	Market Value	
			Assets Euro 000	Liabilities Euro 000
Interest-rate contracts:				
Interest-rate swaps	3,057,371	224,362	264,175	(39,813)
Options bought and sold	3,735,697	(8,520)		(8,520)
		215,843	264,175	(48,332)
Interest-rate and exchange-rate contracts:				
CIRS (currency and interest rate swaps)	393,382	(49,127)		(49,127)
		166,716	264,175	(97,459)

The maturity of these derivatives instruments is as follows:

Group 2003

	Up to 3 months Euro 000	3 months to 1 year Euro 000	1 year to 5 years Euro 000	More than 5 years Euro 000	Total Euro 000
Interest-rate contracts:					
Interest-rate swaps		2,940	216	221,205	224,362
Options bought and sold		(2,612)	(3,229)	(2,679)	(8,520)
		328	(3,013)	218,526	215,842
Interest-rate and exchange-rate contracts:					
CIRS (currency and interest rate swaps)		(8,707)	(5,819)	(34,601)	(49,127)
		(8,379)	(8,832)	183,925	166,715

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

The possible real interest rates on the various financial derivatives instruments are as follows:

	Group 2003				
	Currency	EDP Pays		EDP Receives	
Interest-rate contracts:					
Interest-rate swaps	Euro	4.50%	2.17%	6.40%	2.35%
Interest-rate and exchange-rate contracts:					
CIRS (currency and interest rate swaps)	EUR / JPY	2.5810%	2.5260%	0.7000%	0.2550%
CIRS (currency and interest rate swaps)	EUR / GBP	3.5410%		6.6250%	

	Value	
	Euro 000	Group 2003
Interest-rate contracts:		
Options bought on interest rates (CAP purchases)	3 735 697	4.82% 2.51%
Options sold on interest rates (CAP sale)	1 000 000	5.30% 4.10%
Options sold on interest rates (CAP sale)	3 735 697	3.50% 2.27%

38. Employee Stock Option Plans

The EDP Group began a stock option programme under the terms approved by the General Meeting, applicable to senior management and directors, with a view to stimulating the creation of value, in keeping with the practice employed by similar companies.

The aim of the plan, approved in 1999, is to grant over a period of five years purchase options on shares representing the EDP share capital. The number of options to be awarded cannot exceed 16,250,000 (following the stock split in which each share was replaced by 5 shares of a par value equal to 1/5 of the value before the stock split), each option giving entitlement to the acquisition of one share. In the event of alteration of the EDP share capital, this limit and the number of options already granted may be adjusted so that the size of the plan and/or the position of the beneficiaries of the option remain substantially the same as the size and/or position existing prior to the fact in question. This provision may be applicable in other cases that, in the opinion of the board of directors of EDP, warrant identical treatment.

The consideration payable for the acquisition of shares granted under the stock options (exercise price) is the weighted average of the closing prices of EDP shares during the period prior to the date defined as the option-granting date fixed by the EDP board of directors. The exercise

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price may be corrected in the event of: a) alteration to the share capital; b) distribution of dividends and other reserves to shareholders having a significant effect on the price of the EDP shares; and c) the occurrence of other facts of a similar nature that, in the judgement of the EDP board of directors, warrant such corrections.

The liabilities assumed within the scope of the EDP incentives plans in respect of directors and certain senior staff in the service of the Group companies are recognised as a cost in each period, taking into account the time to maturity of the option exercise right or of the attribution of the shares. The respective provision is set aside/increased taking into account the staggering of the rights granted and of the inherent costs, over the life of the plan. These costs correspond to the difference between the estimated cost of acquisition of the shares by the Company and their selling price to the employees. The corresponding costs are recorded under `Staff costs`, and costs inherent in the respective hedging operations are recorded under `Financial costs and losses`.

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EDP - Electricidade de Portugal, S.A. and Subsidiaries

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39. Reconciliation to accounting principles generally accepted in the United States of America

The consolidated financial statements of EDP Group have been prepared in accordance with Portuguese GAAP which varies in certain significant aspects from U.S. GAAP. Differences that have a significant effect on the Group consolidated results of operations and shareholders equity are as follows:

a) Revaluation of fixed assets

The Group's fixed assets that were acquired prior to 1993 are stated at revalued amounts as permitted under Portuguese GAAP. The revalued fixed assets are being depreciated over their estimated useful lives on their revalued basis. Under U.S. GAAP, fixed assets may not be stated at more than their historical acquisition cost. Accordingly, in the accompanying reconciliation, the increases in shareholders' equity and the related increase in depreciation expense occurring as a result of such revaluations have been reversed for all periods presented. Depreciation for corporate income tax purposes is based on the original acquisition cost and 60% of the additional revaluation increment. Therefore, the adjustments also reflect the remaining deferred tax benefit arising from the revaluation increments. The effect of the revaluation on the gains and losses on disposals is not significant.

b) Capitalized overhead

The EDP Group capitalizes a portion of its general and administrative overhead to the cost of its assets under construction. Under U.S. GAAP, such costs are expensed in the period incurred.

c) Foreign exchange differences

As permitted under Portuguese GAAP, prior to 1995, the EDP Group capitalized net foreign exchange differences (both gains and losses) that resulted from loans contracted to fund capital expenditures denominated in non-escudo currencies. Under U.S. GAAP, foreign exchange gains and losses may not be capitalized.

d) Deferred costs

The EDP Group capitalizes and amortizes research and development expenses, advertising costs, major repairs and maintenance costs, and reorganization costs. Under U.S. GAAP, such amounts are expensed in the period incurred. The Group also defers and amortizes subsidies received with respect to research and development costs (included in deferred revenue in the consolidated balance sheets). Under U.S. GAAP, the benefit of the subsidies would be included in income as the related research and development costs are incurred.

e) Hydrological correction account

As required by Government regulation, the Group records a liability amount to smooth the effect on its earnings that result from changes in hydrological conditions. Under U.S. GAAP, the effect of future changes in hydrological conditions would be viewed as a general business risk and such a recording would not be permitted. Since July 2000, the movement of gain/losses for hydro conditions are charged to REN and not to the income statements.

The hydrological correction adjustments presented below in the U.S. GAAP net income reconciliation reflect the net change for the year in the Hydrological correction account which consists of the amounts disclosed in Note 21.

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f) Distribution to management and employees

The EDP Group customarily distributes a portion of its net income to management and employees. The amount of the distribution generally amounts to one month's salary. Under Portuguese GAAP, this distribution is reflected in the period in which formal shareholder approval is obtained and is recorded as a reduction of retained earnings or other reserves. U.S. GAAP requires that such distributions be recorded as compensation expense in the period to which they relate.

g) Employee retirement benefits

The Company and some of its subsidiaries have pension obligations, both defined benefit and contribution and also medical benefits for retired employees. Costs for defined contribution are expensed when incurred. Accumulated obligations and annual expenses for medical and defined benefit pension plans are determined on actuarial basis. The company adopted this policy in Portuguese GAAP by implementing IAS 19 in 1999. For U.S. GAAP the company is using SFAS 87 and SFAS 106 as from 1995.

Thus, differences in accounting for these obligations are basically originated from the date of determination of transition obligation (1989 for U.S. GAAP purposes and 1996 for Portuguese GAAP) and the assumptions relating the adherence rate to the early retirement plan for the period 1999-2002, as well as for recognition the additional pension minimum liability.

h) Accounts receivable

Under Portuguese GAAP a provision for doubtful accounts is established based on historical collection experience and evaluation of the current status of existing receivable balances. However, accounts receivables are only written-off when a customer is declared bankrupt by a court of law. Under U.S. GAAP, the write-off of a receivable would occur when collection is not probable.

In 1998, 1999 and 2000 the Company reached agreements with various municipalities on the terms of the future settlement of various old accounts receivable that under Portuguese GAAP had been fully provided in the past. During 2001, 2002 and 2003 the Group collected Eur 1,156,628 and Eur 3,081,748 and Eur 3,654,098 related to those agreements. Under U.S. GAAP, the collection of the receivables in question had previously been considered not probable and consequently had been written off. Therefore, under U.S. GAAP the benefit from the recovery of these accounts receivable may only be recorded when the amounts are actually received.

i) Power purchase agreements

As permitted under Portuguese GAAP, REN has recorded the minimum contracted payments made to producers of the Binding sector in connection with PPAs as an expense of the respective periods. U.S. GAAP would require these agreements to be treated as acquisitions of assets and the assumption of capital lease obligations because the power plants' production is fully dedicated and at the direction of REN and the agreements are for the duration of the estimated useful lives of the power plants.

Prior to July 1, 2000, PPAs held by REN were reflected in the balance sheet amounts on the U.S. GAAP basis presented below by recognition of a fixed asset and a capital lease obligation recorded at the inception of the term of the agreements equal to the present values of the minimum payments required under the agreements, less estimated executory costs. The reconciliation presented below also reflects the allocation of the minimum payments, less the estimated executory costs, between a reduction in the liability and interest expense. In addition, an adjustment has been made for the depreciation expense of the fixed asset.

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At the time of the disposal of the Central do Pego to Tejo Energia in 1993, the estimated construction cost of the plant under Portuguese GAAP was equal to the proceeds of disposal. However, the construction costs included capitalized foreign exchange differences and general and administrative costs which under U.S. GAAP would have been expensed as periodic costs prior to the disposal. These capitalized costs would have resulted in a gain on disposal of approximately Eur 48,592,891 which, because of the PPAs, would not have been recognized in 1993. The U.S. GAAP adjustments presented below reflect the reversal of the capitalization of the foreign exchange differences and general and administrative overheads as if they had been expensed prior to 1995.

In accordance with U.S. GAAP PPAs between REN and CPPE were accounted for as capital lease receivables for CPPE and a capital lease obligations for REN. The generation assets related to the PPAs were recorded in REN's accounts. Prior to July 1, 2000, the effects of the PPAs between the two related companies were eliminated as a result of consolidation.

j) Investments

Under Portuguese GAAP, investments in publicly traded equity securities, other than those of subsidiaries and those that are accounted for under the equity method, were carried at historical cost until 2001. From January 1, 2002 under Portuguese GAAP these investments are stated at fair value and the changes therein, net of income taxes, are recorded in shareholders' equity, however any permanent loss in the carrying value is recognized in the income statement.

Under U.S. GAAP for all years presented, these available for sale securities would be stated at fair value and the changes therein, net of income taxes, would be recorded in a separate component of shareholders' equity and included in the determination of comprehensive income. Any other than temporary impairment would be recognized in the income statement, therefore in 2002 an amount of Eur 247,751 thousand before tax benefit and 165,933 thousand net of tax has been reflected in the determination of U.S. GAAP net income.

k) Equity accounting on investments

The Group's equity investments and equity in earnings (primarily of REN and Hidrocantábriico) are affected by certain accounting differences between U.S. GAAP and Portuguese GAAP. The differences affecting the Group's investments and equity in earnings include: revaluation of fixed assets, overheads capitalized, deferred costs, employee termination benefits, distribution to management and employees, PPAs and deferred income taxes. These differences are as described in the respective narratives.

l) Disposal of REN

Under Portuguese GAAP, sale proceeds from the disposal of the EDP 70% interest in REN were equal to the net book value of the interest sold, resulting in no gain or loss recorded on the transaction. Under U.S. GAAP, the net book value of the interest sold was reduced as a result of the accounting differences between Portuguese GAAP and U.S. GAAP; therefore, the proceeds received from the disposal of REN exceeded the net book value of the interest disposed, resulting in a gain on disposal and the remaining investment in REN must be reduced accordingly. The gain on the disposal, in the amount of Eur 342,046 thousand, and the related deferred tax in the amount of Eur 120,400 thousand, were charged directly to shareholders' equity (with a net effect of Eur 221,646 thousand).

m) Derivative instruments

The EDP Group uses derivative instruments in the normal course of business, to offset fluctuations in earnings and cash flows associated with movements in exchange rates, interest rates and commodity prices.

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Derivative instruments are not generally held by the company for speculative trading purposes. FAS 133, Accounting for Derivative Instruments and Hedging Activities, as amended by FAS 137 and FAS 138, was adopted by the Company with effect from January 1, 2001 under U.S. GAAP. FAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. FAS 133 requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. FAS 133 prescribes requirements for designation and documentation of hedging relationships and ongoing assessments of effectiveness in order to qualify for hedge accounting. From January 1, 2003 (as discussed at note 2 d) IAS 39 was adopted on Portuguese GAAP.

Therefore no difference arise in the current year as all derivatives are marked to market both U.S. GAAP and IAS 39.

The EDP Group has chosen not to apply the hedge accounting provision of FAS 133, and accordingly all changes in the fair value of derivative instruments are recorded in the income statement.

n) Depreciation of goodwill

As of January 1, 2002 U.S. GAAP requires that goodwill, including previously existing goodwill, and intangible assets with indefinite useful lives are not amortized but are tested for impairment annually. Concession rights continue to be amortized, as this is a finite lived intangible asset. In 2002 and 2003 the goodwill amortization charged to the profit and loss account was adjusted under U.S. GAAP in the amount of Eur 11,896 thousand and Eur 20,653 thousand.

o) Equity Method vs Proportional consolidation

The investment in Hidroantábriço where EDP owns 40% of its share capital is jointly controlled with two other main shareholders with a residual amount of 1.2% of share capital owned by other shareholders. Under Portuguese GAAP, associated companies where the parent company exercises significant influence together with other shareholders, even if the parent company's participation is fewer than 50%, are proportionately consolidated. Under U.S. GAAP these investments are accounted for by the equity method as presented in adjustment k).

p) Tariff adjustments and accounting for rate regulated entities

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Prior to 1999, the selling price of electricity in Portugal was based upon a negotiated price between the EDP and the Government. Tariffs were generally based on operating costs incurred during a year associated with average hydrological conditions. However, there were no specific guidelines in place that ensure that the Group would recover actual cost incurred during this time.

On January 1, 1999, and again on January 1, 2002, a new tariff regime was introduced that established formulae for the calculation of the selling price of electricity in Portugal. These tariffs at current market conditions allow for the EDP to recover actual costs incurred; however, not all of the criteria necessary to adopt the U.S. GAAP accounting for regulated industries exist. Therefore, U.S. GAAP requirements applicable to regulated industries have not been applied.

On January 1, 2002, the regulator implemented alternative revenue programs which allow EDP to increase tariffs in future periods to recover allowable revenues. Future tariff increases have been recorded in the current year for Portuguese GAAP and are reversed under U.S. GAAP.

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q) Guarantees

Under U.S. GAAP, the guarantees related to the Group's operations with bank loans and other operational activities must be adjusted and presented as a liability. These adjusted amounts are related to the purchase of electricity and the receivable of some subsidies from the government.

r) Regulatory assets

During the current year the Company set up a restructuring plan, which is intended to be completed by 2006. The plan consists of a reduction of approximately 500 employees, in EDP Distribuição, most of them through a pre-retirement scheme. The costs that will be expensed in those 4 years, were accepted by the Portuguese regulator, to be recovered through the tariffs, in the next 20 years. As such, in 2003 the Company recorded a regulated asset against a provision for restructuring (no effect on equity) in the amount of Eur 148,4 million. During the current year EDP recorded restructuring costs of Eur 14,9 million and recorded regulatory income of the same amount, associated with the tariff adjustment accepted by the regulator. For U.S. GAAP purposes the regulatory asset and regulatory liability and the related regulatory income were reversed as such amounts are not recorded under U.S.GAAP. Expense of Eur 14,9 million was recorded for both Portuguese GAAP and U.S.GAAP.

s) Income taxes

Until December 31, 1998, as permitted under Portuguese GAAP, income taxes were accounted for in accordance with the taxes payable method based on estimated income taxes currently payable as determined by Government regulations. Under U.S. GAAP and, subsequent to January 1, 1999, under Portuguese GAAP, income taxes are provided using the liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences attributable to differences between the financial statement carrying amount of assets and liabilities and their tax bases. A valuation allowance is provided based on the expected realization of the deferred tax assets. Additionally, any deferred tax effect of other U.S. GAAP adjustment is reflected.

t) Operating income

Under U.S. GAAP, except for losses resulting from discontinued operations which would be presented separately, substantially all the amounts in Note 34 would be included in the determination of operating income.

u) Impact of Recently Issued Accounting Standards

FASB Interpretation Number (FIN) 46 (revised December 2003) Consolidation of Variable Interest Entities

FIN 46 was issued in January 2003, was revised in December 2003 and has been interpreted in various FASB staff positions. It is effective immediately for all variable interests in variable interest entities (VIE) created after January 1, 2003. For VIEs created before that date, the requirements are effective for EDP Group from January 1, 2004. FIN 46 requires certain transitional disclosures to be made immediately if it is reasonably possible that an entity will consolidate or disclose information about VIEs when FIN 46 becomes effective. FIN 46 defines a VIE as an entity where either the total equity investment at risk is not sufficient to permit the entity to finance its activities, without additional subordinated financial support; or the equity investors lack any one of the following: (1) the ability to make decisions about an entity's activities; (2) the obligation to absorb losses of the entity; or (3) the right

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to receive residual returns of the entity. VIEs are required to be consolidated by the primary beneficiary, which is the party that absorbs the majority of the entity's expected losses, expected gains, or both. It is not expected that this standard will have a material impact on the EDP Group's U.S. GAAP financial statements.

SFAS 149 Amendment of Statement 133 on Derivative Instruments and Hedging Activities

SFAS 149 was issued in April 2003. This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement 133, Accounting for Derivative Instruments and Hedging Activities. This statement is effective prospectively for contracts entered into or modified after June 30, 2003 and prospectively for hedging relationships designated after June 30, 2003. Adoption of this statement has not had a material impact on EDP Group's U.S. GAAP financial statements.

SFAS 150 Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity

SFAS 150 was issued in May 2003. The statement amends the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity and requires that these instruments be classified as liabilities in statements of financial position. This statement is effective prospectively for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. This statement shall be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the statement and still existing at the beginning of the interim period of adoption and not expected to have a material impact on EDP Group financial statements.

SFAS 132 Employers' Disclosures about Pensions and Other Retirement Benefits (revised 2003)

In December 2003 the FASB issued a revision to SFAS 132 which requires enhanced disclosures about the EDP Group's defined benefit pension plans. Adoption of this statement has not had, and is not expected to have a material impact on EDP Group's U.S. GAAP financial statements although additional disclosure have been added.

EITF 03-1 The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments

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In November 2003 the EITF reached a consensus on certain additional disclosure requirements in connection with holding losses on investment securities. This standard is not expected to have a material impact on EDP Group's U.S. GAAP financial statements.

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The effect on net income and shareholders' equity is as follows:

Net income

	2003	2003	2002	2001
	US\$	Euro 000	Euro 000	Euro 000
Net income as reported under Portuguese GAAP	463,810	381,109	335,216	450,795
U.S. GAAP adjustments increase (decrease) due to:				
a. Depreciation of revaluation of fixed assets	232,760	191,257	200,973	204,504
b. Capitalized overheads	(17,614)	(14,473)	(35,650)	(2,283)
c. Depreciation of exchange differences	21,549	17,707	19,297	23,408
d. Deferred costs	95,639	78,586	20,870	(89,989)
e. Hydrological correction adjustments	13,256	10,892	12,685	(26,906)
f. Distribution to management and employees	(29,928)	(24,592)	(22,989)	(22,634)
g. Pension and other post-retirement benefits	(50,795)	(41,738)	(61,876)	(61,876)
h. Accounts receivable - municipalities	4,447	3,654	3,082	1,157
i. Power purchase agreements - after REN disposal	(14,845)	(12,198)	(15,507)	(20,124)
j. Investments			(247,751)	
k. Equity accounting on investments - REN	28,127	23,112	(26,283)	43,256
k. Equity accounting on investments - Hidrocontábrico	4,548	3,737	(6,734)	
m. Derivative instruments			99,890	42,285
n. Depreciation of goodwill	66,252	54,439	11,896	
p. Tariff adjustments	(94,827)	(77,919)	(49,996)	
r. Regulatory assets	(48,012)	(39,451)		
Other	(1,003)	(824)	(531)	
u. Income taxes	(67,289)	(55,291)	63,396	(22,385)
Net adjustments	142,265	116,898	(35,228)	68,413
Net income in accordance with U.S. GAAP	606,075	498,007	299,988	519,208
Basic and diluted net income per share	0.20	0.17	0.10	0.17

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****Shareholders equity**

	2003	2003	2002
	US\$	Euro 000	Euro 000
Shareholders equity as reported under Portuguese GAAP	6,447,675	5,298,007	5,494,182
U.S. GAAP adjustments increase (decrease) due to:			
a. Revaluation of fixed assets	(1,144,057)	(940,063)	(1,131,320)
b. Capitalized overheads	(854,374)	(702,033)	(687,560)
c. Exchange differences capitalized	(331,376)	(272,289)	(289,996)
d. Deferred costs	(59,690)	(49,047)	(127,633)
e. Hydrological correction adjustments	384,073	315,590	304,697
f. Distribution to management and employees	(27,406)	(22,519)	(22,989)
g. Pension and other post-retirement benefits	25,545	20,990	62,728
g. Additional minimum pension liability	(357,572)	(293,814)	(216,418)
h. Accounts receivable municipalities	(83,809)	(68,865)	(72,519)
i. Power purchase agreements after REN disposal	(270,991)	(222,671)	(210,473)
k. Equity accounting on investments - REN	38,104	31,310	8,198
k. Equity accounting on investments - Hidrocontábrico	(3,647)	(2,997)	(6,734)
l. Gain on disposal of REN	(178,401)	(146,591)	(146,591)
m. Derivative instruments			131,181
n. Depreciation of goodwill	80,730	66,335	11,896
p. Tariff adjustments	(155,673)	(127,915)	(49,996)
q. Guarantees	(12,309)	(10,114)	
r. Regulatory assets	(48,012)	(39,451)	
Other	(1,682)	(1,382)	(531)
s. Deferred income taxes on Portuguese books	113,323	93,117	571
t. Income taxes	695,807	571,739	835,571
Net adjustments	(2,191,417)	(1,800,670)	(1,607,918)
Shareholders equity in accordance with U.S. GAAP	4,256,258	3,497,337	3,886,264

Certain significant line items of the balance sheets as presented on a Portuguese GAAP basis would be as follows after application of U.S. GAAP differences:

Group

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	2003	2002
	Euro 000	Euro 000
Fixed assets	7,172,209	6,601,644
Total assets	17,730,012	16,922,182
Total current liabilities	3,279,785	2,550,817
Total long-term liabilities	10,891,738	10,419,900
Total liabilities	14,171,523	12,970,717
Shareholders' equity:		
Share capital	2,950,980	2,956,507
Other comprehensive income	(773,711)	(559,329)
Reserves and retained earnings	1,320,068	1,489,088
	<u>3,497,337</u>	<u>3,886,266</u>
Total liabilities and shareholders' equity	<u>17,730,012</u>	<u>16,922,182</u>

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****Accounts receivable**

The amount of accounts receivable, trade and long-term receivables in accordance with U.S. GAAP are as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
Accounts receivable, trade (Note 6)		
Accounts receivables	765,936	703,300
PPA receivables, short-term (less than 1 year)	121,527	110,072
	<u>887,463</u>	<u>813,372</u>
Long-term receivables (Note 8)		
Long-term receivables	435,842	370,656
PPA receivables, long-term (over 1 year)	3,190,154	3,312,681
	<u>3,625,996</u>	<u>3,683,337</u>

Income taxes

The components of the income tax provision and deferred income tax assets and liabilities in accordance with U.S. GAAP is as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
Current	239,255	171,168	244,012

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Deferred	55,291	(63,396)	22,385
	<u>294,546</u>	<u>107,772</u>	<u>266,397</u>

The reconciliation of the expected income tax provision computed using the Company's Portuguese statutory income tax rate of 32% in 2001, 30% in 2002 and 2003 to the actual income tax provision is as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
Net income before income taxes under U.S. GAAP	696,356	190,460	684,987
Expected income tax expense at the statutory rate	208,907	57,138	219,196
Municipal income taxes	20,891	5,714	21,920
Change in tax rate and in estimates	(13,069)	(22,863)	
Equity method investments	(10,419)	(25,985)	(4,090)
Goodwill amortization	115,113	71,945	30,947
Other	(26,877)	21,823	(1,576)
	<u>294,546</u>	<u>107,772</u>	<u>266,397</u>

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

Components of deferred income tax assets and liabilities:

	Group	
	2003	2002
	Euro 000	Euro 000
Deferred tax assets:		
Fixed assets:		
Revaluation	155,110	224,001
Overheads capitalized	193,059	226,895
Exchange differences capitalized	74,879	95,699
Deferred costs capitalized	13,488	42,119
Pension and other post-retirement benefits	159,685	221,425
Power purchase agreements	61,235	69,456
Investments		81,758
Provision for various contingencies	40,207	65,349
Provision for doubtful accounts	4,716	2,325
Tariff adjustments	35,177	
Regulatory assets	10,849	
	<u>748,405</u>	<u>1,029,027</u>
Deferred tax liabilities:		
Hydrological correction account investments	86,787	100,550
Deferred in associates		7,300
Shareholder's equity reserve	9,079	11,974
Pension minimum liability	80,800	71,418
Tariff adjustments		2,214
	<u>176,666</u>	<u>193,456</u>
Total net deferred tax assets	<u>571,739</u>	<u>835,571</u>

Pensions

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EDP uses a December 31, 2003 measurement date for all of its plans. The components of the net periodic pension cost under U.S. GAAP include the following:

	Group		
	2003 Euro 000	2002 Euro 000	2001 Euro 000
Service cost	12,240	13,222	14,525
Interest cost	84,849	88,824	74,710
Expected return on plan assets	(50,086)	(56,031)	(57,531)
Worker s contributions	(552)		
Amortization of net actuarial losses	19,892	72,431	61,212
Amortization of transition obligation	5,826	6,130	6,130
	72,169	124,576	99,047
Net periodic pension cost	72,169	124,576	99,047

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

The following table sets forth the changes and the funded status of the pension plan under U.S. GAAP:

	Group	
	2003	2002
	Euro 000	Euro 000
Change in benefit obligation		
Benefit obligation at beginning of year	1,448,733	1,433,183
Service cost	12,240	13,222
Interest cost	84,849	88,824
Actuarial losses/(gains)	72,036	96,242
Estimated benefits paid	(140,975)	(144,277)
Exchange losses/(gains)	407	(38,461)
	<u>1,477,290</u>	<u>1,448,733</u>
Benefit obligation at end of year	1,477,290	1,448,733

	Group	
	2003	2002
	Euro 000	Euro 000
Change in plan assets		
Fair value of plan assets at beginning of year	749,945	781,286
Actual return of plan assets	59,690	60,877
Worker's contributions	552	
Actual company contributions	58,287	52,669
Benefits paid	(51,856)	(53,597)
Actuarial (losses)/gains	(413)	(77,613)
Exchange losses/(gains)	297	(13,677)
	<u>816,502</u>	<u>749,945</u>
Fair value of plan assets at end of year	816,502	749,945
Funded status of plan (underfunded)	(660,789)	(698,788)
Unrecognized net actuarial losses/(gains)	532,458	560,246
Unrecognized transition obligation	50,678	23,319
	<u>(77,653)</u>	<u>(115,223)</u>
Prepaid (accrued) benefit cost	(77,653)	(115,223)

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Additional minimum pension liability	(344,492)	(272,922)
	<u> </u>	<u> </u>
Prepaid (accrued) benefit cost / pension liability	(422,145)	(388,145)
	<u> </u>	<u> </u>

The accumulated benefit obligation in excess of plan assets, is as follows:

	Group	
	2003	2002
	Euro 000	Euro 000
	<u> </u>	<u> </u>
Projected benefit obligation	1,477,290	1,448,733
Accumulated benefit obligation	1,207,234	1,405,025
Fair value of plan assets	749,945	781,286

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

As of December 31, 2002 and December 31, 2003 plan assets consisted of:

	Group	
	2003	2002
	Euro 000	Euro 000
Portuguese State bonds	51,248	51,970
Foreign public bonds	133,380	89,097
Bonds	201,452	274,606
Investment fund units	138,139	128,891
Shares	91,149	24,291
Buildings	185,894	179,517
Cash and equivalents	45,693	19,403
Commercial paper	3,994	2,984
Other	(3,772)	7,599
	847,177	778,358
Plan assets relating to others (REN)	(30,675)	(28,413)
	816,502	749,945

Following an asset - liability modelling study concluded in 2003, the EDP Group and the Consultants and the Asset Managers considered the target asset allocation mentioned below to be the appropriate for the stability and security of Pension Fund assets, level of periodic contributions and of the financing of the projected liabilities, taking into account investments restrictions, a risk profile and a level of returns:

a) Investment strategy for three years, except actual property in the amount of 180 million Euros, currently rented to the Associates that should be reduced :

Bonds : 70% (min. 50%, max. 85%)

Equities: 30% (min. 15%, max.40%)

Property: max. 5%.

b) Asset returns measures against strategic benchmark.

c) Risk diversification policies.

A summary of the assets of the plan, classified into its major assets classes, is shown below as at December 31, 2003:

	Rates
Total Bonds	45.60%
Total Cash	5.60%
Total Equities	23.70%
Property	25.10%
	<hr/> 100.00% <hr/>

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

In calculating the liabilities inherent in pension and other benefits within the EDP Group the following financial and actuarial assumptions were used:

	2003		
	Pension Benefits		Other benefits
	Portugal	Brazil	Portugal
	Euro 000	Euro 000	Euro 000
Assumptions			
Discount rate	5.20%	10.24%	5.20%
Long term rate of return on assets	5.70%	10.24%	n.a.
Wage growth rate	3.30%	7.12%	n.a.
Pension growth rate	2.25%	7.12%	n.a.
Inflation rate	2.00%	4.00%	n.a.
Medical trend rate	n.a.	n.a.	4.50%
	2002		
	Pension Benefits		Other benefits
	Portugal	Brazil	Portugal
	Euro 000	Euro 000	Euro 000
Assumptions			
Discount rate	6.00%	10.24%	6.00%
Long term rate of return on assets	6.50%	10.24%	n.a.
Wage growth rate	3.30%	7.12%	n.a.
Pension growth rate	2.25%	7.12%	n.a.
Inflation rate	2.00%	5.00%	n.a.
Medical trend rate	n.a.	n.a.	4.50%

The assumptions to determine the overall expected, Rate of return on assets, was determined with reference to EDP's target allocation and the best expectations for the long term returns on each of the following assets classes:

Weight	Real return
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	_____	_____	Weight return

European Equities	16.00%	7.40%	1.20%
Global ex.European Equities (unhedged)	6.00%	7.80%	0.50%
Euro Gov.Bonds-Fixed Rate	31.00%	2.30%	0.70%
Euro Corp.Bonds-Fixed Rate	6.00%	2.90%	0.20%
Euro Variable Rate	15.00%	0.50%	0.10%
Property	26.00%	5.00%	1.20%
	_____	_____	_____
Euro inflation	n.a.	1.80%	1.80%
	_____	_____	_____
Total	100.00%		5.70%
	_____		_____

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

The following is a summary of the significant assumptions used in the determination of the pension obligation:

	2003	2002	2001
	Rates	Rates	Rates
	<u> </u>	<u> </u>	<u> </u>
Weighted average discount rate	5.2%	6.0%	6.5%
Rate of increase in compensation	3.3%	3.3%	3.5%
Expected rate of return on plan assets	5.7%	6.5%	7.5%
Expected percentage of eligible staff electing early retirement	*	*	*

* During 2002 it was estimated that employees applying for early retirement would be 70% of the eligible employees. From 2003 and on, it was estimated that only 40% of eligible employees will apply for early retirement.

Other post-retirement benefits

EDP provides comprehensive medical coverage, in addition to that provided by the Portuguese national health system, for retired employees (including those who have taken early retirement) and their dependents. Additionally, the Company provides a death benefit to its retirees survivors. The Company administers the program internally and assumes the full cost of funding the program net of employee contributions amounting to approximately 10% of the total medical expenses covered.

A summary, of the components of the net periodic post-retirement benefit cost under U.S. GAAP, is presented in the following table:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
	<u> </u>	<u> </u>	<u> </u>
Service cost	5,942	6,540	6,714
Interest cost	29,049	30,095	28,781
Amortization of transition obligation	5,022	4,873	4,873
	<u> </u>	<u> </u>	<u> </u>
Net periodic post-retirement benefit cost	40,013	41,508	40,368
	<u> </u>	<u> </u>	<u> </u>

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The following table sets forth the changes and the funded status of the plan under U.S. GAAP as of December 31, 2002 and December 31, 2003:

	Group	
	2003	2002
	Euro 000	Euro 000
Change in benefit obligation		
Benefit obligation at beginning of year	496,201	474,371
Service cost	5,942	6,540
Interest cost	29,049	30,095
Actuarial losses	153,162	7,929
Benefits paid	(24,099)	(22,735)
Benefit obligation at end of year	660,255	496,200
Unfunded status of plan	(660,255)	(496,200)
Unrecognized (gains)/losses	205,251	52,237
Unrecognized transition obligation	42,377	47,251
Accrued benefit cost	(412,627)	(396,712)

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

The assumed medical cost trend rate used in measuring the accumulated post-retirement benefit obligation as of December 31, 2003 was 4.5% for the next nine years and 4% after. The health cost trend rate assumption has a significant effect on the amounts reported.

The assumed discount rate and salary growth rate used in determining the accumulated post-retirement benefit obligation was 5.2% and 3.3%, respectively, as of December 31, 2003 and 6% and 3.3%, respectively as of December 31, 2002.

FAS 106 allows recognition of the cumulative effect of the liability in the year of adoption or the amortization of the obligation over a period of up to 20 years. The Company has elected to recognize the initial post-retirement benefit obligation of Eur 101,455 thousand as of January 1, 1995, over a period of 17.7 years, the average remaining service period of the employee group.

The table below shows the expected benefit payments projections for the next ten years, based on the same assumptions used in the current year and in accordance with FAS 132:

	Expected benefit payments	
	Pension	Other
2004	149,982	26,414
2005	141,491	27,390
2006	133,195	28,375
2007	124,254	29,391
2008	114,853	30,420
2009	105,496	31,430
2010	97,308	32,464
2011	88,925	33,564
2012	81,720	34,708
2013	76,252	36,094
2014	73,505	37,507

Defined Contribution Plans

Hidrocontábrico has social benefits Defined contribution plans that complement those benefits granted by the Social Welfare Systems to the companies' employees, under which they pay a contribution to these plans each year, calculated in accordance with the rules established in each

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case. The payments were Eur 20,568 thousand and Eur 17,912 thousand in 2003 and 2002 respectively

Research and development expenses

Research and development expenses under U.S. GAAP amounted to Eur 76,021 thousand in 2001, Eur 44,180 thousand in 2002 and Eur 15,523 thousand in 2003.

Comprehensive income

For purposes of presenting its reconciliation of shareholders' net equity and net income from Portuguese GAAP to U.S. GAAP, in 1998 the Company adopted FAS 130, "Reporting Comprehensive Income". This standard requires reporting the components of comprehensive income, the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

sources, and the components thereof in an entity's financial statements. The non-owner changes in equity that have not been included in income include accounts such as foreign currency translation adjustments and unrealized gains and losses on available-for-sale securities. The adoption of FAS 130 resulted in revised and additional disclosures for U.S. GAAP reporting purposes, but had no effect on the financial position, results of operations, or liquidity of the Company.

The comprehensive income for each of the three years in the period ended December 31, 2001, 2002 and 2003 is as follows:

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
Net income in accordance with U.S. GAAP	498,007	299,988	519,208
Change in currency translation adjustment	(193,032)	(300,028)	(48,819)
Unrealized gains (losses) on investments	47,947	(21,223)	(19,436)
Tax effect of unrealized gains (losses) on investments	(13,185)	6,791	6,842
Additional minimum pension liability	(77,396)	(216,418)	
Tax effect on additional minimum liability	21,284	71,418	
Comprehensive income	283,625	(159,472)	457,795

Earnings per ordinary share

Basic earnings per share is based upon the weighted average number of Ordinary Shares outstanding during the year. Diluted earnings per share is computed on the basis of the weighted average number of Ordinary Shares outstanding during the year plus the effect of Ordinary Shares issuable upon the exercise of employee stock options using the treasury stock method. During 1999, the Company established two employee stock option plans. The shares issued under these plans had no material effect on the weighted average Ordinary Shares outstanding. Ten Ordinary Shares equal one American Depository Share (ADS).

	Group		
	2003	2002	2001

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	<u>Euro 000</u>	<u>Euro 000</u>	<u>Euro 000</u>
Net income Portuguese GAAP	381,109	335,216	450,795
Net income - U.S. GAAP	498,007	299,988	519,208
net income from continuing operations:			
Net income Portuguese GAAP	381,109	779,216	450,745
Net income - U.S. GAAP	498,007	743,988	519,208
Weighted average Ordinary Shares outstanding	2,978,569,036	2,982,571,074	2,988,273,791
Weighted average ADS outstanding	297,856,904	298,257,107	298,827,379

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EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements (Continued)

December 31, 2003, 2002 and 2001

		Group		
		2003	2002	2001
		Euro	Euro	Euro
Net income per Ordinary Share				
Basic and diluted	Portuguese GAAP	0.13	0.11	0.15
Basic and diluted	U.S. GAAP	0.17	0.10	0.17
-net income from continuing operations:				
Basic and diluted	Portuguese GAAP	0.13	0.26	0.15
Basic and diluted	U.S. GAAP	0.17	0.25	0.17
Net income per ADS:				
Basic and diluted	Portuguese GAAP	1.28	1.12	1.51
Basic and diluted	U.S. GAAP	1.67	1.01	1.74
-net income from continuing operations:				
Basic and diluted	Portuguese GAAP	1.28	2.61	1.51
Basic and diluted	U.S. GAAP	1.67	2.49	1.74

Goodwill

For U.S. GAAP purposes, the goodwill for each reportable segment is as such:

		Group					
		Electricity				TOTAL	
		Spain	Brazil	Telecom	IT	Other business	
December 31, 2001				287,480	67,560	1,488	356,528
Entries/(exits) of subsidiaries				0	0	14,598	14,598
Additions				2,742	455	228	3,425
Disposals				-5,533	0	0	-5,533
Impairment losses				-170,507	0	0	-170,507
December 31, 2002				114,182	68,015	16,314	198,511
Transfers from concession rights		706,226					706,226
Additions			3,806	1,064	241	34,717	39,828

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Disposals			-7,433		-5,069	-12,502
December 31, 2003	706,226	3,806	107,813	68,256	45,962	932,063

The impairment loss in 2002 is due to the discontinuation of Oniway business, with a total loss of Eur 444 million, including the impairment of goodwill of Eur 170 million. The results of Oni way prior to discontinuation were not material. In 2001 the amortization expense of Goodwill was Eur 16,668 thousand. Since then, the goodwill amortization is adjusted and presented in the US reconciliation, due to the fact that U.S. GAAP requires that goodwill is not amortized but tested for impairment.

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

From January 1, 2002, goodwill is no longer amortized under U.S. GAAP but reviewed annually for impairment under FAS 142 Goodwill and Other Intangible Assets . Goodwill amortization of Eur 11,896 thousand in 2002 and Eur 54.439 thousand in 2003 are charged against Portuguese GAAP earnings and added back in the U.S. GAAP reconciliation.

	Group		
	2003	2002	2001
	Euro 000	Euro 000	Euro 000
Reported net income under U.S.GAAP	498,007	299,988	519,208
Goodwill amortization			16,668
Adjustment net income	498,007	299,988	535,876
Basic and diluted earnings per share:			
Reported net income	0.17	0.10	0.16
Goodwill amortization			0.01
Adjustment net income	0.17	0.10	0.17

Intangible assets

For concession rights and other intangible assets, subject to amortization under U.S. GAAP, the aggregate amortization expense for the current year and estimated aggregate amortization expense for each of the five succeeding fiscal years are:

<i>Aggregate amortization expense</i>	
2003	72,940
<i>Estimated amortization expense</i>	
2004	72,940
2005	62,952
2006	57,795
2007	47,315
2008	40,501

Unrealized losses in investments available for sale, classified as temporary losses.

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	Acquisition Cost/Balance sheet value	Market value At December 31, 2003	Loss charged to equity in 2003
CERJ	97,767	88,717	(9,050)
BCP	305,038	277,149	(27,889)
Optep	315,000	314,749	(251)
	<u>717,805</u>	<u>680,615</u>	<u>(37,190)</u>

All investments are in common stock. These losses results from valuations reports performed by independent specialists (CERJ and Optep), and from a decrease in the publicly traded shares of BCP (listed company in the Lisbon stock exchange).

In the previous year the loss in BCP was charged to the income statement (Eur 247,751 thousand) because that loss was considered other than temporary. In the first months of 2004 BCP started to recover its value in the stock market, and as such the 2003 loss is considered temporary. By the end of May 2004, BCP has recovered a significant part of the 2003 loss. The BCP listed price at December 31, 2003 was Eur 1.77, and by the end of the first quarter was Eur 2.01.

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001****Equity investments**

EDP's investments in associates accounted for under the equity method are presented in note 9 of these consolidated financial statements. The summarized financial information of the most relevant are presented below:

	2003			2002		
	REN	HC	Other	REN	HC	Other
	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000
Fixed assets	1,422,362	4,385,891	1,290,596	1,380,797	3,852,993	1,281,738
Current assets	221,993	376,429	161,511	222,323	421,456	81,375
Non current assets	696,422	53,749	10,465	342,901	619	61,661
Total Assets	2,340,777	4,816,069	1,462,572	1,946,021	4,275,068	1,424,774
Loans	280,000	1,969,187	722,184	326,667	2,041,585	642,535
Current liabilities	1,193,071	472,238	161,788	523,443	321,698	165,540
Non current liabilities	20,297	247,977	123,808	308,024	238,605	115,588
Total Liabilities	1,493,368	2,689,402	1,007,780	1,158,134	2,601,889	923,663
Minority interest		437,817			12,290	
Equity	847,409	1,688,850	454,792	787,887	1,660,889	501,111
Total Equity	847,409	2,126,667	454,792	787,887	1,673,179	501,111
Net Revenue	2,359,587	1,660,055	559,545	2,302,868	1,462,082	579,489
Operating Costs	(2,004,361)	(1,528,064)	(299,052)	(2,278,753)	(1,316,360)	(311,652)
Other operating income	(227,287)	25,210	(90,441)	92,423		(133,543)
Non operating costs, net	(34,451)	(103,847)	(127,789)	(51,113)	(133,291)	(92,740)
Minority interest		(13,038)			2,135	
Net income	93,488	40,316	42,263	65,425	14,565	41,553
Percentage owned by EDP:	30.00%	40.00%		30.00%	40.00%	

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

	2001		
	REN	HC	Other
	Euro 000	Euro 000	Euro 000
Fixed assets	1,352,585	1,922,000	37,593
Current assets	223,693	425,000	6,588
Non current assets	406,364	76,000	
Total Assets	1,982,642	2,423,000	44,181
Loans	350,000	847,000	7,554
Current liabilities	579,204	93,000	4,902
Non current liabilities	307,443	445,000	5,829
Total Liabilities	1,236,647	1,385,000	18,285
Minority interest			
Equity	745,995	1,038,000	25,896
Total Equity+Minority interest	745,995	1,038,000	25,896
Net revenue	2,209,104	1,180,000	17,172
Operating costs	(2,126,601)	(1,033,000)	(7,552)
Other operating income	15,682	7,000	(6,298)
Non operating costs, net	(53,685)	(81,000)	(1,759)
Minority interest		1,000	
Net income	44,500	74,000	1,563
Percentage owned by EDP:	30.00%	9.50%	

Proportional consolidation

As mentioned in note 2c, the Company consolidates interests in jointly controlled entities, using the proportional method, namely Hidrocantábrico (HC). For U.S. GAAP purposes, investments in jointly controlled entities must be accounted for using the equity method. The differences in accounting treatment between proportional consolidation and the equity method of accounting have no impact on reported stockholders' equity or net income. Rather, they relate solely to matters of classification and display.

Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

Condensed financial information relating to the Company's pro rata interest in Hidrocantábrico is as follows:

	HC 2003	HC 2002
	Euro 000	Euro 000
Balance sheet information		
Tangible and intangible fixed assets	1,870,271	1,657,112
Current assets	150,572	168,582
Non current assets	21,500	248
Total assets	2,042,343	1,825,942
Loans	787,675	816,634
Current liabilities	188,895	128,679
Non-current liabilities	99,191	95,442
Total liabilities	1,075,761	1,040,755
Minority interests	175,127	4,916
EDP's investment	791,455	780,271
Statement of income information		
Net revenue	664,022	321,351
Operating costs, net	-601,142	-295,194
Other operating income (costs)	-41,539	-29,257
Minority interests	-5,215	391
Net income	16,126	-2,709

Employee stock option plans

The Company has two fixed option plans. Under the 1999 option plan for members of the Board of Directors of EDP, the Company may grant options for up to 2,450,000 shares of common stock. Under the 1999 option plan for members of the boards of directors of the EDP's operating companies and senior officers of EDP and its subsidiaries, the Company may grant options for up to 16,120,000 shares of common stock. Under both plans, the exercise price of each option equals the market price of the Company's stock on the date of grant and an option's maximum term is 5 years. Options are granted at the discretion of the board of directors of EDP and vest over a two year service period.

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A summary of the status of the Company's two fixed stock option plans as of December 31, 2002 and 2003, and changes during the years then ended on those dates is presented below:

	Shares available for grant under 1999 option plans	Option activity	Weighted average exercise price
Balance December 31, 2001	16,413,750	2,286,250	
Options forfeited			
Options granted			
Balance December 31, 2002	16,413,750	2,286,250	
Options forfeited		(353,992)	
Options granted ⁽¹⁾		490,000	
Balance December 31, 2003	16,413,750	2,422,258	

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Table of Contents**EDP - Electricidade de Portugal, S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****December 31, 2003, 2002 and 2001**

At the general shareholders meeting held on May 10, 2000, an increase in the number of options available under the 1999 options plans was approved to adjust the plans for an increase in the number of directors from 5 to 7.

Of 2,400,000 options granted in 1999, only 2,286,250 were accepted by directors and executive officers.

⁽¹⁾ The number of options to be granted for 2004 has not yet been determined.

The following table summarizes information about stock options outstanding and exercisable as of December 31, 2003.

Options outstanding	Weighted average exercise price	Weighted average remaining contractual life	Options exercisable
2,422,258	3.35	1.3 years	

40. Relevant and subsequent events***EDP and Hidrocantábrico constitute a European Economic Interest Group***

On January 12, 2004, EDP - Electricidade de Portugal, through CPPE - Companhia Portuguesa de Produção de Electricidade, and Hidrocantábrico agreed to set up a European Economic Interest Group (EEIG) with a view to developing and putting into practice a process of contracting and adjudicating equipment to reduce emissions of sulphur dioxide into the atmosphere at their Sines, Aboño and Soto de Ribera power stations. Both companies will participate in the EEIG on equal footing.

Both parties will look into the possibility of extending the present agreement to the management and execution of contracts to be awarded on the basis of this process. The EEIG, which will be headquartered in Oviedo, is a type of company association created under an EEC regulation dated 1985 and is governed in Spain by a law dating from 1991. This type of association, with its own legal personality, is designed to simplify inter-company cooperation within the European Union. The option taken - involving a single adjudication process - means that the process must be governed by one of the applicable national laws; in this case the decision was taken to opt for Spanish law.

The joint installed power covered by the contracting and adjudication process totals around 2,166 MW and - in an average year - the three power stations in question burn about 7.5 million tons of coal. In accordance with the European Directive, the new equipment is expected to be

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operational during the last quarter of 2007, leading to sulphur dioxide emissions by the respective groups of these three power stations in accordance with the figures established by the directive (400 mg/Nm³).

EDP concludes Framework Agreement with a view to Acquisition of Control of the Natural Gas Industry in Portugal

On February 6, 2004, within the context of Council of Ministers Resolution 68/2003 of May 10, in respect of the restructuring of the Portuguese energy sector, EDP concluded a framework agreement with Eni, S.p.A. (Eni), establishing the heads of agreement reached by the parties with regard to bringing together the gas and electricity industries, and also with regard to the final structure of the share capital of GDP, SGPS, S.A. (GDP), 51% of which is expected to be held by EDP and 49% by Eni. However, during the transition period, REN Rede Eléctrica Nacional may come to have a minority holding in GDP up to the conclusion of the process of separation of regulated assets such as the high-pressure natural gas network. The direct involvement of these companies in the natural gas business will be undertaken on the basis of a reference figure of Eur 1,2 billion

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EDP - Electricidade de Portugal, S.A. and Subsidiaries

Notes to the Financial Statements (Continued)

December 31, 2003, 2002 and 2001

attributed to the whole of the gas assets (including such regulated assets as come to be transferred to REN) currently held by the GALP Energia group. Implementation of this transaction is based on the assumption that the direct involvement of EDP in the natural gas business will be underpinned by the economic value resulting from its sale of its holding in GALP Energia, in which EDP has a 14.7% stake, and for this reason it is not expected that the transaction will require any additional investment by EDP. EDP and Eni will make a start as from this time to talks concerning the contracts to structure the operation and to define the corporate governance of GDP, to be concluded by March 31, 2004. The conclusion of the transaction will in any case depend on approval by the respective fair trade authorities.

EDP Clarifies the Market on the Process of Definition of the Compensation Value of the CAEs

On March 5, 2004, EDP informed the market and the public in general that the process of definition of the value of compensation (CMEC Contractual Balance Maintenance Costs) linked to the possible transition of the energy acquisition contracts (CAEs) to the market system within the scope of MIBEL was still underway and had not therefore been concluded.

On March 8, 2004, in response to several requests for clarification in view of the news published in respect of the early termination of the Energy Acquisition Contracts (CAEs), EDP once again stated:

1. That not being party to the work of the European Commission and the Portuguese Government in progress in Brussels, EDP was entirely unaware of any progress or of the content thereof;
2. That investors and the market in general should not base investment decisions on the figures that had been published, which EDP considered totally unfounded and whose calculation criteria it was unable to reconstitute; and
3. That, as it had disclosed on several occasions, EDP would only formalise the early termination of the CAEs, provided that an economically neutral and equivalent alternative were ensured, certified by independent entities, and that it believed that this could occur by April 20, 2005.

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1,200,000,000

EDP Energias de

Portugal, S.A.

Offering of 656,537,715 Ordinary Shares

including in the form of

American Depositary Shares

November 8, 2004

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: November 8, 2004

EDP- ENERGIAS DE PORTUGAL, S.A.

By: */s/ RUI HORTA E COSTA*
Name: Rui Horta e Costa
Title: Chief Financial Officer