



**edp**

**energias de portugal**

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# **2004 Year End Results**

**March 2nd, 2005**

# EDP Consolidated P&L



	2004	2003	Chg. %	Chg. €
Revenues	7,222	6,978	3%	244
Gross profit	3,181	3,018	5%	162
Operating costs	1,213	1,191	2%	21
EBITDA	1,968	1,827	8%	141
EBIT	1,058	906	17%	153
Financial results	(335)	(359)	7%	24
Extraordinary results	(165)	(14)	-	(150)
Net Profit	440	381	15%	59

## Focus on Iberian energy

- Following publication of Dec. Law, initial CMECs value set at €3.4 billion
- Acquisition of full control of HC financed through rights issue of €1.2 billion
- EU blocks joint acquisition of GDP; EDP appeals for annulment of decision
- Acquisition of 46.6% of Portgás; a foothold to develop gas distribution
- Higher CCGT capacity; +800 MW in TER and option exercised on Turbogás <sup>(1)</sup>
- EDP awarded new licences for 800 MW of CCGTs (out of 2.9 GW)
- Ambitious investment plan in wind power as new law provides tariff stability

## Progress on efficiency

- Successful execution of HR Program; 983 less employees (-8.1%) in core business
- Improvement in quality of service; equivalent interruption time down 126 min
- Operating costs up 1.8% vs. Gross margin up 5.4%

## Restructuring Brazil

- Restructuring of EDP Brazil; advanced stage in preparing 2005 IPO
- Focus on hydro generation; investment in Peixe Angical and sale of Fafen

## Sale of Non-core assets

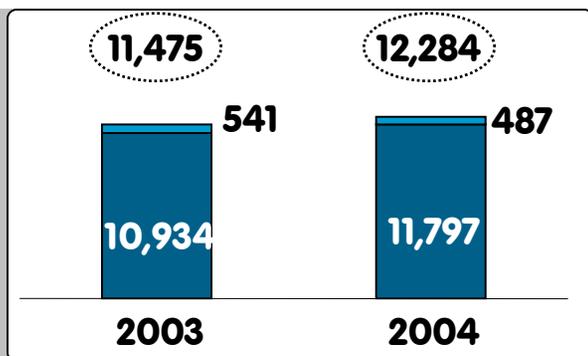
- Sale of 60% of Edinfor to LogicaCMG; contracts lowering EDP's IT unit costs
- Sale of Retecal to Ono; capital gain of €10 million

<sup>(1)</sup> Option to acquire further 20% stake is expected to be exercised in March 2005

# Sustained growth in core energy markets

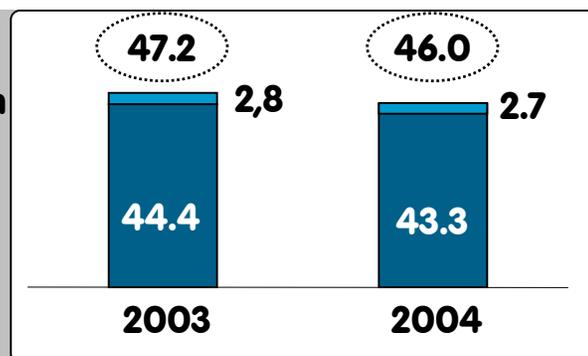


**Installed Capacity (MW) <sup>(1)</sup>**



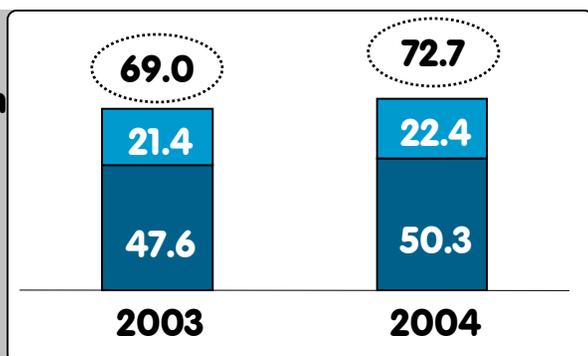
- 400 MW TER I unit operated full year
- 400 MW TER II unit started in November
- Additional 214 MW in wind farms in Iberia
- Sale of Fafen in December

**Electricity Generation (TWh) <sup>(2)</sup>**



- Lower hydro generation due to dry period (-5.6 TWh)...
- ... mitigated by TER's new units output (+3.2 TWh)...
- ... by the increase in HC CCGT's emission (+0.4 TWh) ...
- ... and by the output of new wind capacity (+0.4 TWh)

**Electricity Distribution (TWh)**



Strong growth in demand in EDP markets:

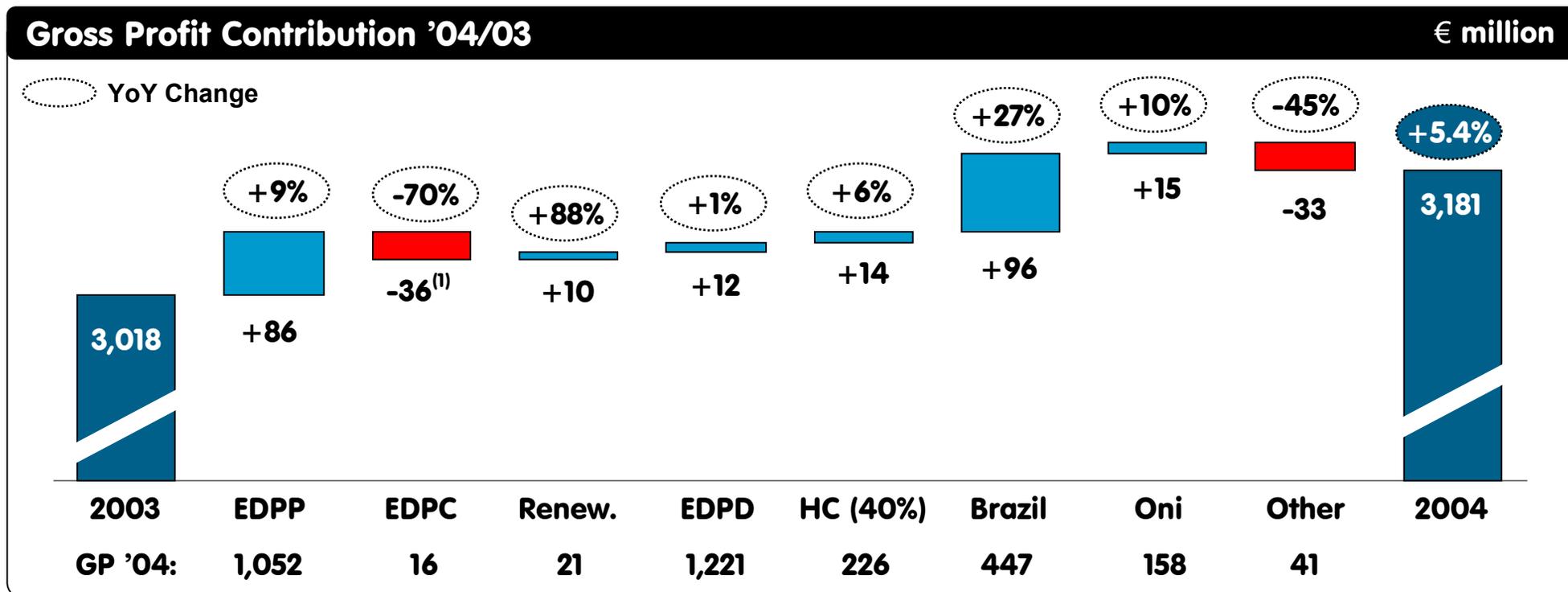
- Portugal +6.1%
- Spain +4.0%
- Brazil +4.5%

■ Iberia ■ Brazil

<sup>(1)</sup> Includes the installed capacity of: i) Turbogás (990MW) 20% in 2003 / 40% in 2004 and; ii) Tejo Energia (584MW) 10% (2003 / 2004)

<sup>(2)</sup> Includes the electricity generation of: i) Turbogás 1,081GWh in 2003 / 2,461GWh in 2004 and; ii) Tejo Energia 417GWh in 2003 / 442GWh in 2004

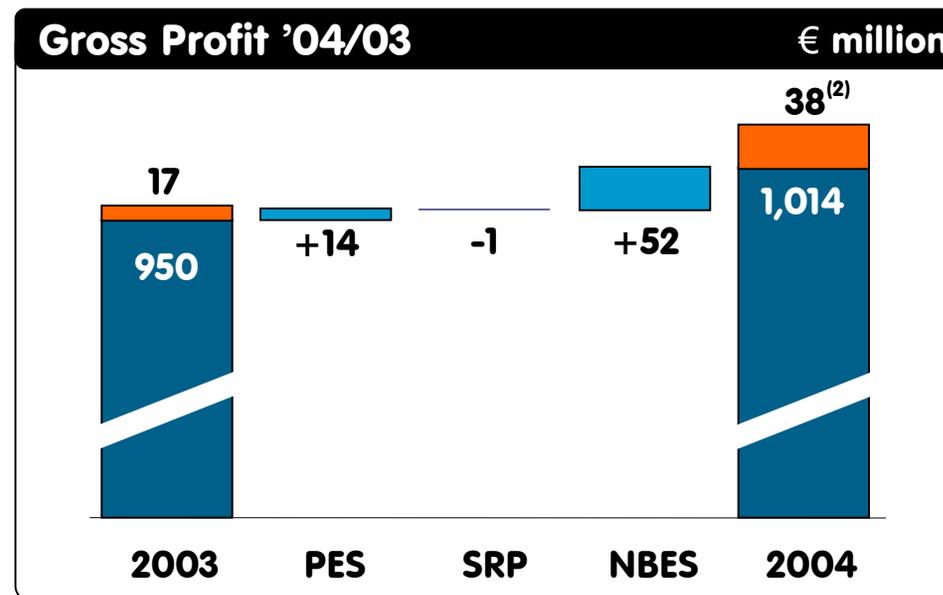
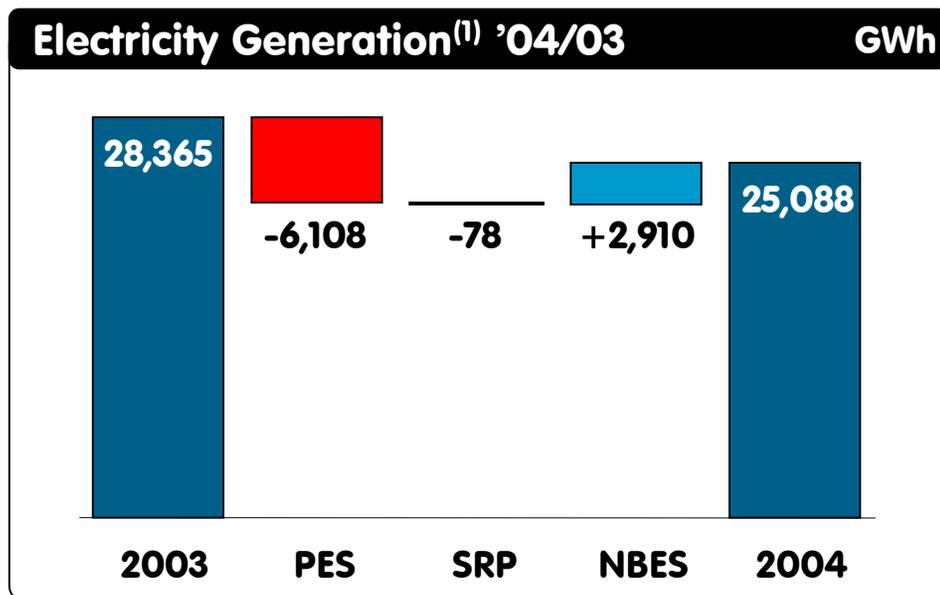
# Gross Profit up 5% due to higher activity



- New capacity coming on stream and efficient fuel procurement drove EDPP and Renew. gross profit up
- EDPD's reported gross profit driven by 8% increase in allowed revenues due to higher demand and negative impact from prior year's tariff adjustments
- Negative impact of low pool prices and rising fuel costs at HC mitigated by consolidation of Naturcorp and improved market conditions in last quarter
- Tariff increases and higher demand in Brazil, contributed 60% to gross profit growth

<sup>(1)</sup> Impact of transfer of trading activity from EDPC to EDPP (€36 million in 2003)

# Generation performance reflects stable PPAs and new CCGT capacity

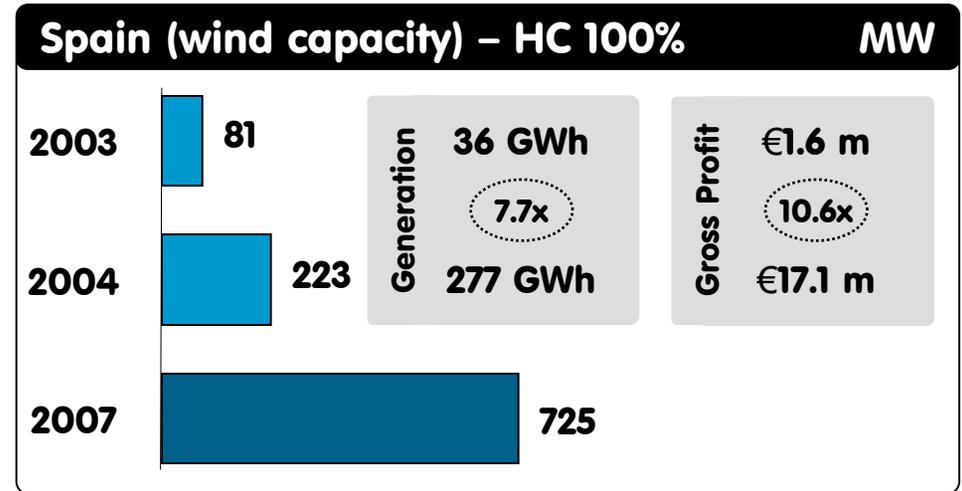
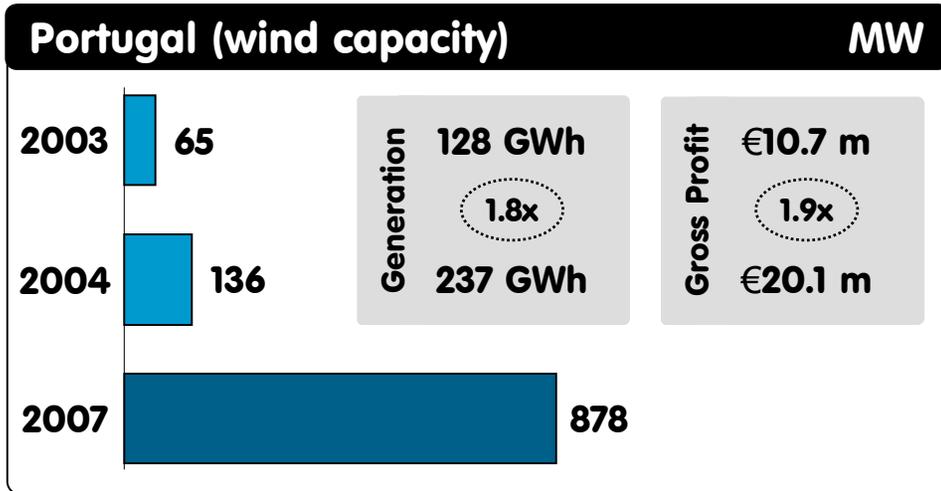


- Despite lower emission, gross profit in the PES up, reflecting return profile of PPAs and positive spread between the Energy Charge and fuel costs
- Stability will be maintained after break-up of PPAs. Initial CMEC value set at €3.4 billion
- SRP gross profit lower following decrease in small hydro output during dry year thus increased weight of cogeneration
- NBES gross profit up on the back of full year operation of TER Unit I (392 MW) and start of second unit (392 MW) in the last quarter together with more active trading given low Spanish pool prices in 2004

<sup>(1)</sup> Excludes energy generated from wind farms and biomass

<sup>(2)</sup> Services Provided: Include maintenance services provided and charges in 2004 to EDP Comercial related to the purchase of electricity in the Spanish pool

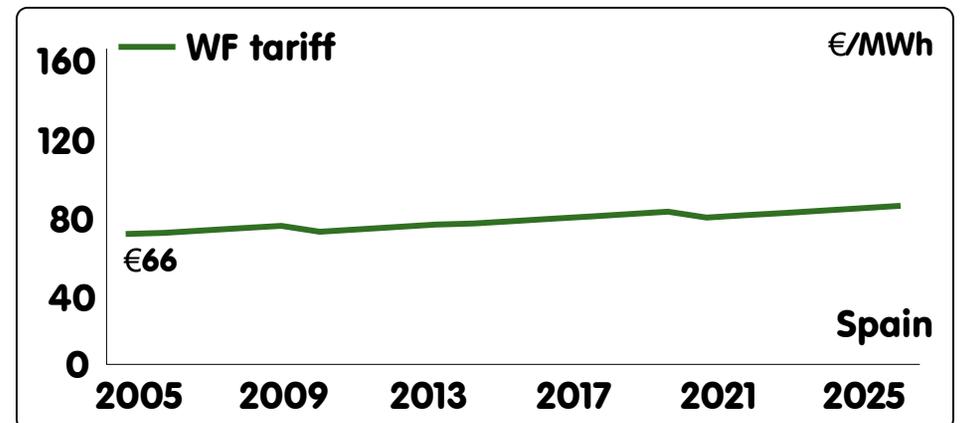
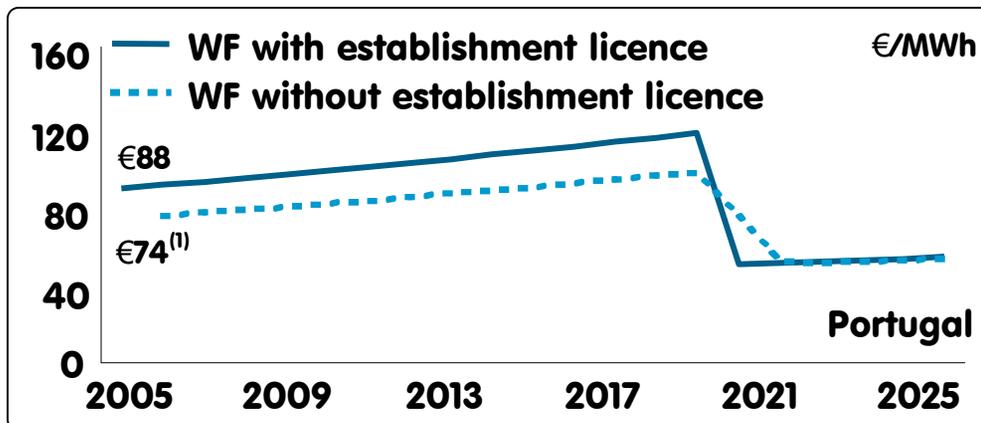
# Wind generation contributed 10% to improvement in the Group's gross profit



EDP's plan to invest in wind capacity supported by tariff stability in Portugal and Spain:

New Portuguese DL guarantees tariff for a 15 years period

Tariff in Spain highly stable for the life period of wind farms (20 years)

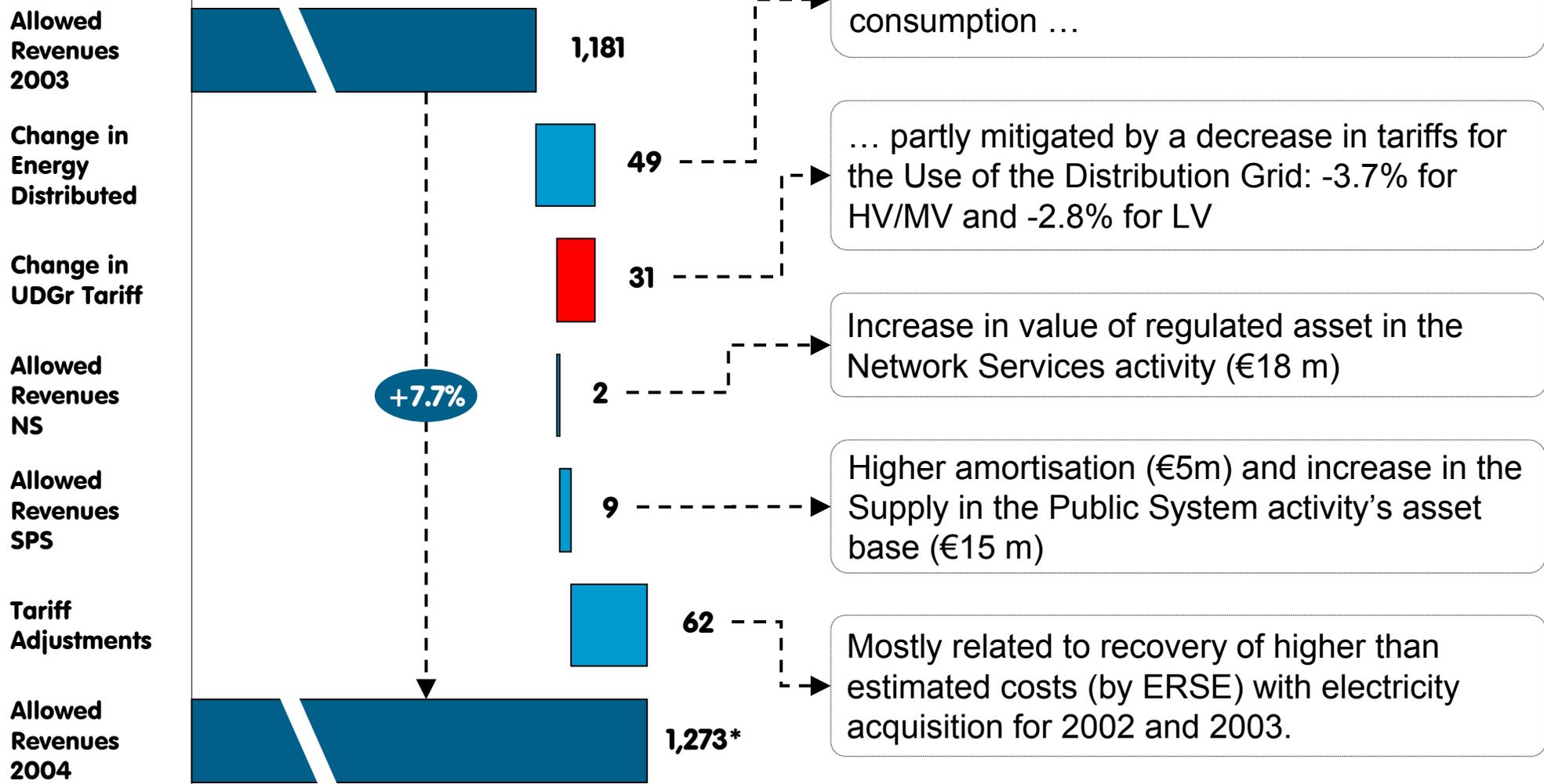


<sup>(1)</sup> Assuming a 10MW Wind Farm with a 27% Load Factor (2350 hours/year)

# Regulated Revenues in Portugal up 8% on higher consumption

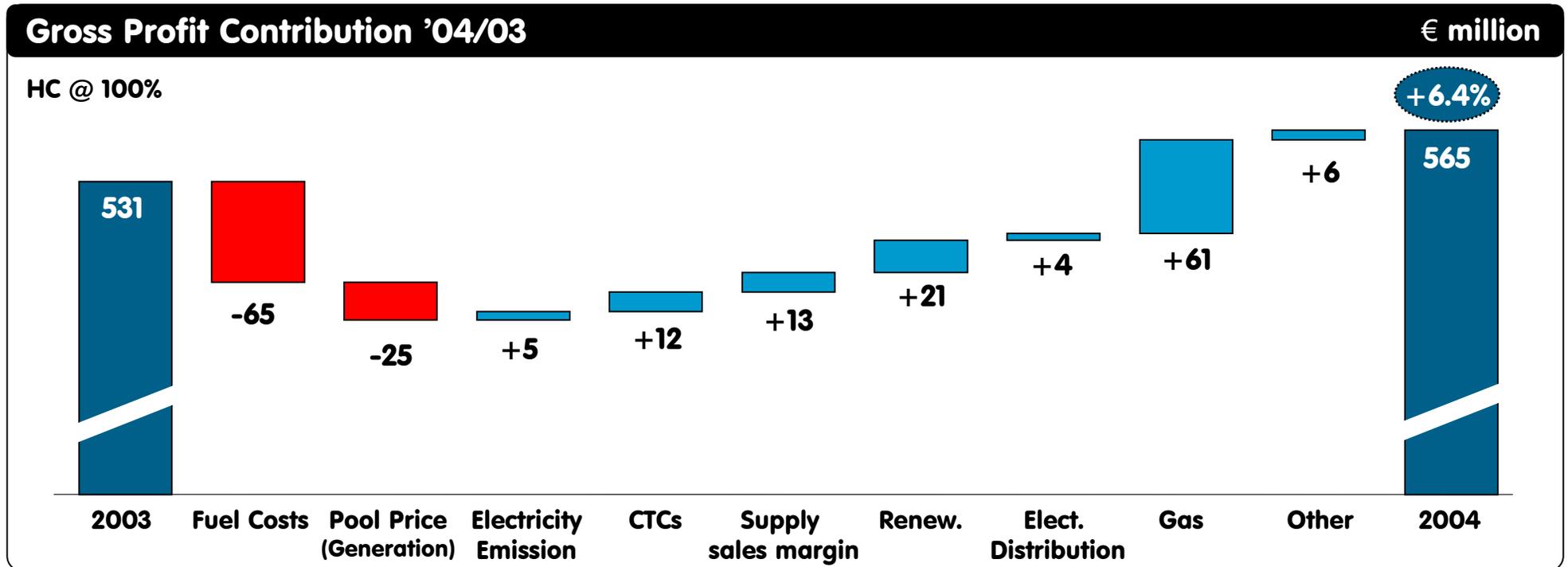


## Allowed Revenues '04/03 € million



\* Reported Gross Margin of €1,194 million for year 2004 includes prior year accounting tariff adjustments of - €78.9 million.

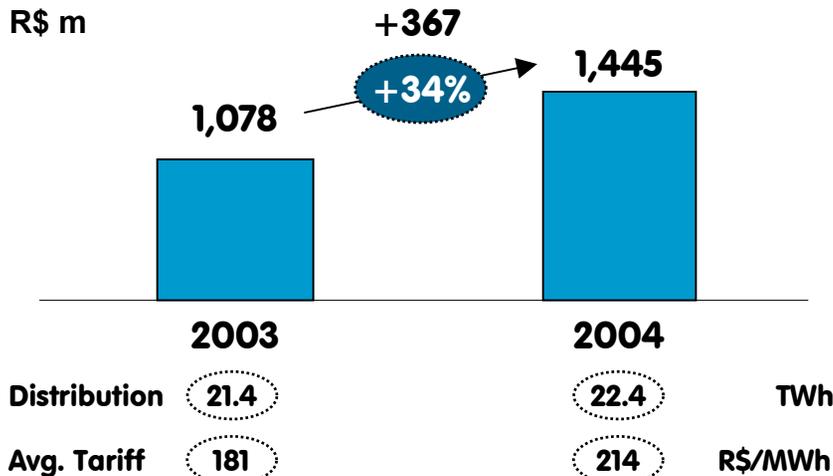
# HC hit by abnormal market conditions



- Dry period and rising fuel costs (coal up 38%) not fully reflected in pool prices during most of 2004 (€34/MWh in 2004 vs. €36/MWh in 2003)
- HC's total generation output went up 2%. CCGT emission, up 27% or 415 GWh
- Supply benefited from low pool prices and improved client mix
- Renewables benefited from additional 142 MW and 242 GWh in wind power
- Full year consolidation of Naturcorp contributed to the gross profit increase

# Brazil up on consumption growth and tariffs

## Distribution Gross Profit '04/03



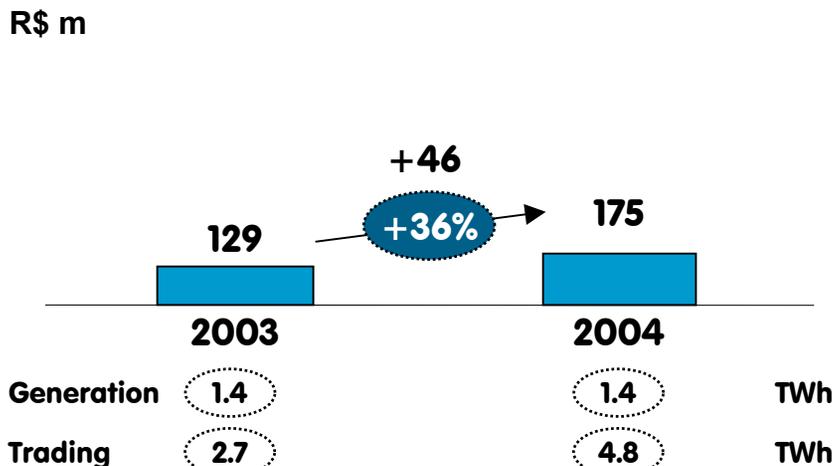
Consumption up 4.5% driven by strong economic growth:

- Bandeirante +7.1%
- Escelsa -0.1%
- Enersul +6.0%

Average tariff up 18%:

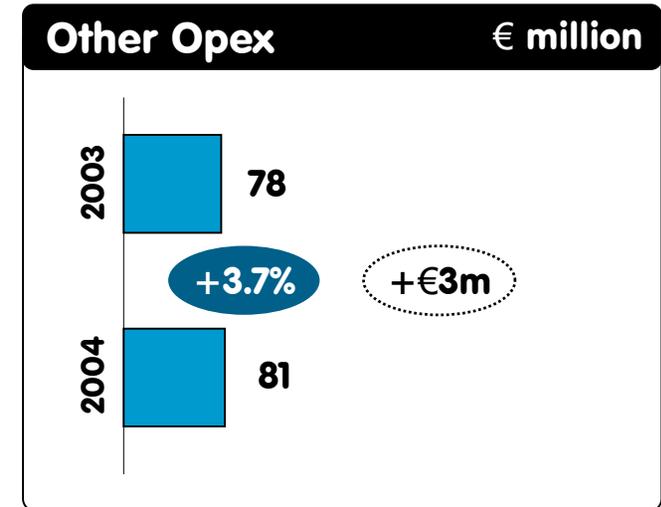
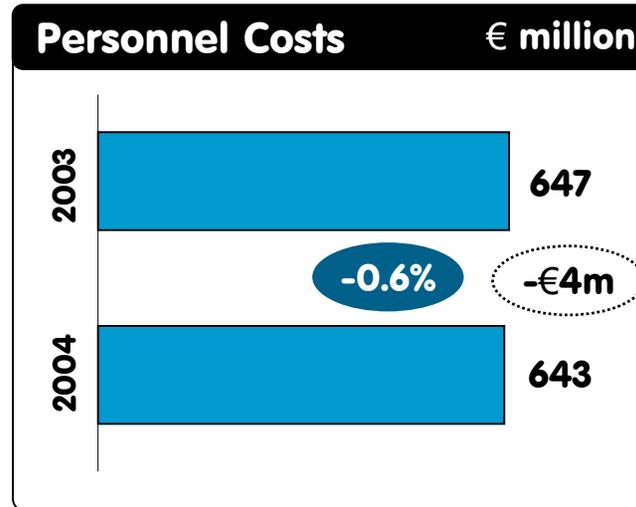
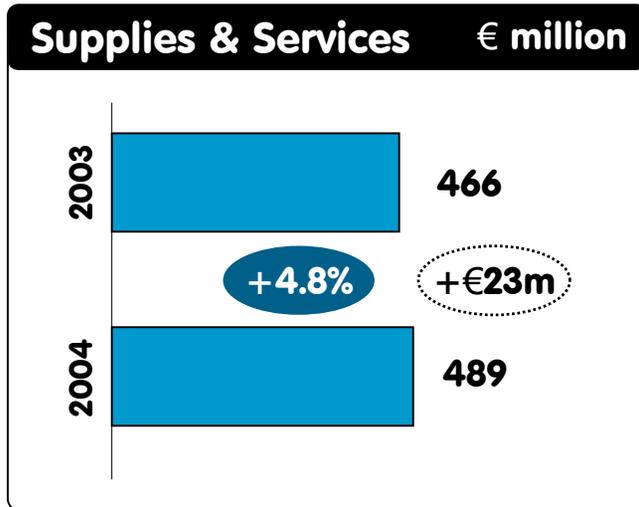
- Bandeirante +19%
- Escelsa +15%
- Enersul +21%

## Generation & Trading Gross Profit '04/03



- Gross margin of Lajeado up 10% on the back of tariff increase which reflects 2003 inflation (9%) despite stable output (1.2 TWh)
- Improved margin at Enertrade due to 77% increase in electricity volumes following agreements with EDP Discos and 2003 energy sold to pool at lower prices

# Strict cost control on growing environment: Opex up 1.8% and gross profit up 5.4%



- EDPD flat due to lower costs with Contact Center
- EDPP up €7.3 million due to higher maintenance costs on new generation capacity
- Costs in modernising client services and improved collection in Brazil contributed to the €14.2 million increase

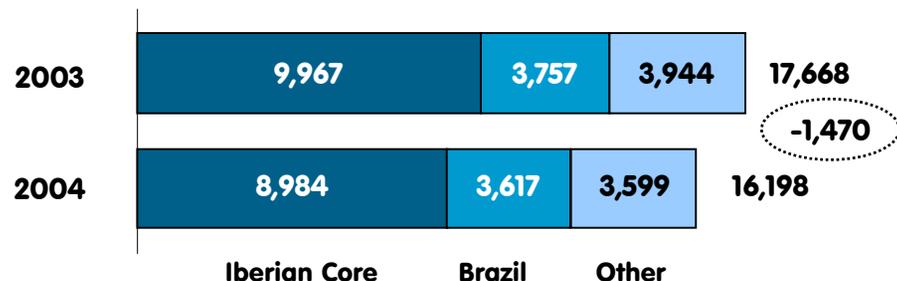
- Strong discipline on personnel costs
- Year 2004 salary increases (2.8%) and automatic career progressions
- Approx. €24m savings related with reduction of 1,291 employees at EDPD covered by the regulatory asset by ERSE

- The 25 b.p. increase in fees to municipalities meant a €14.4 million increase in Opex
- Mitigated by an increase in Own Work Capitalized (+€23 million) due to higher investment in the distribution grid

# Significant savings from HR Restructuring

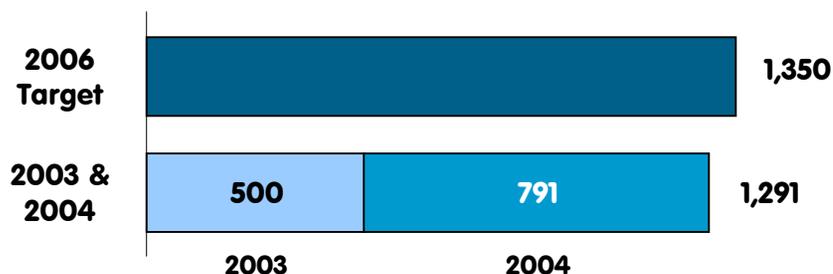


## Number of Employees down 8% – EDP Group



- EDP focused on efficiency across the Group
- Workforce reduction of 1,470
- The successful implementation of the HR Program in Portuguese core business resulted in €24 million savings with impact in consolidated results

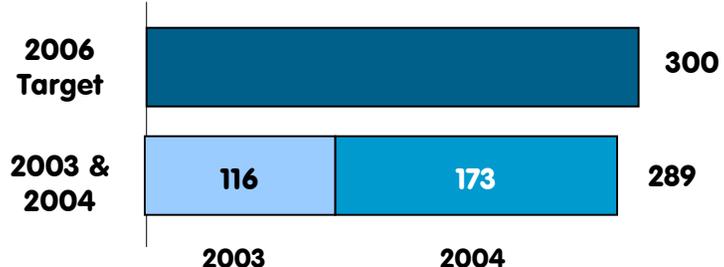
## HR Restructuring – EDP Distribuição



## Personnel Cost Savings (€ million)

	2003	2004
156 Mutual Agreements	-	2.9 <sup>(1)</sup>
1,135 Early Retirements	-	20.7 <sup>(1)</sup>
482 Flexible Retirements	0.4	11.0 <sup>(2)</sup>
<b>Total Savings</b>	<b>0.4</b>	<b>34.6</b>

## HR Restructuring – EDP Produção



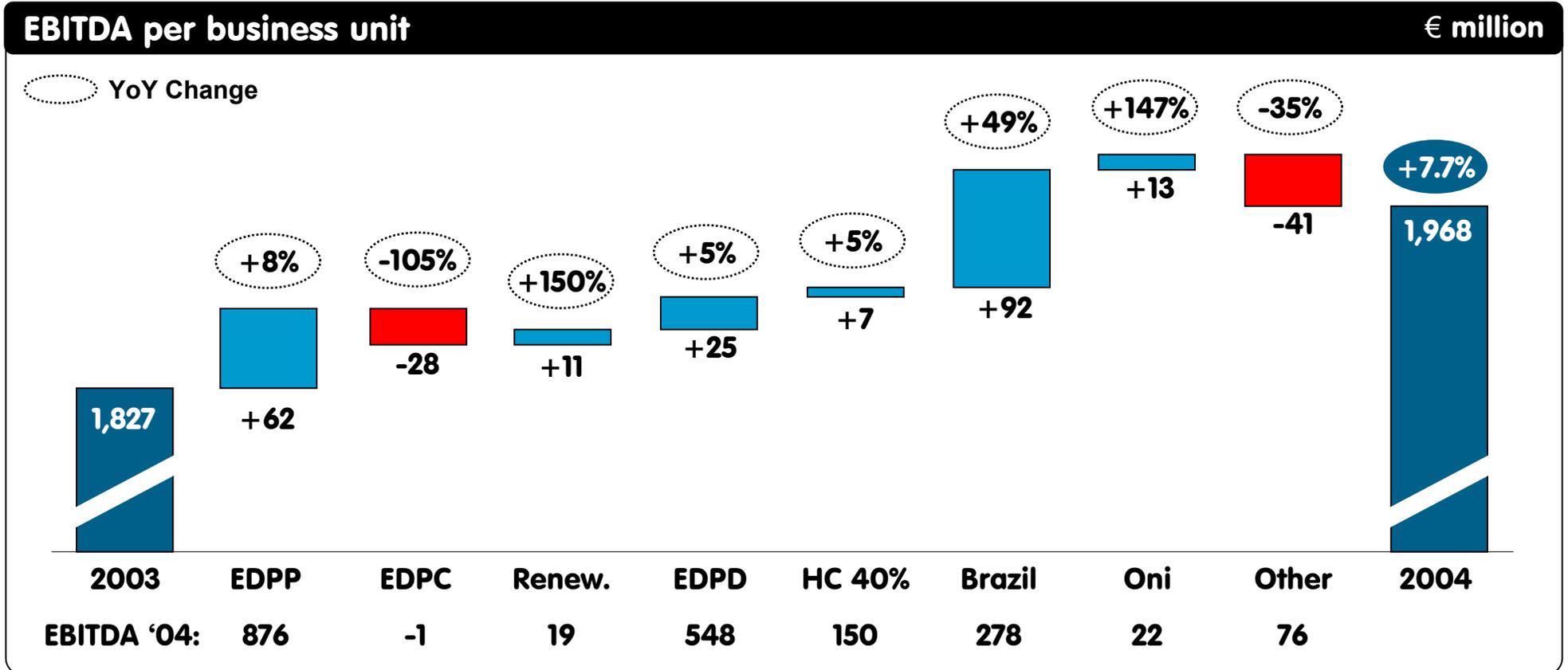
## Personnel Cost Savings (€ million)

	2003	2004
17 Mutual Agreements	-	0.4
272 Early Retirements	-	5.0 <sup>(2)</sup>
148 Flexible Retirements	0.1	3.8 <sup>(2)</sup>
<b>Total Savings</b>	<b>0.1</b>	<b>9.2<sup>(1)</sup></b>

<sup>(1)</sup> Amounts covered by regulatory asset (€447 million) related with the EDPD HR Restructuring Program

<sup>(2)</sup> These amounts are not reflected at the consolidated level due to direct use of provision (€70 million in 2004)

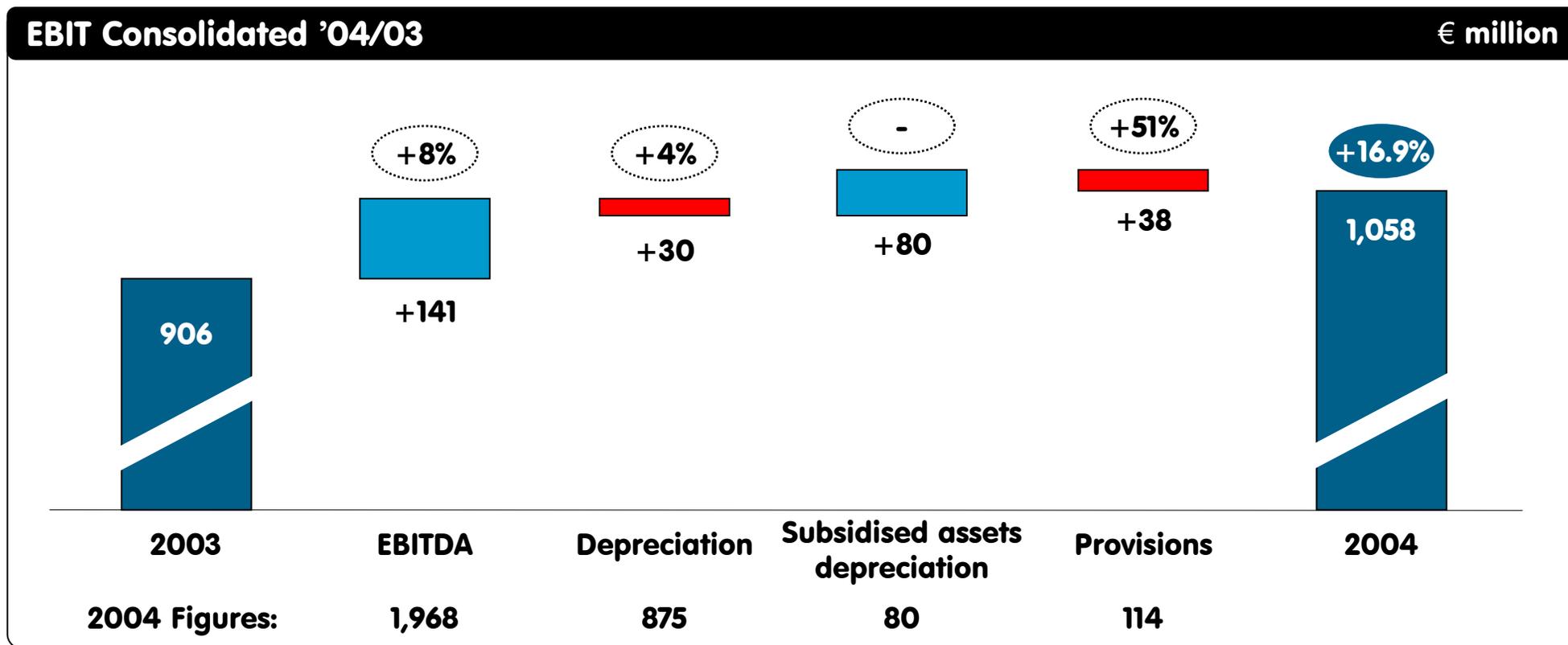
# EBITDA up 7.7% on improved gross profit and cost discipline



Improved operating environment in Brazil was the main contributor

Core business' EBITDA growing at healthy rates

# Reported EBIT up 17% (8% before accounting change)



- Further improvements at the EBIT level came from accounting changes: €80 million in subsidised assets' depreciation previous accounted as an extraordinary
- Higher depreciation following investments in new capacity and the distribution network
- €22 million higher provisions following changes in Bandeirante's October 2003 tariff revision

## Impact of key extraordinary items

- Extraordinary provisions at Oni (inc. reversal of €40m tax credit on OniWay)
- Impairments in goodwill of the IT business
- HR restructuring (anticipation to retirement age and negotiated dismissals)
- Retroactive changes in tariffs in Brazil
- Decommissioning of Tapada do Outeiro (end of PPA)
- Inventory losses (mainly revaluation of coal stocks)
- Capital loss on sale of Fafen
- Capital loss on sale of Campo Grande turbine (Enersul)
- Capital gain on sale of Retecal (40%)
- Other (bad debts, prior year costs and other)

**2004**  
(€ million)

**-55**

**-35**

**-32**

**-16**

**-11**

**-8**

**-2 <sup>(1)</sup>**

**-3 <sup>(2)</sup>**

**+10 <sup>(3)</sup>**

**-13**

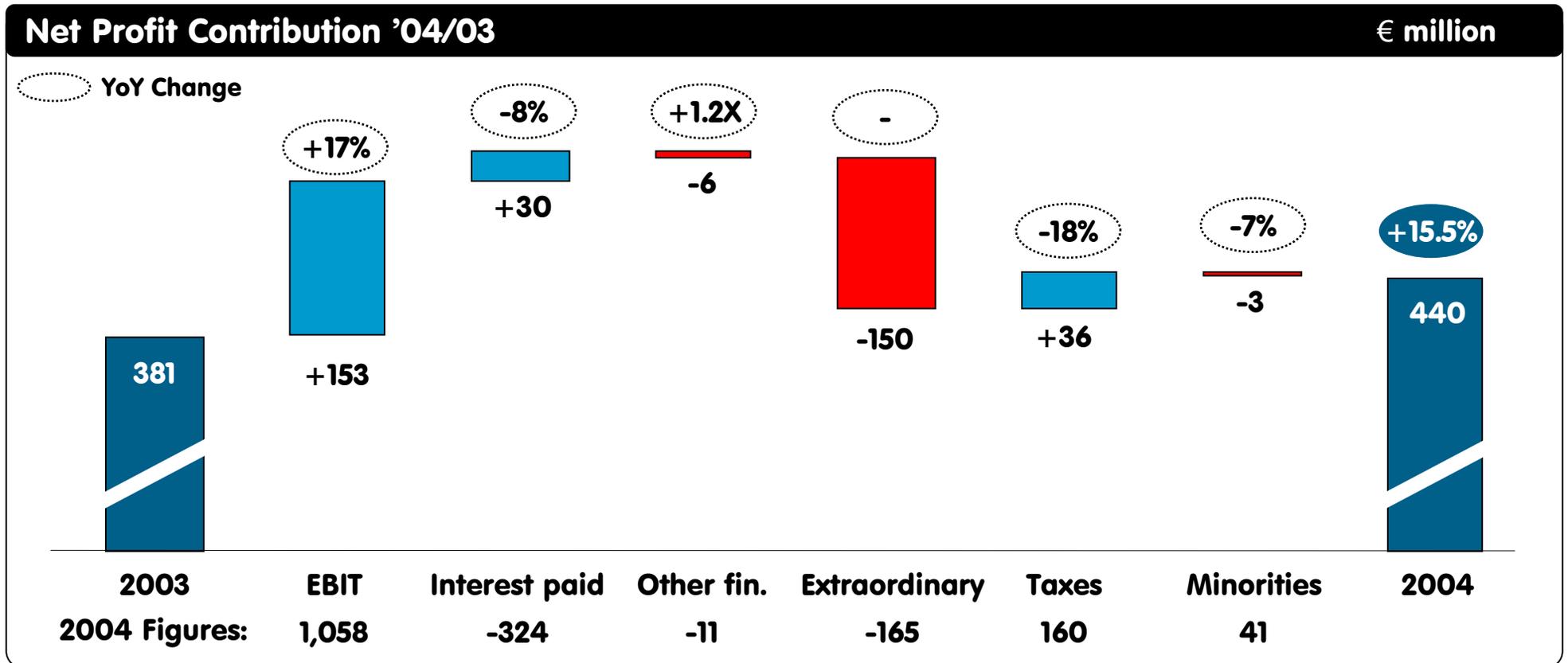
**-165**

<sup>(1)</sup> Fafen sold for R\$96 million (€26 million)

<sup>(2)</sup> Campo Grande Turbine (Enersul) sold for R\$42 million (€11 million)

<sup>(3)</sup> Retecal sold by Hidrocantábrico (100%) for €58 million

# Net Profit up 15% despite extraordinaries



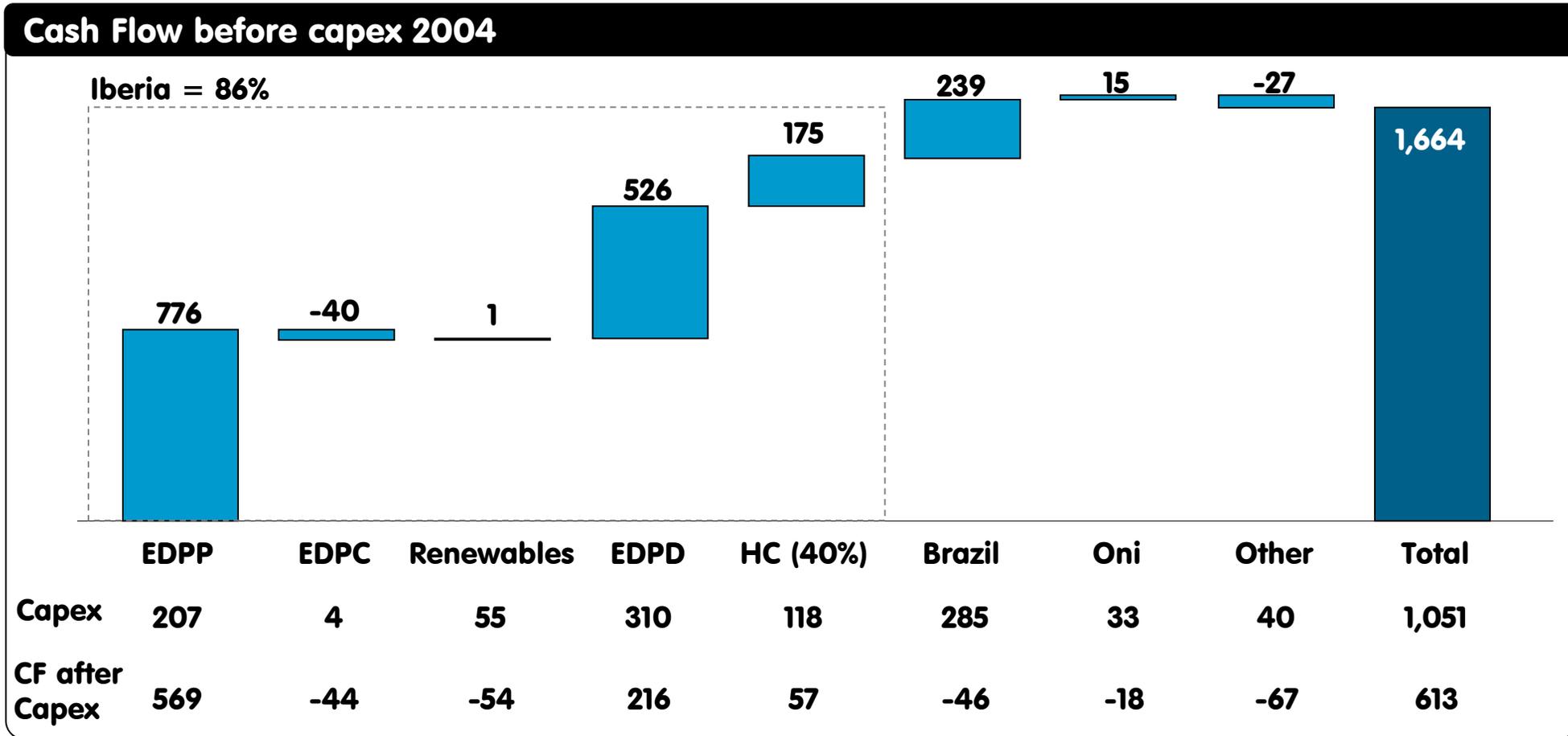
Fall in interest charges in Brazil and lower average debt  
 Pre-tax profit up 5%, stripping out extraordinaries up 32%

# EDP Consolidated P&L



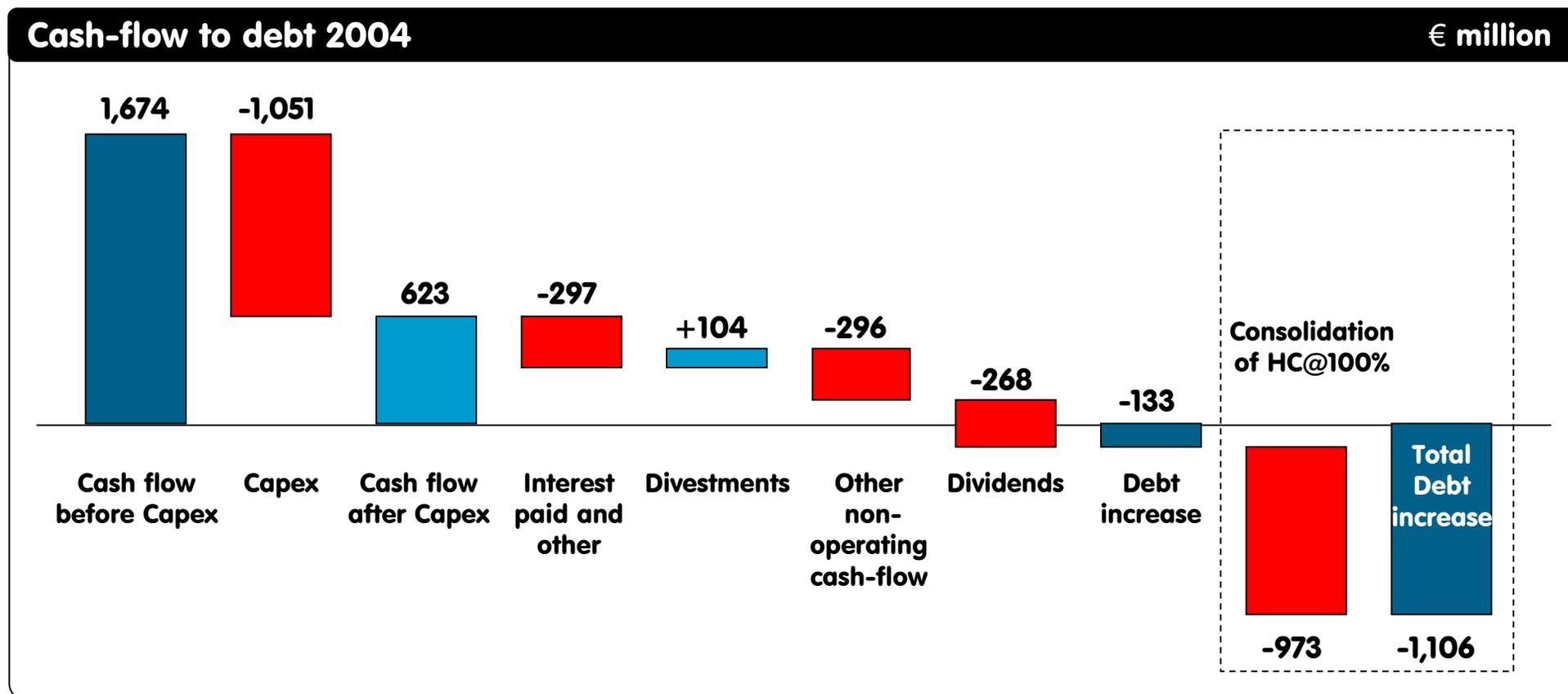
	2004	2003	Chg. %	Chg. €
Revenues	7,222	6,978	3%	244
Direct costs	4,041	3,959	2%	82
<b>Gross profit</b>	<b>3,181</b>	<b>3,018</b>	<b>5%</b>	<b>162</b>
Personnel costs	643	647	(1%)	(4)
Supplies & services	489	466	5%	23
Other costs (net)	81	78	4%	3
<b>Operating costs</b>	<b>1,213</b>	<b>1,191</b>	<b>2%</b>	<b>21</b>
<b>EBITDA</b>	<b>1,968</b>	<b>1,827</b>	<b>8%</b>	<b>141</b>
Depreciation	875	846	4%	30
Subsidised assets' depreciation	(80)	-	-	(80)
Provisions	114	78	51%	38
<b>EBIT</b>	<b>1,058</b>	<b>906</b>	<b>17%</b>	<b>153</b>
Financial results	(335)	(359)	7%	24
Extraordinary results	(165)	(14)	-	(150)
Taxes	160	196	(18%)	(36)
Minorities	(41)	(44)	7%	3
<b>Net Profit</b>	<b>440</b>	<b>381</b>	<b>15%</b>	<b>59</b>

# Operating cash-flow funded 22% increase in Capex



- Despite heavy investments in capacity and distribution grid, the core business generated 86% of total cash-flow after Capex
- Capex in Brazil doubled due to investments in the Peixe Angical hydro plant

# Debt increases by HC consolidation



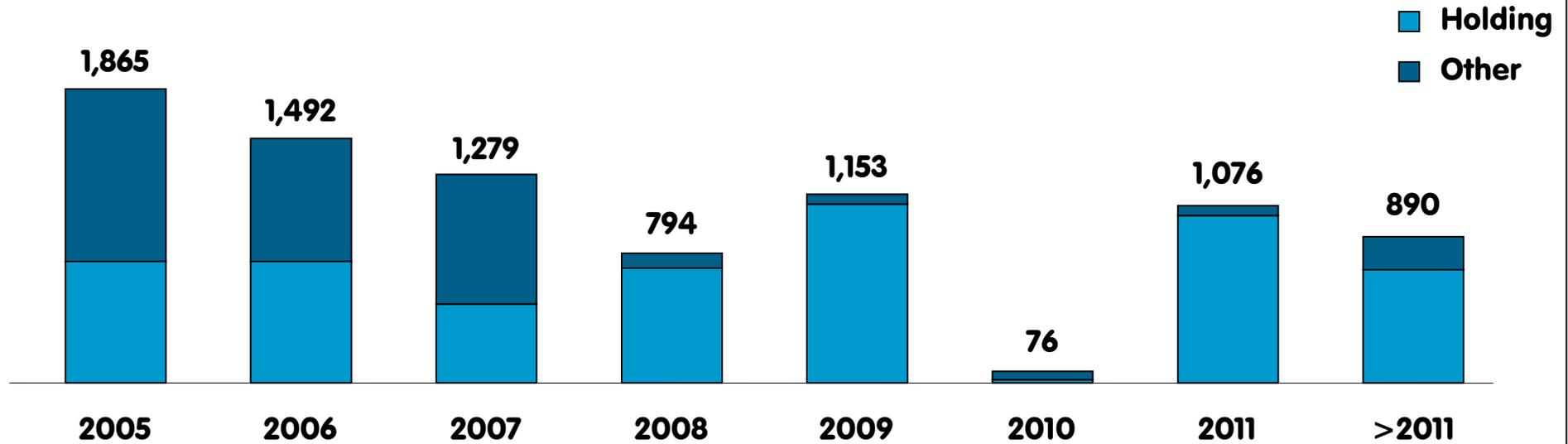
Investments were up over €1 billion

Total debt increased 15% following consolidation of 100% of HC's debt

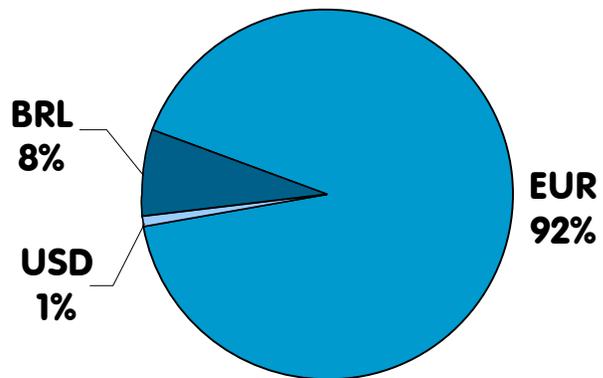
The acquisition of 56% of HC was fully funded through a rights issue

## Debt Maturity Profile

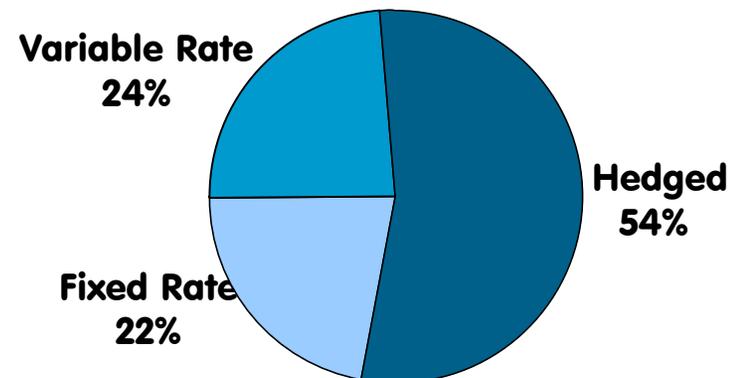
€ million



## Debt by Currency YE2004



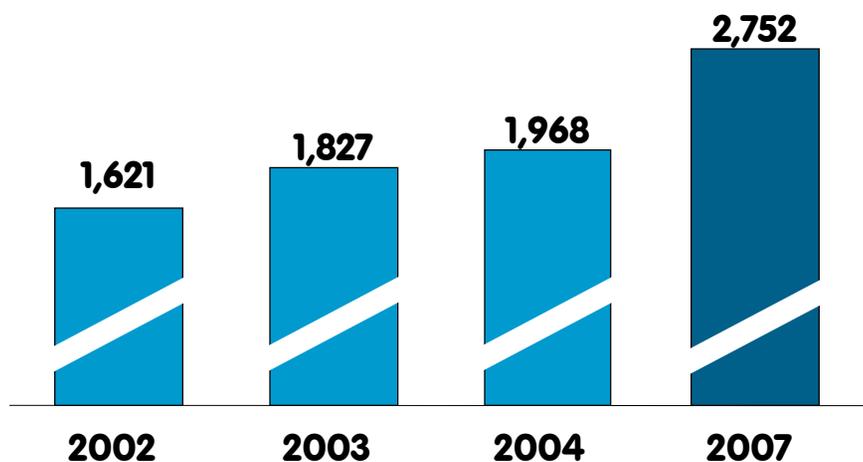
## Medium/Long Term Debt YE2004



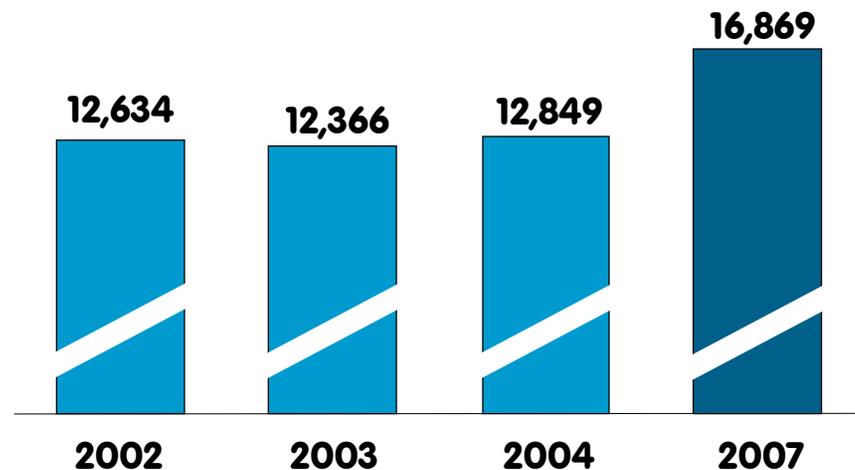
# On track to achieve profitability target



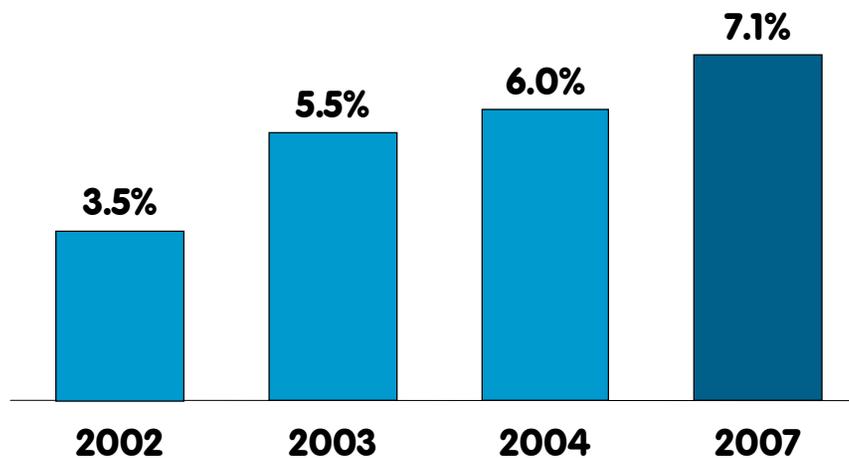
**EBITDA Consolidated** € million



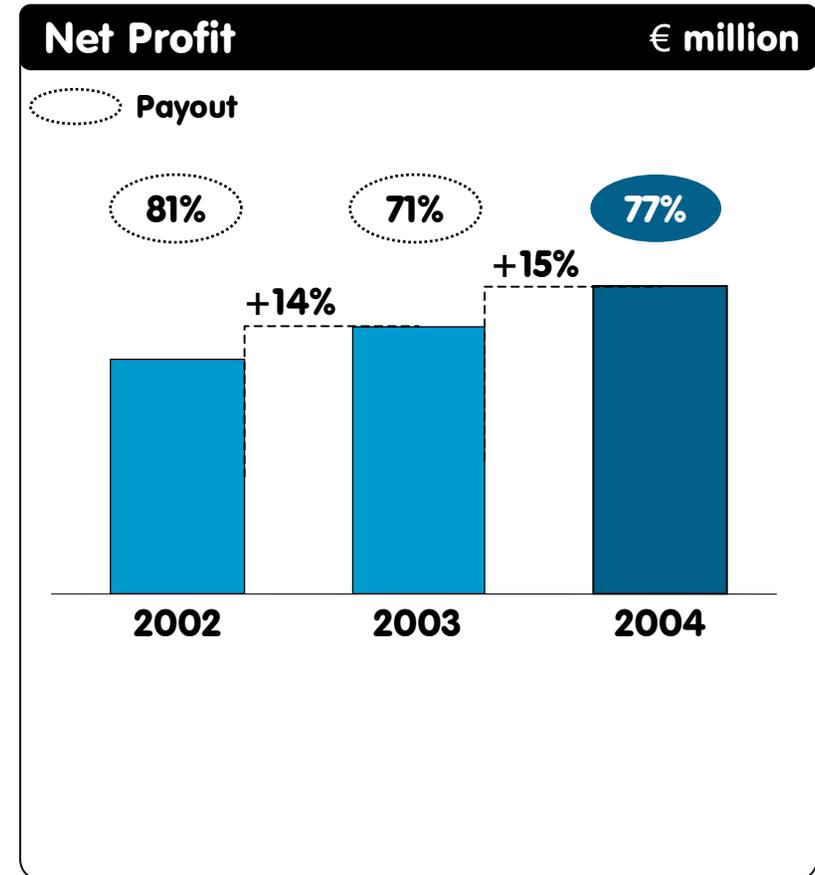
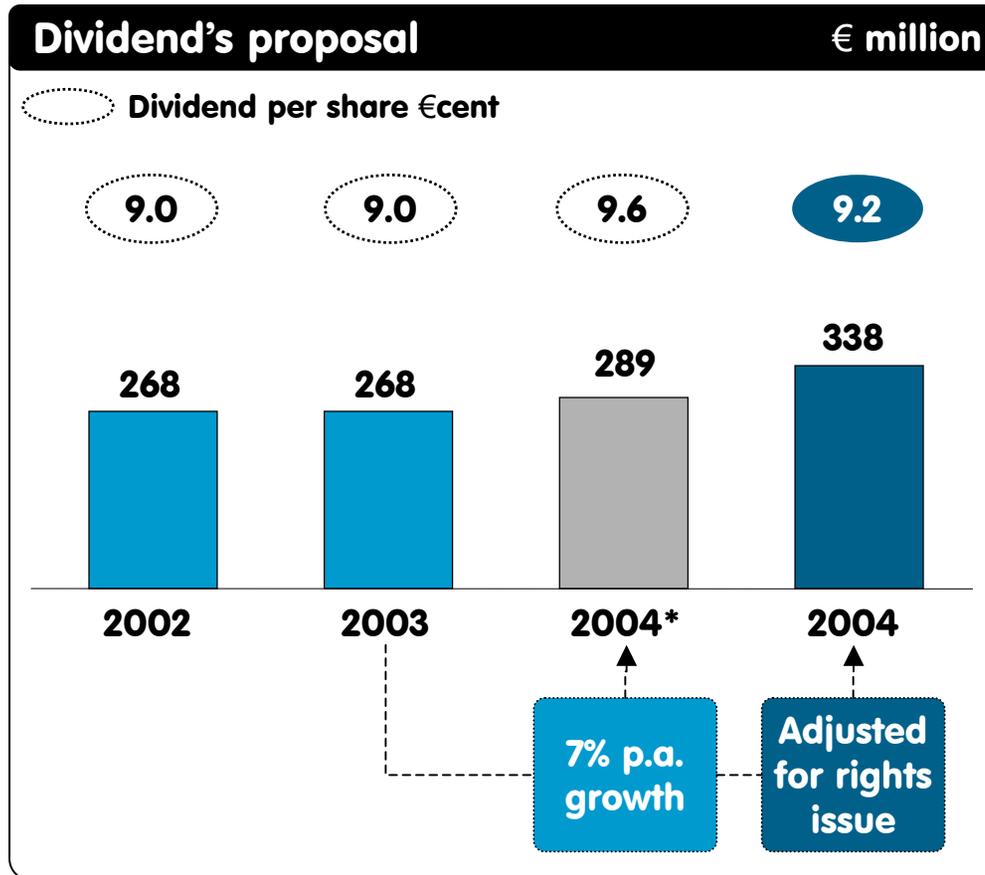
**Invested Capital** € million



**ROIC**



# Sustained dividend growth policy in line with announced in Strategy Plan



Adjust 2004 dividend for the increase in Market Cap following €1.2 billion capital increase:

- Total dividend distributed on 2003 Results to grow by 7%
- Adjust 2004 total dividend amount preserving Market Cap yield (based on cum-right's price of €2.36 plus capital increase of €1.2 billion)



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