2003

Annual Report

Financial Report

EDP

EDP – Electricidade de Portugal, S.A.

BASIS OF PRESENTATION OF THE FINANCIAL REPORT

On one hand, with a clear objective of full compliance with legal and accounting requirements, in particular with the Portuguese Official Plan of Accounts and, on the other hand aiming to disclose the economic, financial and qualitative situation in accordance with high international standards, the Executive Committee has decided that the time is appropriate to restructure the presentation of the financial information in order to initiate a gradual and sustained implementation of the International Accounting Principles and Standards that will be mandatory only as from 2005.

On this basis, this report is divided into the following five chapters:

I. Financial Review

This chapter presents a financial review of the EDP Group as a whole, while also providing a specific review of each business area.

II. Transition to and Implementation of International Accounting Standards (IFRS/IAS) within the EDP Group

This chapter addresses the process of transition to and implementation of International Accounting Standards within the EDP Group, setting out the principal impacts on the EDP Group and the main accounting and evaluation criteria used in the preparation of the Consolidated IFRS/IAS Financial Statements, as well as their quantification with reference to December 31, 2002.

III. Financial Statements – 2003 and 2002

Includes a complete set of balance sheets, profits and loss accounts by nature and by function, cash-flow statements, and statements of changes in shareholders' equity, prepared on a consolidated and on an individual basis, and the notes to the Financial Statements.

The financial statements on a consolidated and individual basis have been prepared in accordance with the format of the International Accounting Standards.

IV. Accounting Information required by the Portuguese Official Plan of Accounts – 2003 and 2002

This chapter includes the accounting items that are required to be published, as well as all the items referred to in the mandatory annex to the financial statements.

V. Documents of the Statutory Auditor, of the CMVM-registered Auditor and of the External Auditors

In respect of the financial statements, prepared in accordance with accounting principles generally accepted in Portugal, includes the complete set of reports, opinions and legal certification in to the consolidated and individual financial statements, with reference to chapters III and IV.

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[1] These accounting information tables required under the Official Plan of Accounts are presented in Chapter III "Financial Statements – 2003 and 2002".

I – FINANCIAL REVIEW

Contents

>> 1 EDP GROUP CONSOLIDATED

The main changes on EDP Group's consolidation perimeter, compared to 2002, are presented as follows:

- Proportional consolidation of HidroCantábrico as from June 1, 2002 (previously consolidated using the equity method) and purchase method consolidation of NaturCorp by HidroCantábrico since August 1, 2003;

- Purchase method consolidation of Escelsa and Enersul as from October 1, 2002 (these companies were consolidated using the equity method until this date); and

- Creation of the Renewables "segment", which includes ENERNOVA and EDP Bioeléctrica, excluded from the perimeter of EDP Produção.

Consolidated Balance Sheet
EDP Group

million euros

	2003	2002	Var. %
Net Assets	**18 651**	**18 125**	**2.9%**
Tangible and intangible fixed assets	13 501	13 047	3.5%
Investments	1 583	1 896	(16.5%)
Medium/long-term assets	436	261	67.3%
Other Assets	1 899	1 802	5.4%
Accruals and Deferrals	1 232	1 119	10.1%
Shareholders' Equity and Liabilities	**18 651**	**18 125**	**2.9%**
Provisions for liabilities and charges	820	806	1.7%
Hydrological correction account	388	324	19.6%
Financial liabilities	7 493	7 994	(6.3%)
Other liabilities	1 782	1 369	30.2%
Accruals and Deferrals	2 634	2 073	27.1%
Shareholders' equity	5 298	5 494	(3.6%)
Minority interests	236	65	262.7%

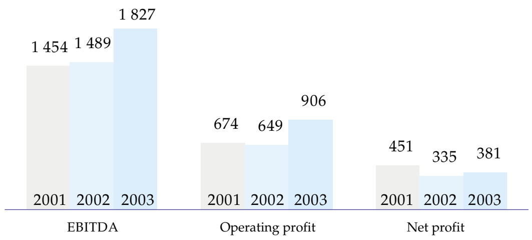
Consolidated Profit and Loss Account
EDP Group

million euros

	2003	2002	Var. %
Operating Income	**7 231.2**	**6 658.9**	**8.6%**
Sales and services rendered	6 977.5	6 386.5	9.3%
Own work capitalised	235.6	241.8	(2.5%)
Other income	18.1	30.6	(40.9%)
Operating Costs	**5 404.2**	**5 170.0**	**4.5%**
Costs of stocks sold and consumed	3 921.1	3 687.1	6.3%
Supplies and services	632.5	675.0	(6.3%)
Personnel costs	646.6	624.8	3.5%
Rents on concessions	175.6	158.2	11.0%
Other costs	28.4	24.9	13.9%
EBITDA	**1 827.0**	**1 488.9**	**22.7%**
EBITDA (%)	***25.3%***	*22.4%*	*2.9%*
Depreciation and amortisation	845.6	739.5	14.3%
Provisions	75.7	100.7	(24.8%)
Operating profit	**905.7**	**648.6**	**39.6%**
Financial Results	**(359.0)**	**(222.9)**	**(61.1%)**
Extraordinary Results	**(14.4)**	**(138.9)**	**89.6%**
Income tax	195.5	171.7	13.9%
Minority Interests	(44.3)	(220.0)	79.8%
Net Profit	**381.1**	**335.2**	**13.7%**

EDP Group

million euros



The **Net Profit** of the EDP Group amounted to € 381.1 million in 2003, 13.7% up when compared to 2002.

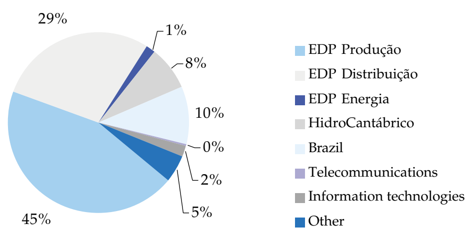
EBITDA by Business

thousand euros

	2003		2002		Var. %
EDP Produção	813 218	44.5%	780 872	52.4%	4.1%
Renewables	7 540	0.4%	7 040	0.5%	7.1%
EDP Distribuição	523 158	28.6%	489 249	32.9%	6.9%
EDP Energia	26 981	1.5%	9 656	0.6%	179.4%
HidroCantábrico	143 406	7.8%	67 789	4.6%	111.5%
Brazil	186 839	10.2%	97 192	6.5%	92.2%
Telecommunications	8 939	0.5%	(45 126)	-3.0%	-
Information technologies	34 100	1.9%	55 268	3.7%	(38.3%)
Other	82 859	4.5%	26 950	1.8%	207.5%
EBITDA	**1 827 040**	**100.0%**	**1 488 890**	**100.0%**	**22.7%**

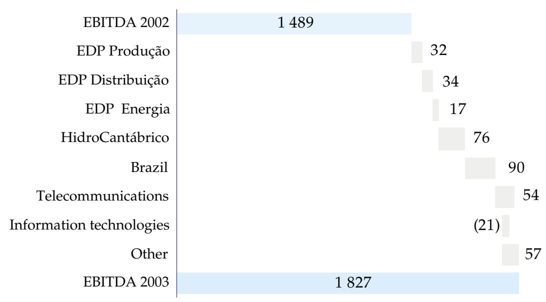
The **EBITDA** of the EDP Group totalled € 1 827.0 million, an increase of 22.7% or € 338.2 million when compared to 2002.

Breakdown of EBITDA
EDP Group



EBITDA
EDP Group

million euros



EBITDA growth was mainly influenced by the alteration of the Group's consolidation perimeter. Had HidroCantábrico and the Brazilian subsidiaries been consolidated throughout the whole of 2002 they would have made an additional contribution to the EBITDA in that year in the amount of € 66.9 million and € 65.0 million respectively. On a pro forma basis, the Group's EBITDA would have increased by 12.7%, or € 206.3 million, compared to 2002. The following contributions were determinant to EBITDA growth:

- The € 32.3 million contribution of EDP Produção, as a result of the success of the operating cost savings plan;

- EDP Distribuição, increasing its EBITDA by € 33.9 million when compared to 2002, as a result of the growth of the Gross Margin, driven by the favourable Tariff Deviation in 2003, by the adjustment to the Tariff Deviation in 2002 and by greater cost saving and control;

- The € 17.3 million increase of the EBITDA of EDP Energia, as result of the growing liberalisation of the electricity market and of the enlargement of the EDP business in this market;

- The € 24.6 million contribution by Brazil, on a pro forma basis, caused by the increase of tariffs and by the upturn of consumption;

- The positive impact of ONI (Fixed Telecommunications) in the amount of € 54.1 million as a result of the increase of voice traffic, of the decrease of interconnection tariffs and of cost saving; and

- The negative EBITDA of ONI Way in 2002 in the amount of € 35 million.

Statement of Financial Results

EDP Group

thousand euros

	2003 Real	2002 Real	2003 Pro forma	2002 Pro forma	Var. % Prof.
Financial Investments	**(22 526)**	**(104 123)**	**(13 767)**	**(21 662)**	**36.4%**
Gains/losses on Group and associate companies	33 155	(78 734)	41 914	17 333	141.8%
CEM	*10 589*	*6 538*	*10 589*	*7 928*	*33.6%*
Electra	*(8 759)*	*0*	*0*	*0*	-
Escelsa	*0*	*(102 908)*	*0*	*0*	-
HidroCantábrico	*0*	*5 379*	*0*	*0*	-
REN	*28 047*	*19 395*	*28 047*	*19 395*	*44.6%*
Other	*3 278*	*(7 138)*	*3 278*	*(9 990)*	-
Returns on holdings	36 740	40 042	36 740	40 048	(8.3%)
Amortisation of goodwill	(92 421)	(65 431)	(92 421)	(79 043)	(16.9%)
Ace Holding	*(4 256)*	*(4 496)*	*(4 256)*	*(4 496)*	*5.3%*
EBE	*(8 856)*	*(8 435)*	*(7 745)*	*(8 435)*	*8.2%*
Comunitel	*(16 073)*	*(8 897)*	*(16 073)*	*(8 897)*	*(80.7%)*
HidroCantábrico	*(33 786)*	*(17 730)*	*(33 786)*	*(30 383)*	*(11.2%)*
Iven	*(21 654)*	*(18 414)*	*(20 504)*	*(18 414)*	*(11.3%)*
Other	*(7 796)*	*(7 459)*	*(10 057)*	*(8 418)*	*(19.5%)*
Financing	**(336 494)**	**(118 720)**	**(300 416)**	**(546 210)**	**45.0%**
Interest income / expense	(334 439)	(201 261)	(363 174)	(371 544)	2.3%
Net curr. exchange diff.	(10 714)	67 414	54 252	(164 150)	-
Selic and Parcela A	50 265	24 039	50 265	43 752	14.9%
Other	(41 606)	(8 912)	(41 759)	(54 268)	23.1%
Financial Profit/(Loss)	**(359 020)**	**(222 843)**	**(314 183)**	**(567 872)**	**44.7%**

The Group incurred **Financial Losses** in the amount of € 359.0 million, compared to € 222.8 million in 2002. However, to make the two periods comparable, a pro forma statement of financial results is provided, which (i) includes in 2002 the proportional consolidation of HidroCantábrico and the purchase method consolidation of Escelsa and Enersul, (ii) excludes in 2003 the consolidation, for the first time, of the losses of Electra (Cabo Verde), and (iii) excludes in both periods the effect of the purchase of 83% of the Escelsa Bonds by EDP,S.A. Comparing the pro forma results, the emphasis is on:

- The gains on Group companies and associates, up 141.8% as a result of the positive evolution of the contributions by CEM (Macao) and by REN;

- The 2.3% reduction of Interest Expense. The pro forma accounts exclude the effect of the acquisition of the Escelsa bonds (€ 89.8 million in 2002 and € 28.9 million in 2003) and include the purchase method consolidation of HidroCantábrico, Escelsa and Enersul in 2002; and

- The positive evolution of Net Currency Exchange Differences. The pro forma accounts exclude the effect of Escelsa bonds (positive effect of € 56.4 million in 2002 and negative effect of € 65.0 million in 2003) and include the consolidation of Escelsa and Enersul in 2002 (€ 175.4 million).

Statement of Extraordinary Results

EDP Group

thousand euros

	2003	2002	Var. %
Gains / losses on fixed assets	29 297	11 933	145.5%
Reduction of provisions and depreciation	73 954	76 371	(3.2%)
Increase of provisions and depreciation	(130 691)	(299 232)	56.3%
Corrections in respect of previous years (net)	(31 607)	(4 243)	-
Hydrological correction account (net)	19 350	0	-
Investment subsidies	76 584	76 051	0.7%
Bad debt	(15 086)	(9 084)	(66.1%)
Gains / losses on stocks	(1 189)	(2 093)	43.2%
Other gains / losses	(35 055)	11 358	-
Extraordinary Profit/(Loss)	**(14 443)**	**(138 939)**	**89.6%**

The EDP Group returned an **Extraordinary Loss** in the amount of € 14.4 million in 2003, compared to a loss of € 138.9 million in 2002. This variation results from a number of one-offs in each year, namely:

- The 2002 figures include a provision for the liquidation of ONI Way (€ 299.2 million), the sale of its tax credit to Vodafone (€ 70 million) and the write-off of Shopping Direct by ONI Web (€ 20.3 million);

- The first half of 2002 includes the sale of several office buildings to the pension fund at the price determined by an independent valuation, generating a gain of € 27.9 million, while the second half includes the approval of the sale of Redal by the Moroccan authorities, which resulted on an additional gain of € 15.8 million;

- On October 1, 2003, EDP sold its holding in Iberdrola of 3% to BBVA (1.11% on September 25) and to BANCAJA (the remaining 1.89% on September 30 and October 1), resulting in a gain of € 17.8 million;

- EDP signed a protocol with the Portuguese State (INAG – Water Institute) on investment in hydroelectric power stations made by both parties, namely at Aguieira, Raiva and Alqueva. The amounts invested in these projects were recognised and led to an appreciation of the holding in Alqueva (€ 12.8 million). The provision for these projects was then written back;

- During the first half of 2003, Escelsa wrote back the provision that had been created (€ 21.6 million) to mitigate any potential loss in the value of its assets in USD;

- Extraordinary provisions were charged during 2003 to cover contingencies and possible devaluations in Brazil and in Cabo Verde, namely: the possible reduction of the regulatory tariffs at Fafen (€ 37.9 million) and at Lajeado (€ 24.3 million), the losses at Electra's Shareholders' Equity (€ 27 million) and other contingencies (€ 30 million); and

- Extraordinary Income associated with the Hydraulicity Correction amounted to € 19.3 million in 2003. This result was caused by a surplus of the Hydrological correction account compared to the benchmark defined to cover the effects of hydrological variations.

Hydrological correction account

EDP Group

thousand euros

Balance 31 Dec 02	Increase of Hydrological correction account		Extraordinary Profit	Balance 31 Dec 03
	2003	Financial Costs		
324 111	71 916	10 829	19 350	387 506

The decrease of **Minority Interests** in the EDP Group is related to the smaller losses of the ONI Group and to the positive contribution made by the Brazilian subsidiaries, which EDP consolidates using the purchase method.

In 2003, **Operational Investment** totalled € 1 068.0 million, 18.4% less than in 2002.

Operational Investment

EDP Group

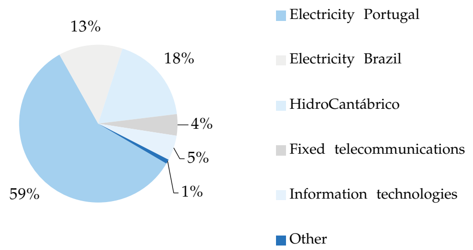
thousand euros

	2003	2002	Var. %
Electricity Portugal	**625 775**	**666 122**	**(6.1%)**
EDP Produção	236 083	239 366	(1.4%)
Renewables	39 720	47 065	(15.6%)
EDP Distribuição	343 618	371 187	(7.4%)
EDP Energia	6 354	8 504	(25.3%)
Electricity Brasil	**140 275**	**202 758**	**(30.8%)**
Generation	69 067	134 275	(48.6%)
Distribution	70 064	66 773	4.9%
Other	1 144	1 709	(33.1%)
HidroCantábrico	**192 504**	**211 938**	**(9.2%)**
Electricity generation	21 234	66 548	(68.1%)
Electricity distribution	46 971	68 534	(31.5%)
Supply	5 246	2 237	134.5%
Gas distribution	30 013	29 460	1.9%
Special regime	78 267	43 133	81.5%
Other	10 773	2 026	431.7%
Fixed telecommunications (1)	**46 182**	**140 803**	**(67.2%)**
Information technologies	**55 464**	**41 833**	**32.6%**
Other	**7 752**	**45 363**	**(82.9%)**
Operational Investment	**1 067 952**	**1 308 817**	**(18.4%)**

Note: Total operational investment is presented for each company, regardless of the EDP Group holding in the company and of changes of internal ownership within the Group.
(1) Excludes ONI Way in 2002.

Operational Investment

EDP Group



Regarding the Generation business, the main investments were as follows:

- The investment in TER (Non-binding Generation) amounted to € 142 million in 2003. The total investment planned for this power station (Groups I, II and III) amounts to € 675 million, of which 51% have already been incurred;

- The additional capacity installed at the Venda Nova hydroelectric power station (SEP Generation) amounted to € 34 million. The total investment planned amounts to € 139 million, of which 79% have already been incurred; and

- The investment in increasing capacity by 25 MW at the ENERNOVA Wind Farms (Special Regime Generation). The company has planned investments in the amount of € 212 million aiming at an additional 280 MW wind-generating capacity by 2006 and another 300 MW by 2008.

The majority of the EDP Distribuição investments was connected with the enlargement and improvement of the distribution network. In 2002 € 80.5 million were in respect of the transfer of IT systems from the EDINFOR Group to the company's ownership.

In Brazil there was a substantial reduction of Operational Investment, mainly as a result of the suspension of the work on the Peixe Angical power station during the first nine months of 2003 and of the conclusion of the Lajeado power station in November 2003 and its consequent coming on stream.

Investment by HidroCantábrico amounted to € 192.5 million, a large part of which was directed at wind farms, namely Albacete (64 MW installed capacity), which came into operation during the third quarter of 2003, and Arlanzón (34 MW installed capacity), set to come into operation in April 2004.

ONI invested € 46.2 million during 2003, 67% of which referred to investments in operations in Spain.

Financial Investment
EDP Group

thousand euros

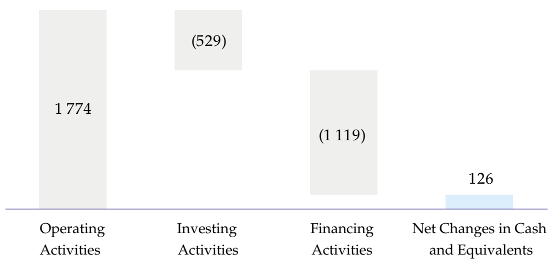
	2003	2002
Banco Comercial Português	40 599	30 636
HidroCantábrico	0	520 591
Naturcorp	100 235	0
Escelsa bonds	0	379 964
Other	40 926	35 243
Financial Investment	**181 760**	**966 434**

NOTE: Capital paid up to companies in Brazil to finance operational investments is detailed in the analysis of Brazil operational investment.

Financial Investment in 2003 totalled € 181.8 million, largely influenced by the acquisition of control of NaturCorp by HidroCantábrico.

Cash Flows
EDP Group

million euros



Changes in Cash and Equivalents amounted to € 125.8 million in 2003. The cash flows of investing and financing activities (-€ 529.1 million and -€ 1 118.6 million respectively) were insufficient to offset the cash flow of operating activities (€ 1 773.6 million).

Cash Flow
EDP Group

thousand euros

	2003	2002	Var. %
Customers	6 871 324	6 215 764	10.5%
Suppliers	(4 255 316)	(4 085 818)	(4.1%)
Personnel	(707 233)	(685 792)	(3.1%)
Concession rents	(171 749)	(158 176)	(8.6%)
Charge for income taxes	(146 033)	(277 444)	47.4%
Other variations of operating	149 004	(62 527)	-
Extraordinary items	33 602	(48 337)	-
Cash Flow from Operating Activities	**1 773 599**	**897 670**	**97.6%**
Sale of investments	456 820	193 377	136.2%
Tangible and intangible fixed assets	33 604	77 603	(56.7%)
Investment subsidies	74 059	56 448	31.2%
Interest and similar income	13 266	4 083	224.9%
Dividends	36 663	40 042	(8.4%)
Effects of the variation on the perimeter	0	(483 124)	100.0%
Acquisition of financial investments	(140 834)	(55 511)	(153.7%)
Purchase of fixed assets	(1 002 726)	(974 327)	(2.9%)
Cash Flow from Investing Activities	**(529 148)**	**(1 141 409)**	**53.6%**
Proceeds Loans obtained	13 434 657	12 905 666	4.1%
Payments Loans obtained	(13 823 408)	(11 884 708)	(16.3%)
Interest and similar costs	(456 069)	(375 734)	(21.4%)
Dividends	(268 275)	(337 675)	20.6%
Acquisition of treasury stock	(5 526)	(10 399)	46.9%
Cash Flow from Financing Activities	**(1 118 621)**	**297 150**	**-**
Net changes in cash and equivalents	**125 830**	**53 411**	**135.6%**

At the end of 2003 the Group's **Consolidated Debt** amounted to € 7492.7 million, 6.3% or € 501.4 million less than the previous year. This amount reflects a reduction of € 561 million in respect of EDP, S.A. when compared to the previous year, mainly resulting from the liquidity achieved by the sale of the holding in Iberdrola (in the amount of € 400 million).

Financial Debt
EDP Group

thousand euros

	2003	2002	Var. %
EDP, S.A and EDP Finance BV	5 356 222	5 916 883	(9.5%)
HidroCantábrico (40%)	786 160	808 569	(2.8%)
Brazil	547 279	592 388	(7.6%)
Telecommunications	685 425	622 053	10.2%
Other	117 623	54 182	117.1%
Financial Debt	**7 492 709**	**7 994 075**	**(6.3%)**

Despite the acquisition of 56.8% of NaturCorp originating a cash investment of € 251 million, HidroCantábrico was successful in reducing its Financial Debt, due to the sale the 7% holding in REE (€ 102 million) and to the securitisation of the tariff deficit incurred between 2000 and 2002 (€ 69 million).

The policy of centralising the contracting of financial debt and cash management on EDP, S.A. was maintained throughout 2003, with the exception for the companies that are not wholly owned (such as HidroCantábrico and ONI) and for the Brazilian subsidiaries. At the end of 2003, EDP, S.A. and EDP Finance BV had contracted 71% of the Group's financial debt.

From the Loans contracted by Group companies, attention is drawn to the Promissory Notes issued in March by Bandeirante in the amount of BRL 200 million. The issue was undertaken for a six-month period, and it was renewed in September in the amount of BRL 180 million.

In terms of maturity, 21% of the consolidated debt of the EDP Group involved short term and 79% medium and long-term loans.

Financial Debt
EDP Group

thousand euros

	2003	2002	Var. %
Debt - medium/long-term	**5 913 579**	**6 107 042**	**(3.2%)**
Bond and Equity Paper loans	3 524 332	3 392 111	3.9%
Amounts owed to credit institutions	2 289 247	2 614 931	(12.5%)
Other loans obtained	100 000	100 000	-
Debt - short term	**1 579 130**	**1 887 033**	**(16.3%)**
Non-convertible bond loans	55 721	12 261	354.5%
Amounts owed to credit institutions	1 353 409	1 326 772	2.0%
Other loans obtained	170 000	548 000	(69.0%)
Total Financial Debt	**7 492 709**	**7 994 075**	**(6.3%)**

During 2003 continuity was given to the policy begun in previous years of extending the average maturity of the EDP, S.A. debt portfolio. A domestic bond issue was undertaken at the end of March in the amount of € 150 million by a private subscription with a 10 year maturity. This issue was placed with a single investor and provided the Group a favorable cost/maturity ratio.

With regard to short-term financing and cash management, EDP, S.A. used mainly Europe Commercial Paper issues, an instrument that provides access to a wide investor base at competitive costs, providing the flexibility necessary to efficient cash management.

With the objective of ensuring the necessary flexibility and liquidity for the EDP Group, a Revolving Credit Facility (RCF) was contracted at the end of March from an international banking syndicate in the amount of € 700 million to replace the € 750 million operation that fell due at the end of that month. The new RCF has a three-year maturity that can be extended for further two years, and this has contributed to the lengthening of the maturity profile of the liquidity lines of the EDP group, acting as a backup for the European Commercial Paper programme in the amount of € 1 billion.

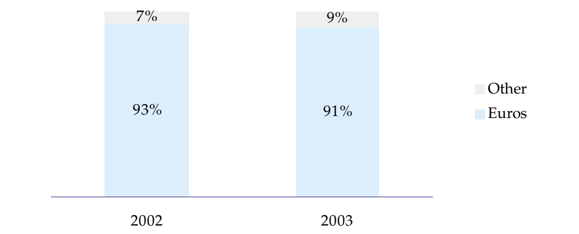
At the end of the year, EDP, S.A. had contracted credit lines in the amount of € 1 446 million and commercial paper in the amount of € 350 million with firm underwriting commitment, providing the Group with liquidity and flexibility in cash management and the capacity to face the challenges that may arise from the creation of MIBEL.

With regard to interest-rate risk management in the debt portfolio of EDP, S.A., structured options transactions were undertaken during the year, particularly collars on floating-rate debt, through which an adequate interest-rate risk coverage was ensured for periods of 18 to 24 months.

At the end of 2003, the average interest rate of EDP, S.A. debt stood at 3.58%, 32% of which at a fixed rate. On a consolidated basis, fixed-rate debt accounted for 27% of the total.

With regard to currencies, most of the EDP Group's debt is denominated in euros (91%), with the exception of the debt contracted by the Brazilian companies, which is expressed in reals (about 7%) and in US dollars (about 1%). With the consolidation of EDP Investimentos, the EDP Group has debt expressed in Patacas, which represents for about 1% of consolidated debt.

Breakdown of Debt by Currency
EDP Group



During 2003, S&P and Moody's revised down the medium and long-term **rating** of EDP, S.A., and EDP Finance BV, to A with Negative Outlook and A3 with Stable Outlook, respectively. These reductions were largely the result of the investment effort made by EDP in recent years in implementing its positioning strategy as a major Iberian energy player, and reflect the position of the rating agencies in relation to the uncertainties surrounding the restructuring of the energy sector in Portugal and the transfer of the gas business to EDP, as well as the current negotiations in respect of the CAEs in effect.

Rating
EDP, S.A. and EDP Finance BV

Date	S&P	Date	Moody's
8/28/03	A / Negative	8/19/03	A3 / Stable
5/30/02	A+ / Negative	6/12/02	A2 / Stable
5/21/01	AA- / Negative	10/1/01	Aa3 / Negative
8/5/99	AA / Stable	8/5/99	Aa3 /Stable

During 2003 Moody's and Fitch confirmed the Baa2 BBB ratings for HidroCantábrico, resulting from the improvement of the business portfolio as a result of the acquisition of NaturCorp.

Of the Group's Brazilian subsidiaries, the emphasis is on Bandeirante, which was awarded the A3.br by Moody's, one of the best rating notations granted to electricity distributors in Brazil. Additionally, Escelsa has B2.br and B+ (both on the Brazilian scale) awarded by Moody's and S&P respectively.

Given the **alteration of the consolidation perimeter** of EDP Produção, involving the exclusion of ENERNOVA and EDP Bioeléctrica as from July 2003, the financial statements for both periods exclude these two companies for comparison purposes.

EDP Produção's **Net Profit** in the amount of € 328.5 million, is 13.4% higher than in 2002 (€ 289.6 million).

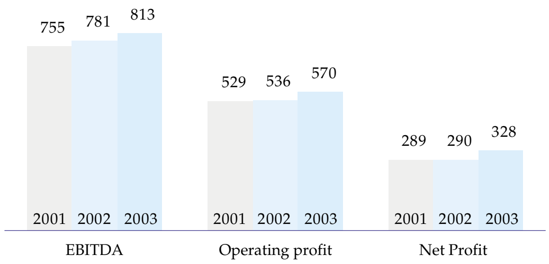
Profit and Loss Account
EDP Produção

thousand euros

	2003	2002 Pro forma	Var. %
Operating Income	**1 384 508**	**1 484 522**	**(6.7%)**
Electricity sales	1 305 558	1 414 292	(7.7%)
Other sales	19 672	18 651	5.5%
Services rendered	16 867	19 056	(11.5%)
Own work capitalised	37 291	26 030	43.3%
Other income	5 120	6 493	(21.1%)
Operating Costs	**571 290**	**703 650**	**(18.8%)**
Electricity	65 344	37 247	75.4%
Fuel	310 303	465 527	(33.3%)
Sundry materials and merchandise	3 453	4 375	(21.1%)
External supplies and services	49 503	51 065	(3.1%)
Group supplies and services	18 414	21 904	(15.9%)
Personnel costs	119 318	118 497	0.7%
Concession rents	3 613	3 443	4.9%
Other costs	1 342	1 593	(15.7%)
EBITDA	**813 218**	**780 872**	**4.1%**
EBITDA (%)	***58.7%***	***52.6%***	***6.1%***
Depreciation and amortisation	230 515	225 853	2.1%
Provisions	12 682	18 749	(32.4%)
Operating Profit	**570 021**	**536 270**	**6.3%**
Financial Results	**(74 838)**	**(89 341)**	**16.2%**
Extraordinary Results	**(3 471)**	**14 340**	**-**
Taxes and Minority interests	(163 224)	(171 698)	4.9%
Net Profit	**328 488**	**289 571**	**13.4%**

EDP Produção

million euros



EDP Produção's **EBITDA** increased from € 780.9 million in 2002 to € 813.2 million in 2003, supported by the € 18.4 million growth of Gross Margin.

Gross Margin
EDP Produção

thousand euros

	2003	2002 Pro forma	Var. %
CPPE	**1 176 270**	**1 323 897**	**(11.2%)**
CAE Fixed Part	892 682	865 952	3.1%
CAE Variable Part	283 588	457 945	(38.1%)
Mini-hydroelectric power stations	**87 485**	**57 607**	**51.9%**
Hidrinor	199	0	-
HDN	43 762	29 798	46.9%
Hidrocenel	43 524	27 809	56.5%
Trading	**1 751**	**0**	**-**
Cogeneration (Soporgen and Energin)	**40 052**	**32 788**	**22.2%**
Electricity Sales	**1 305 558**	**1 414 292**	**(7.7%)**
Fuel Costs	**310 303**	**465 527**	**(33.3%)**
Coal	130 531	148 773	(12.3%)
Fuel	117 716	259 816	(54.7%)
Natural gas	59 312	55 412	7.0%
Diesel	2 744	1 526	79.8%
Costs of Electricity Purchases	**65 344**	**37 247**	**75.4%**
Direct Costs	**375 647**	**502 774**	**(25.3%)**
Gross Margin	**929 911**	**911 518**	**2.0%**
Gross Margin (%)	***71.2%***	***64.5%***	***6.8%***

EDP Produção's **Electricity Sales** fell by 7.7% when compared to 2002. This was mainly the result of the 38.1% reduction of the Variable Part of the CAE (the part that remunerates generation costs) as a result of lesser use of the CPPE thermoelectric power stations due to a rainy year. Fixed Part of the CAE increased 3.1% since the availability coefficients (actual average availability/average contracted availability) were higher at the CPPE hydroelectric and thermoelectric power stations and the value of the fixed part was adjusted to the Consumer Price Index as provided for in the CAEs.

Fuel Costs decreased by 33.3% as a result of the favorable hydrological year. CPPE continued to be able to buy coal and fuel at prices lower than those implicit in the Variable Part of the CAEs (€ 273.9 million compared to € 283.6 million). The increase of diesel costs was caused by the use of the remaining stocks of the Alto Mira power station due to the termination of the CAE of this plant.

External supplies and services
EDP Produção

thousand euros

	2003	2002 Pro forma	Var. %
Maintenance and specialised work	21 070	21 507	(2.0%)
Insurance premiums	8 776	9 764	(10.1%)
Guards and security	2 568	2 242	14.5%
Rents on buildings	2 379	804	-
Other	14 710	16 748	(12.2%)
External supplies and services	**49 503**	**51 065**	**(3.1%)**

Supplies and services provided by entities external to the Group fell by 3.1% as a result of lower insurance costs, unchanged maintenance costs and the control of other costs.

Personnel costs
EDP Produção

thousand euros

	2003	2002 Pro forma	Var. %
Personnel costs	**119 318**	**118 497**	**0.7%**
Pension premiums	8 940	9 739	(8.2%)
Correction of early retirements	13 146	13 142	0.0%
Social Security costs with pre-retirees	1 315	1 314	0.0%
Medical costs incurred with inactive employees	3 167	3 060	3.5%
Corrected Personnel costs	**92 750**	**91 242**	**1.7%**
Number of Employees	***1 988***	***2 099***	***(5.3%)***

Personnel costs increased 0.7% (1.7% after correcting for the costs of inactive personnel), which results on an average wage increase of 2.7% that was not offset by the net reduction of 111 employees, most of which took place during the closing months of 2003.

Operational Investment
EDP Produção

thousand euros

	2003	2002 Pro forma	Var. %
SEP Generation	73 416	64 462	13.9%
Non-binding Generation	152 805	145 981	4.7%
Special regime production	2 270	13 661	(80.7%)
Non-specific investment	7 592	15 262	(52.7%)
Operational Investment	**236 083**	**239 366**	**(1.4%)**
Recurring	**34 718**	**32 370**	**7.3%**
Non-recurring	**201 365**	**206 996**	**(2.7%)**

EDP Produção's **Operational Investment** during 2003, at total costs, amounted to € 236.1 million. The amount of € 142 million relates to the construction of the new TER combined-cycle power station (Non-binding Generation). Total investment planned for Groups I and II of this power station amounts to € 478 million, of which 73% have already been incurred. In December 2003, EDP communicated its intention to go ahead with Group III of this power station, increasing the total planned investment at this power station to € 675 million. Investment in the Venda Nova power station (SEP Generation) amounted to € 34 million in 2003. The total planned investment amounts to € 139 million, 79% of which have already been incurred.

>> 3 RENEWABLES

Generation activity based on renewable energies, held by ENERNOVA and EDP Bioeléctrica, reached a **Net Profit** in the amount of € 1.6 million in 2003, 37.3% less than in 2002.

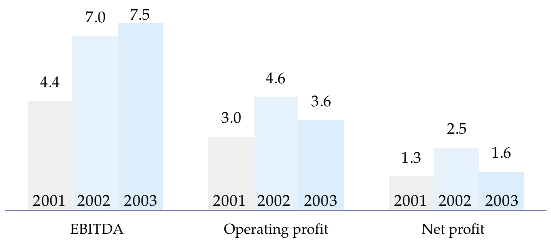
Profit and Loss Account
Renewables

thousand euros

	2003	2002	Var. %
Operating Income	**14 316**	**12 167**	**17.7%**
Electricity sales	13 370	11 140	20.0%
Own work capitalised	941	1 018	(7.5%)
Other income	5	9	(45.8%)
Operating Costs	**6 776**	**5 127**	**32.2%**
Fuel	2 043	1 020	100.3%
Sundry materials and merchandise	0	2	-
External supplies and services	643	53	-
Group supplies and services	2 615	2 666	(1.9%)
Personnel costs	1 021	1 062	(3.9%)
Concession rents	281	221	27.2%
Other costs	173	103	68.1%
EBITDA	**7 540**	**7 040**	**7.1%**
EBITDA (%)	***52.7%***	***57.9%***	***(5.2%)***
Depreciation and amortisation	3 836	2 377	61.4%
Provisions	60	107	(44.3%)
Operating Profit	**3 644**	**4 556**	**(20.0%)**
Financial Results	**(1 418)**	**(794)**	**(78.5%)**
Extraordinary Results	**83**	**(28)**	**-**
Taxes and Minority interests	(741)	(1 232)	39.9%
Net Profit	**1 568**	**2 502**	**(37.3%)**

Renewables

million euros



The decline of Net Profit was largely caused by the increase of depreciation charges as a result of the investments made in wind farms, which more than offset the slight increase of the EBITDA (7.1%) to € 7.5 million.

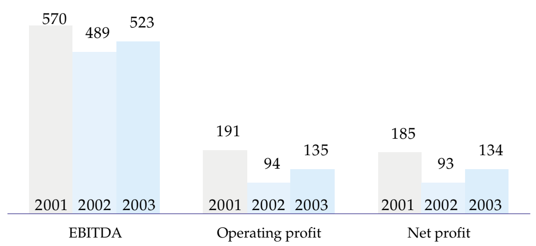
The **Net Profit** of EDP Distribuição amounted to € 134.4 million in 2003, 44.8% more than in 2002.

Profit and Loss Account
EDP Distribuição

thousand euros

	2003	2002	Var. %
Operating Income	**3 773 159**	**3 655 868**	**3.2%**
Electricity sales	3 546 376	3 456 385	2.6%
Other sales	1 946	1 738	12.0%
Services rendered	24 732	21 573	14.6%
Own work capitalised	183 807	160 691	14.4%
Other income	16 298	15 481	5.3%
Operating Costs	**3 250 001**	**3 166 619**	**2.6%**
Electricity	2 363 966	2 346 800	0.7%
Sundry materials and merchandise	111 336	80 121	39.0%
External supplies and services	115 599	123 391	(6.3%)
Group supplies and services	90 700	79 911	13.5%
Personnel costs	393 780	379 552	3.7%
Concession rents	171 732	153 991	11.5%
Other costs	2 888	2 853	1.2%
EBITDA	**523 158**	**489 249**	**6.9%**
EBITDA (%)	***13.9%***	***13.4%***	***0.5%***
Depreciation and amortisation	345 461	330 239	4.6%
Provisions	42 689	65 094	(34.4%)
Operating profit	**135 008**	**93 916**	**43.8%**
Financial Results	**(37 153)**	**(46 762)**	**20.5%**
Extraordinary Results	**79 178**	**85 675**	**(7.6%)**
Taxes and Minority interests	42 667	40 008	6.6%
Net Profit	**134 366**	**92 821**	**44.8%**

EDP Distribuição
million euros



Electricity Sales rose 2.6% driven by a 5.3% increase of electricity consumption as a result of the harsh winter and particularly hot summer. Very high voltage income increased by 18.8% given the increased needs of an industrial customer caused by a new furnace set up at a steelworks. The ongoing transfer of medium voltage customers from SEP to SENV led to a 21.7% decrease of the revenues for this segment.

EDP Distribuição's **Regulated Revenues** comprise the amount of the revenues allowed for the Company's activity – use of distribution networks, network marketing and marketing within SEP – and of costs incurred with generation, overall use of the system and transport costs, equally ruled by the ERSE and fully reflected in the end-customer tariff.

The **Tariff Deviations** constitute accrued income reflecting differences between revenues invoiced and those allowed, generating tariff adjustments in subsequent years. The 2003 Tariff Deviation is the result of an estimated benefit of € 77.0 million caused by the fact that actual consumption in SEP was less than estimated since the number of medium voltage customers that moved to the liberalised market was greater than expected by ERSE. For the tariffs applied in 2003, ERSE predicted a 2.1% growth of consumption in SEP.

Gross Margin
EDP Distribuição

thousand euros

	2003	2002	Var. %
Group Electricity Sales	**35 731**	**2 081**	**-**
External Electricity Sales - SEP	**3 469 431**	**3 441 487**	**0.8%**
Invoicing	3 391 512	3 371 005	0.6%
Very high voltage	45 054	37 936	18.8%
High voltage	163 570	156 046	4.8%
Medium voltage	615 887	786 259	(21.7%)
Special low voltage	289 528	272 829	6.1%
Low voltage	2 209 836	2 061 311	7.2%
Public lighting	95 730	86 614	10.5%
Interruptability discounts	(26 735)	(25 522)	(4.8%)
Tariff correction discounts	(1 358)	(4 468)	69.6%
Tariff deviations	77 919	70 482	10.6%
Tariff deviation writeback 2000	0	20 486	-
Tariff deviation writeback 2001	(6 709)	0	-
Tariff deviation writeback 2002	(10 221)	0	-
Tariff deviation 2002	0	49 996	-
Tariff deviation adjustment 2002	17 879	0	-
Tariff deviation 2003	76 970	0	-
External Electricity Sales - SENV	**41 214**	**12 817**	**221.6%**
Electricity Sales	**3 546 376**	**3 456 385**	**2.6%**
Electricity Purchases	**2 363 966**	**2 346 800**	**0.7%**
Electricity Gross Margin - External	**1 146 679**	**1 107 504**	**3.5%**
Electricity Gross Margin - External (%)	***32.7%***	***32.1%***	***0.6%***
Gross Margin (euros/MWh)	***30.42***	***30.07***	***1.2%***

The 39.0% increase of **Sundry Materials and Merchandise** was a result of the particularly low figure in 2002, caused by the write-off of stocks. The cost of materials, mainly related to the investment made by EDP Distribuição, was almost all capitalised and accounted in Own Work Capitalised.

External supplies and services
EDP Distribuição

thousand euros

	2003	2002	Var. %
Maintenance and repair	35 287	45 517	(22.5%)
Specialised work	35 586	33 119	7.5%
Communications	16 265	15 675	3.8%
Insurance premiums	5 683	5 858	(3.0%)
Other	22 778	23 222	(1.9%)
External supplies and services	**115 599**	**123 391**	**(6.3%)**

Supplies and services fell by 6.3% due to a reduction of 22.5% in Maintenance and Repair costs as a result, of the renegotiation of several contracts in which payments were no longer on a monthly fee basis and, of greater use of internal resources.

The 13.5% growth of **Group Supplies and Services** was a result of the increase of the services provided by EDP Valor to EDP Distribuição. It should be noted that services related with the business of EDP Valor were transferred to the latter during the second quarter of 2003.

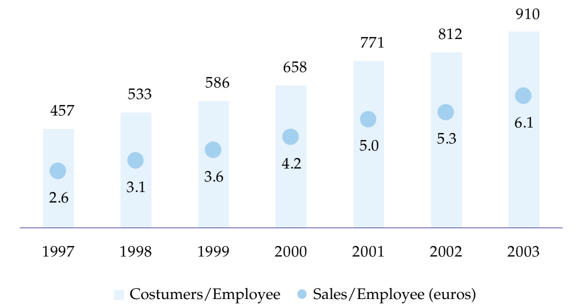
Personnel costs increased by 3.7% in 2003. After correcting for pension premiums and costs of early retirement (made only for EDP, S.A.) and for Social Security charges with inactive workers, Personnel costs increased just 1.9% in 2003. This increase reflects the average wage increase of 2.7%, offset slightly by the net reduction of 644 employees, which did not have a greater impact because it took part largely at the end of the year.

Personnel costs
EDP Distribuição

thousand euros

	2003	2002	Var. %
Personnel costs	**393 780**	**379 552**	**3.7%**
Pension premiums	42 652	30 983	37.7%
Correction of early retirements	75 535	77 082	(2.0%)
Social security costs of pre-retirees	11 064	11 936	(7.3%)
Medical costs incurred with inactive staff	13 352	13 060	2.2%
Corrected Personnel costs	**251 177**	**246 491**	**1.9%**
Number of employees	*6 335*	*6 979*	*(9.2%)*

Customers/Employee and Sales/Employee
EDP Distribuição



Following the approval by ERSE (August 2003) of the transfer to end tariffs of the costs associated with the **Human Resources Restructuring Plan** (PRRH), up to a maximum of € 485.7 million, EDP Distribuição decided to re-implement the pre-retirement programme that had been suspended till then. Of the reduction of the number of employees referred to above, 500 were covered by this programme as shown in the following diagram.

EDP Distribuição - Human Resources Restructuring Plan 2003-2006 (Year 0)

1 Accounting Procedures - In year 2003, there is no impact in the Net Profit...

2003 HR Restructuring Program:

Negociated Dismissals - 70 employees

Early Retirements - 430 employees

Total Costs:

Negociated Dismissals - €14.9 m

Early Retirements - €133.4 m

Negociated Dismissals

Extraordinary Loss
- Recognition of Liability:
- **€14.9 m**

Extraordinary Gain
Constitution of a Regulatory Asset:
+ €14.9 m

Early Retirements

Constitution of a Regulatory Asset:
€133.4 m

Against

Recognition of a Deferred Income
€133.4 m

BALANCE SHEET

Constitution of a **Regulatory Asset**
€148.4 m

Accounts Payable **€12.5 m**

Cash **€2.4 m**

Deferred Income **€133.4 m**

REGULATORY ASSET

Amortised as Costs Recovery through the Tariffs:
- over a 20 years period;
- starting in 2005.

DEFERRED INCOME

Amortised as payment to Early Retirees:
- against 'Other Income';
- from 2004 onwards;
- for an average period of 14 years.

2 ... Impact at the P&L comes from 2004 onwards, in the form of EDPD's savings with the Human Resources Restructuring Program.

Profit and Loss Account m. euros	2004	2005 *	2006	2007	2004 - 2022	... up to 2032	TOTAL	
Electricity Revenues	-	22.3	7.4	7.4	148.4	-	148.4	Costs Recovery through tariffs
Operating Costs	-	(22.3)	(7.4)	(7.4)	(148.4)	-	(148.4)	Amortisation of Regulatory Asset
Personnel Costs	(11.2)	(11.3)	(11.3)	(11.3)	(133.4)	-	(133.4)	Payments to Early Retirees
Personnel Costs - Savings	15.1	15.5	16.1	16.6	242.3	4.6	246.9	EDPD Savings with Personnel Reduction
Other Income	11.2	11.3	11.3	11.3	133.4	-	133.4	Amortisation of Deferred Income
P&L Impact (Before Taxes)	15.1	15.5	16.1	16.6	242.3	4.6	246.9	

* In 2005, Costs Recovery reffers to the 2003-2005 period.

Asset is fully amortised by 2022.

3 **Value of the HR Restructuring in year 2003**

NPV assumes the gain of the incentive given by ERSE against a scenario where the restructuring cost would not be accepted for tariffs calculation

Benefits HR program

€246.9 million

Costs HR program

Cosidering Costs Recovery through Tariffs €148.4 million

Considering costs recovery through tariffs

NPV (@8.5%) of the Reduction of 500 employees at EDP Distribuição:

€100-€110 million

Concession Rents increased 11.5% due to the 0.25% increase of the average charge paid to the local authorities (7.25% of the low voltage sales of the previous year) and to the 6.3% growth of low voltage invoicing between 2001 and 2002.

The 34.4% decrease of **Provisions** was caused by the changes from the indirect method to the direct method of booking provisions. Consequently the company no longer records gross provisions in Operational Provisions and the respective gross reduction in Extraordinary Gains, and now records in the books the net provision requirement for the year.

The **Operational Investment** for 2002 includes the transfer of assets from EDINFOR in the amount of € 80.5 million, affecting Depreciation. Excluding this effect, the Operational Investment of EDP Distribuição would have risen by 18.2% to € 343.6 million, influenced by the investments in the distribution network designed to improve service quality.

During 2003 € 59.8 million of the Operational Investment were subsidised in cash (€ 56.7 million in 2002). EDP Distribuição also received funding in kind valued at € 61.0 million in 2003 (€ 54.2 million in 2002).

Operational Investment
EDP Distribuição

thousand euros

	2003	2002	Var. %
High voltage	61 698	40 084	53.9%
Medium voltage	77 821	55 676	39.8%
Low voltage	126 551	135 168	(6.4%)
Public lighting	19 610	11 355	72.7%
Information Systems	14 752	80 807	(81.7%)
Other	43 186	48 097	(10.2%)
Operational Investment	**343 618**	**371 187**	**(7.4%)**
Recurring	**307 854**	**266 281**	**15.6%**
Non-recurring	**35 764**	**104 906**	**(65.9%)**

Customer Debt at the end of the year amounted to € 593.3 million, accounting for 17.5% of electricity invoicing. With regard to debt structure, there was a significant increase of debt of the Corporate and Individuals sector in 2003, to the detriment of the State and the Official Entities and the Local Authorities sectors.

Customer Debt
EDP Distribuição

million euros

	2003	2002	Var. %
State and official entities	25,2	26,7	(5.5%)
Local authorities	227,2	261,9	(13.2%)
Corporate and private sector	340,9	303,9	12.2%
Customer Debt	**593,3**	**592,5**	**0.2%**

>> 5 EDP ENERGIA

The sharp growth of the business of EDP Energia was reflected in the main financial indicators. **Net Profit** increased from € 3.7 million in 2002 to € 15.7 million in 2003.

Profit and Loss Account
EDP Energia

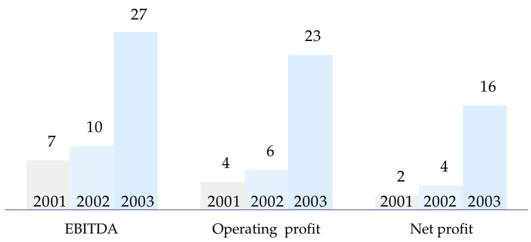
thousand euros

	2003	2002	Var. %
Operating Income	**100 780**	**59 605**	**69.1%**
Electricity sales - Third party	27 738	12 584	120.4%
Electricity sales - Group	36 507	34 426	6.0%
Services rendered	35 515	11 502	208.8%
Own work capitalised	1 009	1 086	(7.1%)
Other income	11	7	58.9%
Operating Costs	**73 799**	**49 949**	**47.7%**
Electricity	48 567	39 553	22.8%
External supplies and services	2 660	826	221.9%
Group supplies and services	5 074	3 954	28.3%
Personnel costs	3 280	1 797	82.5%
Concession rents	17	17	(3.8%)
Other costs	14 201	3 802	273.5%
EBITDA	**26 981**	**9 656**	**179.4%**
EBITDA (%)	***26.8%***	***16.2%***	***10.6%***
Depreciation and amortisation	3 465	3 380	2.5%
Provisions	104	237	(56.0%)
Operating Profit	**23 412**	**6 039**	**287.7%**
Financial Results	**(326)**	**(402)**	**18.8%**
Extraordinary Results	**1 048**	**(14)**	**-**
Taxes and Minority interests	8 396	1 924	336.4%
Net Profit	**15 738**	**3 699**	**325.5%**

Note: The financial statements include EDP Serviner.

EDP Energia

million euros



The **EBITDA** amounted to € 27.0 million in 2003, supported by the sharp growth of revenues, which more than offset the increase of operating costs caused by the increase of the business.

The **Net Profit** of HidroCantábrico amounted to € 31.0 million, 112.7% more than in 2002, reflecting the € 11.4 million impact of the inclusion of NaturCorp in the HidroCantábrico consolidation perimeter.

HidroCantábrico, which had recorded during the first quarter of 2003 the **tax benefit** (about € 25 million) granted by the Community of Navarra in respect of the investment in the Castejón CCGT, decided to reverse this movement in accordance with the International Accounting Standards. This benefit will be deferred over the 25-year useful life of the power station.

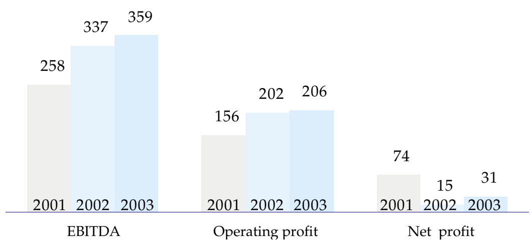
Profit and Loss Account
HidroCantábrico (100%)

thousand euros

	2003	2002	Var. %
Operating Profit	**1 677 151**	**1 462 083**	**14.7%**
Sales and Services rendered	1 656 364	1 436 215	15.3%
Own work capitalised	9 991	13 008	(23.2%)
Other income	10 796	12 860	(16.1%)
Operating costs	**1 318 637**	**1 125 423**	**17.2%**
Cost of goods sold and materials consumed	1 125 148	964 344	16.7%
Supplies and services and other costs	100 739	84 128	19.7%
Personnel costs	92 750	76 951	20.5%
EBITDA	**358 514**	**336 660**	**6.5%**
EBITDA (%)	***21.4%***	***23.0%***	***(1.6%)***
Depreciation and amortisation	150 252	128 677	16.8%
Provisions	2 700	6 170	(56.2%)
Operating Profit	**205 562**	**201 813**	**1.9%**
Financial Results	**(155 969)**	**(144 786)**	**(7.7%)**
Extraordinary Results	**1 658**	**(34 341)**	**-**
Taxes and Minority interests	20 278	8 121	149.7%
Net Profit	**30 973**	**14 565**	**112.7%**

HidroCantábrico (100%)

million euros



Total **Turnover** increased by 15.3% from the 2002 figure, resulting from the inclusion of NaturCorp in the consolidation perimeter (Gas Distribution and Suply) and from the growth of the Electricity Suply business caused by the increased liberalisation of the electricity market.

Turnover by Activity
HidroCantábrico (100%)

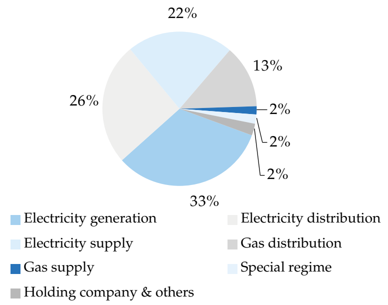
thousand euros

	2003	2002	Var. %
Electricity generation	543 955	619 704	(12.2%)
Electricity distribution	428 075	490 462	(12.7%)
Electricity supply	367 420	241 977	51.8%
Gas distribution	214 937	56 250	282.1%
Gas supply	26 904	0	-
Special regime	33 968	27 379	24.1%
Holding company and others	41 105	443	-
Turnover	**1 656 364**	**1 436 215**	**15.3%**

Electricity Generation business income fell by 12.2% due to the greater hydraulicity index and to the consequent reduction of prices charged within the pool when compared to 2002.

The increase of turnover of the Gas Distribution business was caused by the purchase method consolidation of NaturCorp as from August 1, 2003, while the increase under Holding Company and Other is related to the growth of Trading business during 2003.

Turnover by Activity
HidroCantábrico (100%)



During 2003, Electricity Generation, Distribution and Supply activities accounted for 81% of Turnover compared to 94% in 2002. The Gas business increased its weight from 4% in 2002 to 15% in 2003.

The **Gross Margin on Distribution** amounted to € 180.5 million, a growth of 36.4% compared to 2002. This growth resulted from the increase of the profit on the Gas business due to the consolidation of NaturCorp. The increase under Electricity Distribution resulted from the growth of the transport business outside the principality of the Asturias and distribution business costs lower than forecast by the regulator.

Gross Margin – Distribution

HidroCantábrico (100%)

thousand euros

	2003	2002	Var. %
Transport tariff (Permitted revenues)	6 377	3 615	76.4%
Distribution tariff (Permitted revenues)	93 231	90 243	3.3%
Supply tariff (Permitted revenues)	6 991	7 241	(3.5%)
Electricity distribution gross profit	**106 599**	**101 099**	**5.4%**
Permitted revenues	73 856	25 824	186.0%
Revenues not regulated (1)	0	5 353	-
Gas distribution gross profit	**73 856**	**31 177**	**136.9%**
Total distribution gross profit	**180 455**	**132 276**	**36.4%**

(1) 2002 values refers to January and February.

Electricity Supply Sales rose 25.9%, reflecting the enlargement of the liberalisation of the low voltage market and the 6% growth of electricity demand. The growth of the gas supply business was caused by the fact that HidroCantábrico started this business in 2002 and by the consolidation of NaturCorp.

Sales – Supply

HidroCantábrico (100%)

thousand euros

	2003	2002	Var. %
Asturias	57 426	44 721	28.4%
Rest of Spain	203 392	162 479	25.2%
Electricity Supply Sales	**260 818**	**207 200**	**25.9%**
Astúrias	6 010	2 920	105.8%
Rest of Spain	101 021	25 939	289.5%
Gas Supply Sales	**107 031**	**28 859**	**270.9%**
Total Supply Sales	**367 850**	**236 059**	**55.8%**

The 19.7% growth of **External Supplies and Services and Other Costs** compared to 2002 was mainly the result of the start-up of the Castejón CCGT in October 2002, of the consolidation of NaturCorp as from August 2003 and of the small amount of costs capitalised due to the conclusion of the Castejón CCGT.

Statement of Financial Results

HidroCantábrico (100%)

thousand euros

	2003	2002	Var. %
Interest income / expense	(84 373)	(81 756)	(3.2%)
Gains / losses on Group and associate companies	2 047	(593)	-
Amortisation of goodwill	(69 975)	(61 466)	(13.8%)
Other gains / losses	(3 668)	(971)	(277.7%)
Financial Results	**(155 969)**	**(144 786)**	**(7.7%)**

The **Financial Results** of HidroCantábrico deteriorated by 7.7% compared to 2002, largely as a result of the amortisation of the Goodwill generated by the acquisition of NaturCorp (€ 8.9 million from August to December 2003). It should be mentioned that the Goodwill on the acquisition of NaturCorp totalled € 428 million (following the merger process). This process, which was reflected in the accounts of NaturCorp on January 1, 2003, consisted of the merger of NaturCorp Multiservicios, Gas de Asturias, Gas Figueres, Gas de Euskadi and Donostigas with NaturCorp I (acquisition vehicle). During this process, the minority shareholders of Gas Euskadi swapped their holding (20.5%) for 8.4% of NaturCorp. The HidroCantábrico Holding in NaturCorp was consequently diluted from 62.0% to 56.8%.

Improvement of **Extraordinary Results** compared to 2002 is related to a general provision recorded in 2002.

As far as tax efficiency in the **Amortisation of Goodwill** is concerned, it should be mentioned that in the Basque Country this is accepted as a tax cost and is amortised over 10 years and that the actual rate of tax is 32.5%. However, in the HidroCantábrico accounts the amortisation is adjusted to 20 years.

Operational Investment

HidroCantábrico (100%)

thousand euros

	2003	2002	Var. %
Electricity generation	21 234	66 548	(68.1%)
Electricity distribution	46 971	68 534	(31.5%)
Supply	5 246	2 237	134.5%
Gas distribution	30 013	29 460	1.9%
Special regime	78 267	43 133	81.5%
Other	10 773	2 026	431.7%
Operational Investment	**192 504**	**211 938**	**(9.2%)**
Recurring	**111 255**	**89 431**	**24.4%**
Non-recurring	**81 249**	**122 507**	**(33.7%)**

The **Operational Investment** amounted to € 192.5 million, 9.2% less than the investment in 2002. The decrease of Generation activity was caused by the conclusion of the construction of the Castejón CCGT, while the increase under the Special Regime was influenced by the construction of the Cantábrico (65 MW) and Arlanzón (34 MW) wind farms. In this connection, the latter is expected to come into operation to the second half of 2004. In Electricity Distribution, Operational Investment amounted to € 47.0 million, of which € 14.9 million were subsidised (€ 10.5 million in 2002). The reduction compared to 2002 is largely the result of the decline of investments outside the principality of the Asturias.

>> 7 BRAZIL

The Financial Statements presented for 2002 are pro forma, including the consolidation of Escelsa and Enersul using the purchase method. To evaluate the actual performance of the business in Brazil, the company accounts are presented in local currency.

The EDP Group in Brazil presented a **loss** of BRL 58.2 million in 2003, compared to a loss of BRL 298.9 million in 2002.

Profit and Loss Account

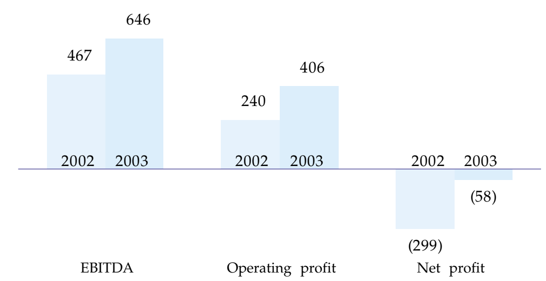
Brazil

BRL thousand

	2003	2002	Var. %
Operating Income	**3 364 467**	**2 849 843**	**18.1%**
Services rendered	3 362 907	2 847 752	18.1%
Sales and other income	1 560	2 091	(25.4%)
Operating Costs	**2 718 601**	**2 383 175**	**14.1%**
Electricity	2 147 963	1 946 513	10.3%
Sundry materials and merchandise	36 168	23 739	52.4%
Supplies and services	227 626	159 030	43.1%
Personnel costs	238 978	217 336	10.0%
Other costs	67 866	36 557	85.6%
EBITDA	**645 866**	**466 668**	**38.4%**
EBITDA (%)	***19.2%***	***16.4%***	***2.8%***
Depreciation and amortisation	201 942	194 493	3.8%
Provisions	38 184	32 371	18.0%
Operating profit	**405 740**	**239 804**	**69.2%**
Financial Results	**(79 046)**	**(814 733)**	**90.3%**
Extraordinary Results	**(166 433)**	**(107 407)**	**(55.0%)**
Taxes and Minority interests	218 421	(383 466)	-
Net profit	**(58 160)**	**(298 870)**	**80.5%**

Brazil

BRL million



EBITDA amounted to BRL 645.9 million, an increase of 38.4% over 2002. In euros, this performance was not as notable due to the devaluation of real since the second half of 2002. The real/euro average exchange rate was 2.88 in 2002 compared to 3.46 in 2003, a 17% decrease of real.

The favorable evolution of EBITDA resulted from the performance of **Gross Margin** of Bandeirante, Escelsa and Enersul, which, together with the increase of consumption and the tariff revisions, grew by 14.8%, 26.9% and 50.7% respectively, compared to 2002:

- At Bandeirante, the increase resulted from the 19.09% tariff adjustments (October 2002), the growth of electricity sold to residential and commercial customers and the change of the invoicing criteria for low-income customers who, since June 2002, are invoiced for their consumption. In October 2003 ANEEL approved an average increase of 14.68% for the Bandeirante tariffs, plus 3.4% to be recovered between 2004 and 2006 (which have already been recorded as accrued income in 2003) and also established a "Factor X" of 1.83% to be reflected in the calculation of controllable costs;

- At Escelsa, the increase was caused by the 17.30% tariff adjustment (August 2003), and by the increase of electricity sold to residential customers;

- At Enersul, it was caused by the tariff revision in April 2003, in which ANEEL approved an average tariff increase of 32.59% of the Enersul Terrace, plus 9.67% to be recovered over the following four years, which were recorded as accrued income in 2003; and

- Electricity Acquisition Costs were influenced, on one hand, by the 25% reduction of the initial contracts – "take-or-pay" contracts between the electricity distribution companies and the producers – during 2003, and, on the other, by the fact that the cost of electricity supplied by Itaipú is indexed to the dollar and by the annual tariff adjustment of the initial contracts. Both costs are reflected in the end--customer tariffs.

Gross Margin

Bandeirante, Escelsa and Enersul

BRL thousand

	Bandeirante			Escelsa			Enersul		
	2003	2002	Var. %	2003	2002	Var. %	2003	2002	Var. %
Sales of energy to end customers	**1 782 835**	**1 520 677**	**17.2%**	**954 035**	**857 412**	**11.3%**	**572 390**	**447 202**	**28.0%**
Residential	599 634	460 957	30.1%	301 308	254 738	18.3%	219 739	175 429	25.3%
Industrial	734 915	694 639	5.8%	315 876	321 097	(1.6%)	97 861	80 526	21.5%
Commercial	283 517	233 304	21.5%	170 957	153 439	11.4%	134 977	103 987	29.8%
Other	164 769	131 777	25.0%	165 894	128 138	29.5%	119 813	87 260	37.3%
Sales of energy to MAE	**9 637**	**99 502**	**(90.3%)**	**405**	**33 212**	**(98.8%)**	**230**	**9 559**	**(97.6%)**
Use of the distribution network	**34 093**	**12 224**	**178.9%**	**39 169**	**13 028**	**200.7%**	**2 340**	**62**	**-**
Other income	**(152 170)**	**(98 024)**	**(55.2%)**	**(49 912)**	**(66 403)**	**24.8%**	**(11 374)**	**(32 258)**	**64.7%**
Total operating income	**1 674 395**	**1 534 379**	**9.1%**	**943 697**	**837 249**	**12.7%**	**563 586**	**424 565**	**32.7%**
Direct electricity costs	**1 235 659**	**1 152 315**	**7.2%**	**580 170**	**550 770**	**5.3%**	**288 252**	**241 876**	**19.2%**
Gross Margin	438 736	382 064	14.8%	363 527	286 479	26.9%	275 334	182 689	50.7%
Gross Margin (%)	*26.2%*	*24.9%*	*1.3%*	*38.5%*	*34.2%*	*4.3%*	*48.9%*	*43.0%*	*5.8%*

The BRL 68.6 million increase of **Supplies and services** is related to Generation and Trading activities, particularly as a result of the start-up in August 2002 of the first stage of operations of the Fafen Cogeneration and with coming on stream of the Lajeado hydroelectric power station in November 2002.

Personnel costs in Brazil increased 10.0% when compared to 2002, essentially due to:

- The 9% wage increase in June 2003 at Bandeirante, offset however by the 6.2% decrease of the number of employees to 1261 at the end of 2003;

- The wage adjustment at Escelsa of about 10% during the third quarter of 2003, despite the reduction of the number of employees to 1309 (3.3% less than in 2002); and

- The wage increase of about 12%, the slight increase of employee numbers at Enersul to 944 (1.7% more than the end of 2002) and the lesser capitalisation of Personnel costs owing to the lesser investment activity.

The increase of **Other Costs** is related to costs incurred by energy efficiency and savings programmes imposed by ANEEL and to mandatory contributions to the Energy Development Account. It should be mentioned that these costs are passed on to the end-customer tariff.

Statement of Financial Results
Brazil

BRL thousand

	2003	2002	Var. %
Interest income / expense	(428 640)	(313 846)	(36.6%)
Favourable / unfavourable currency Exchange differences	192 283	(506 802)	-
Selic on losses on Rationing and "Parcel A"	173 865	119 990	44.9%
Other gains / losses	(16 554)	(114 075)	85.5%
Financial Results	**(79 046)**	**(814 733)**	**90.3%**

Financial Losses amounted to BRL 79.0 million in 2003, compared to a loss of BRL 814.7 million in 2002. The increase of Interest Expense was caused by the increase of the Brazilian benchmark interest rates in 2003, while Favourable Currency Exchange Differences were caused by the effect of the appreciation of the real against the dollar on dollar-denominated Debt (22% in 2003). The Selic rate increased from an average of 19.1% in 2002 to 23.3% in 2003.

Net Profit of the business in Brazil is also influenced, as far as Extraordinary Results are concerned, by **Extraordinary Provisions** in the amount of approximately BRL 230 million connected with the possible decrease of the regulatory tariffs at Lajeado and Fafen power stations. At Extraordinary Gains Escelsa was able to write back the BRL 75 million provision in respect of the potential decrease of the market value of its assets denominated in dollars. Excluding these effects (which are not tax deductible), Net Profit would have been positive in the amount of approximately BRL 170 million.

Investment
Brazil

BRL Thousand

	2003		2002		Var. %
	Total investment	Paid-up by EDP	Total investment	Paid-up by EDP	Total Invest.
Generation	**253 062**	**149 787**	**498 430**	**201 010**	**(49.2%)**
Peixe Angical	70 311	51 341	154 068	146 056	(54.4%)
Fafen	109 694	76 482	100 581	42 001	9.1%
Lajeado	73 057	21 964	243 781	12 953	(70.0%)
Distribution	**256 713**	**0**	**247 861**	**0**	**3.6%**
Bandeirante	136 258	0	94 332	0	44.4%
Escelsa (1)	64 473	0	60 165	0	7.2%
Enersul (1)	55 982	0	93 364	0	(40.0%)
Other	**4 191**	**63 749**	**6 344**	**6 267**	**(33.9%)**
EDP Brasil	1 436	51 000	967	890	48.5%
Enertrade	406	0	240	240	69.2%
Energest	61	7 586	1 716	1 716	(96.4%)
Enercorp	2 288	5 163	3 421	3 421	(33.1%)
Investment	**513 966**	**213 536**	**752 635**	**207 277**	**(31.7%)**

(1) Escelsa and Enersul were consolidated up to September 2002 using the equity method and using the purchase method as from October. The figures correspond to 100% of these companies in 2002 and 2003.

Investment in generating facilities in Brazil amounted to BRL 253.1 million, 49.2% less than in 2002, largely the result of the reductions at Peixe Angical power station, caused by the suspension of works during the first nine months of 2003, and at the Lajeado power station due to the conclusion of the work in November 2003 and its consequent coming on stream. The investment at Fafen is linked to the increase of capacity from 54 MW to 133 MW, set to be concluded during the first half of 2004.

Bandeirante invested a total of BRL 136.3 million, mainly directed at the modernisation of the company, at the improvement of service quality and at the increase of operating flexibility of the electricity system. A total of BRL 71 million was invested in the integrated modernisation programme. Within the scope of automation, command and control of the electricity networks, the focus is on the updating and automation of 30 integrated substations operated from the modern operations centre of the Bandeirante system, which came into operation during the second half of 2003. In the field of information technologies the implementation was concluded of the new commercial management system, which came into operation during October 2003 for high and medium--voltage customers and in January 2004 for other customers. Also implemented was the georeferencing system of the entire electricity network, the basis for the other network technical planning and operating systems.

At Escelsa and Enersul overall investment in 2003, in the amount of BRL 64.5 million and BRL 56.0 million respectively, was directed particularly at modernising the companies and at improving and enlarging the distribution networks and lines. The decrease at Enersul results from the non-recurrent investment in 2002 in a gas turbine at the Campo Grande thermoelectric power station, from which EDP decided to divest after securing control of the company in October 2002.

Financial Debt

Brazil

million reals

	2003	2002	Var. %
Distribution	**2 671.4**	**3 085.5**	**(13.4%)**
Bandeirante	**528.7**	**483.2**	**9.4%**
Denominated in local currency	486.1	431.3	12.7%
Denominated in dollars (1)	42.6	51.9	(17.9%)
Escelsa	**1 691.4**	**2 091.1**	**(19.1%)**
Denominated in local currency	417.0	445.8	(6.5%)
Denominated in dollars (1)	1 274.4	1 645.3	(22.5%)
Enersul	**451.3**	**511.2**	**(11.7%)**
Denominated in local currency	303.3	311.8	(2.7%)
Denominated in dollars (1)	148.0	199.4	(25.8%)
Generation and Trading	**219.8**	**334.0**	**(34.2%)**
EDP Brasil, S.A.	**148.0**	**32.0**	**362.5%**
Total Financial Debt	**3 039.2**	**3 451.5**	**(11.9%)**
Under assets: Losses on Rationing and Parcel A	626.2	614.2	2.0%

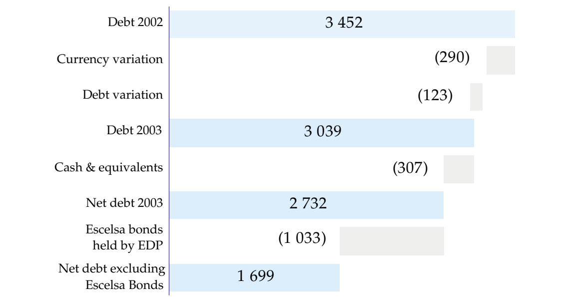
(1) Debt with BRL coverage instruments.

Financial Debt decreased BRL 412.3 million from 2002, mainly as a result of the appreciation of real against dollar (22% in 2003). The increase of the debt of EDP Brasil, S.A., was caused by the transfer to this company of the debt previously held by Fafen. Taking into account the Escelsa bonds held by EDP, Net Debt stands at 1699 million reals.

Net Debt

Brazil

BRL million



>> 8 TELECOMMUNICATIONS

The 2003 financial statements of the Fixed Telecommunications business of the ONI Group include the contribution of OLA Internet, acquired during the year. On the other hand, they also include the consolidation of Germinus using the equity method (consolidated using the purchase method in 2002) since the company is undergoing sale, and exclude the consolidation of ONI Way.

The ONI Group returned a **Net Loss** of € 119.3 million compared to a loss of € 177.4 million in 2002.

Profit and Loss Account

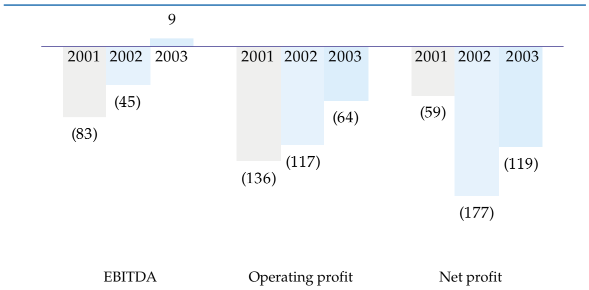
Fixed Telecommunications

thousand euros

	2003	2002	Var. %
Operating Income	**341 572**	**298 032**	**14.6%**
Telecommunications services income	336 953	273 838	23.0%
Voice telecommunications services	230 924	160 038	44.3%
Data telecommunications services	80 887	84 018	(3.7%)
Other telecommunications income	25 142	29 782	(15.6%)
Income from sale of equipment	4 619	23 700	(80.5%)
Own work capitalised	0	494	-
Operating Costs	**332 633**	**343 158**	**(3.1%)**
Direct operating costs	187 178	157 396	18.9%
Costs of telecommunications services	183 164	142 533	28.5%
Costs of sales of equipment	4 014	14 863	(73.0%)
External supplies and services	89 164	121 844	(26.8%)
Group supplies and services	750	994	(24.5%)
Personnel costs	57 301	69 763	(17.9%)
Other costs and income	(1 760)	(6 839)	74.3%
EBITDA	**8 939**	**(45 126)**	**-**
EBITDA (%)	***2.6%***	***(15.1%)***	***17.8%***
Depreciation and amortisation	68 648	63 491	8.1%
Provisions	4 260	7 887	(46.0%)
Operating Profit	**(63 969)**	**(116 504)**	**45.1%**
Financial Results	**(62 174)**	**(43 134)**	**(44.1%)**
Extraordinary Results	**(10 057)**	**(48 329)**	**79.2%**
Taxes and Minority interests	(16 942)	(30 542)	44.5%
Net profit	**(119 258)**	**(177 425)**	**32.8%**

Fixed Telecommunications

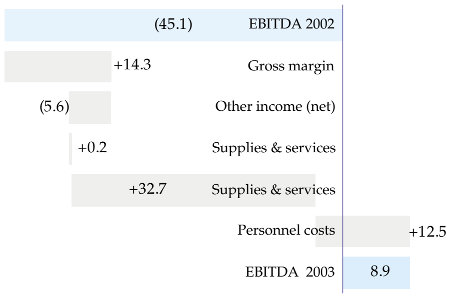
million euros



EBITDA broke even in 2003, at € 8.9 million. This includes € 4.4 million concerning the business in Portugal while the remaining is in respect of the business in Spain. The break even of the EBITDA was possible due to the 23.0% growth of Telecommunications Services Income and to the reduction of External Supplies and services (26.8%) and of Personnel costs (17.9%).

EBITDA
Fixed Telecommunications

million euros



Growth of **Telecommunications Services Income** was greater in Spain (up 31.8%) due to the purchase method consolidation of OLA Internet in 2003 and to the growth of voice traffic at Comunitel. In Portugal growth stood at 1.5% compared to 2002.

The reduction at **External Supplies and services** was seen mainly at ONI Portugal and was driven by the savings in Advertising Costs (-60%), Specialised Work (-25%) and Network Costs (-22%), while the lower Personnel costs resulted from the reduction of the number of workers from 1326 at the end of 2002 to 1180 at the end of 2003 and from the consolidation of Germinus using the equity method.

The 8.1% increase of **Depreciation** was largely caused by the investment made by ONI Spain in the acquisition of cable access rights (IRU – Indefeasible Rights of Use) and by the investment made by ONI Portugal in the enlargement of the network and acquisition of direct-access infrastructures.

The improvement of **Extraordinary Results** is linked to the extraordinary provision recorded in 2002 in the amount of € 20 million, linked to the shutting down of Shopping Direct.

Operational Investment
Fixed Telecommunications

thousand euros

	2003	2002	Var. %
Portugal	**15 232**	**53 179**	**(71.4%)**
Recurring	3 233	4 846	(33.3%)
Non-recurring	11 999	48 332	(75.2%)
Spain	**30 950**	**87 624**	**(64.7%)**
Recurring	8 164	5 034	62.2%
Non-recurring	22 786	82 590	(72.4%)
Operational Investment	**46 182**	**140 803**	**(67.2%)**

Operational Investment totalled € 46.2 million in 2003, a reduction of 67.2% compared to 2002. The reduction of investment in ONI Portugal reflects the investment effort in 2002 directed at the enlargement of the network and at acquisition of access infrastructures. Investment by ONI Spain in 2002 include the amount of € 52.1 million related to the acquisition of Indefeasible Rights of Use (IRU). Investment in 2003 is related to the acquisition of IRUs (€ 7.9 million) and of direct-access equipment (€ 7.5 million).

>> 9 INFORMATION TECHNOLOGIES

The EDINFOR Group **Net Loss** for 2003 totalled € 6.2 million, compared to a net profit of € 7.7 million in 2002.

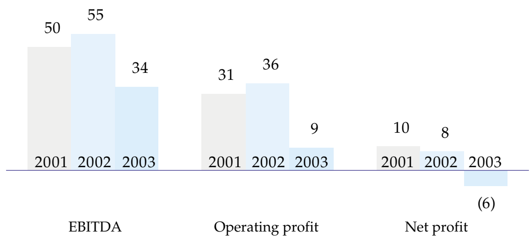
Profit and Loss Account
EDINFOR Group

thousand euros

	2003	2002	Var. %
Operating income	**195 760**	**238 216**	**(17.8%)**
Sales	27 023	35 510	(23.9%)
Services rendered - Group	90 573	122 478	(26.0%)
Services rendered - Third parties	68 750	66 016	4.1%
Own work capitalised	8 397	12 633	(33.5%)
Other income	1 017	1 579	(35.6%)
Operating Costs	**161 660**	**182 948**	**(11.6%)**
Sundry materials and merchandise	24 453	31 640	(22.7%)
External supplies and services	59 527	70 051	(15.0%)
Group supplies and services	10 526	5 070	107.6%
Personnel costs	66 431	75 470	(12.0%)
Other costs	723	717	0.8%
EBITDA	**34 100**	**55 268**	**(38.3%)**
EBITDA (%)	***17.4%***	***23.2%***	***(5.8%)***
Depreciation and amortisation	24 301	18 924	28.4%
Provisions	508	781	(35.0%)
Operating profit	**9 291**	**35 563**	**(73.9%)**
Financial Results	**(12 494)**	**(13 856)**	**9.8%**
Extraordinary Results	**(4 069)**	**(6 890)**	**41.0%**
Taxes and Minority interests	(1 098)	7 096	-
Net Profit	**(6 174)**	**7 721**	**-**

EDINFOR Group

million euros

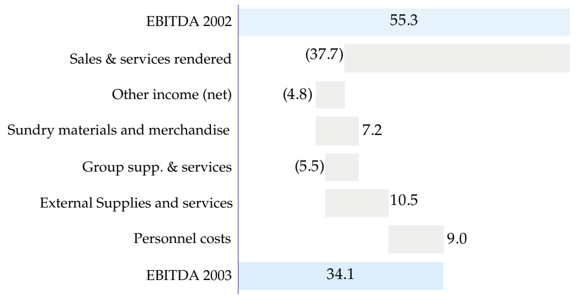


Sales and Services rendered of the EDINFOR Group totalled € 186.3 million in 2003, a decrease of 16.8% compared to 2002. This was directly related to the slowdown of economic activity in Portugal during 2003 and to the transfer to EDP Distribuição of fixed assets linked to the development of an information system that led to a reduction of services invoiced by EDINFOR to EDP Distribuição. In 2003, Sales and Services rendered to companies outside the EDP Group accounted for 40.6% of the total.

The efforts to cut costs were insufficient, however, to offset the decline of revenues.

EBITDA
EDINFOR Group

million euros



Personnel costs fell 12.0% during the period as a result of wage renegotiations during 2003 and of the reduction of the number of workers from 1713 in 2002 to 1615 at the end of 2003.

The depreciation of assets related to an ISU/Communications IT project, included under Fixed Assets in Progress has been transferred to Tangible Fixed Assets leading to a 28.4% increase of **Depreciation**.

II – TRANSITION TO AND IMPLEMENTATION OF INTERNATIONAL ACCOUNTING STANDARDS (IFRS/IAS) WITHIN THE EDP GROUP

From an accounting and organisation perspective, the EDP Group had two major challenges as at December 31, 2003, namely transition to the IFRS/IAS and implementation of the Sarbanes-Oxley Act rules. The Board of Directors considers that the IFRS/IAS conversion teams at the EDP Group have the technical skills necessary to assure an adequate conversion to the new rules. These teams include staff involved in the development of systems in the financial area and central treasury of the EDP Group. The Group has also started the process of documentation of systems and develop manuals for standard financial reporting procedures, governing the new processing and accounting procedures in accordance with IFRS/IAS. We therefore consider that as of the date of transition to the IFRS/IAS on January 1, 2005, the necessary controls will exist to ensure that the financial information is prepared in accordance with the IFRS/IAS.

In addition to the recommendations issued by the CMVM and by the European Commission Securities regulators in respect of disclosure of the qualitative information on the process of transition to the IFRS/IAS, we present hereunder the main accounting differences that have been identified between the Official Plan of Accounts and the IFRS/IAS with reference to 2002 which will arise in the process of transition of the EDP Group as from January 1, 2005.

It is therefore considered that the main differences between the Portuguese Standards and the IFRS/IAS presented hereunder will probably be those that result from this transition process. It should be mentioned that these differences between accounting principles have been subject to technical assistance by PricewaterhouseCoopers. In operational and risk-management terms the transition to the IFRS/IAS is not expected to have any negative effect on the Group's operations.

In quantitative terms, the **principal adjustments/ differences to be recorded in the EDP Group accounts as at December 31, 2002**, as a result of the differences between accounting principles generally accepted in Portugal and the IFRS/IAS are as follows:

		2002			
		Total Euros '000	Portugal Euros '000 (*)	Spain Euros '000	Brazil Euros '000
Consolidated Shareholders' Equity 2002 - POC		**5 494 182**			
Adjustments for IAS:					
1	Incorporation and setup costs	(42 585)	(37 375)	(511)	(4 699)
2	Research and development costs	(13 854)	(13 818)	(36)	-
3	Intangible fixed assets in progress	(11 524)	(11 524)	-	-
4	Deferred costs	(10 263)	(10 263)	-	-
5	Initial cost of loans	4 102	-	4 102	-
6	Regulatory assets	(256 021)	(49 996)	-	(206 025)
7	Regulatory liabilities	324 111	324 111	-	-
8	Deferred actuarial gains and losses	(586 733)	(586 733)	-	-
9	Staff bonus / rewards	(22 989)	(22 989)	-	-
10	Obligations tied to the concessions	43 011	-	-	43 011
11	Energy acquisition contracts	61 470	61 470	-	-
12	Fair value of investments available for sale	38 266	42 657	(4 391)	-
13	IFRS/IAS impacts on associated companies	(57 342)	(57 342)	-	-
14	Financial instruments - Derivatives	119 669	131 181	(11 512)	-
15	Provisions	10 099	-	5 455	4 644
16	Deferred taxes	148 086	90 230	2 413	55 443
17	Minority interests	7 508	7 679	(171)	-
		(244 989)	(132 712)	(4 651)	(107 626)
Consolidated Sharehoders' Equity 2002 - IAS PRO FORMA		**5 249 193**			
	Impact on Shareholders' Equity	***(244 989)***			
	Impact on Shareholders' Equity %	***(4.5%)***			

(*) Economic revaluation work is currently in progress in respect of assets with reference to December 31, 2003

In qualitative terms, the principal adjustments/ differences to be shown in the accounts of the EDP Group as from January 1, 2005, as a result of the differences between accounting principles generally accepted in Portugal and the IFRS/IAS are analysed as follows:

1) Incorporation costs: under IFRS/IAS incorporation charges cannot be capitalised (deferred in the balance sheet as fixed assets). Costs incurred with share capital increases which should have been charged to reserves are also carried under this heading. There will therefore be a need to make adjustments in respect of these assets, taking them to retained earnings on the transition date. After the transition date, these costs will be taken to results.

2) Research and development costs: under IFRS/IAS research costs cannot be capitalised. Development costs are capitalised through compliance with the rigid criteria of IAS 38. It is likely that some of these assets will have to be adjusted (annuled) and taken to shareholders' equity – retained earnings, on the transition date.

3) Deferred costs: the concept of deferred costs does not exist under IFRS/IAS. The costs can either be capitalised (as intangible or tangible assets) or are recognised immediately during the year. Advertising costs and costs other than those classifiable as development, cannot be capitalised. Maintenance and repair costs that do not increase the useful life of the asset in question cannot be capitalised. A large part of the deferred costs of the EDP Group will have to be recognised immediately in the results for the year and/or retained earnings. Deferred taxes will have to be reclassified to their own category in the new IFRS/IAS balance sheet.

4) Tangible fixed assets: since tangible assets are largely valued at historical costs, those assets acquired in Portugal up to 1992 have been revalued. The IFRS/IAS requires that each class of fixed assets be valued using the same valuation criteria. As stated in the chapter on the Impact of the IFRS/IAS 1, there is a possibility, subject to a strategic decision of the Board of Directors, of revaluing tangible fixed assets at the time of transition in whole or just in respect of some classes of fixed assets. In accordance with the exemption provided for in IFRS/IAS 1, tangible fixed assets, investment property and intangible assets may be measured at their fair value as part of the transition adjustments, in accordance with one of the three measurement bases provided for in the exemption. These bases are cost, fair value, or integrated cost. It is important to point out that the measurement bases may be applied differently for each individual category of tangible assets so that, following transition, the strategic objectives established by the EDP Group for the transition may be complied with.

It is current practice in some Group companies to capitalise interest expense and structure costs by the application of ratios, percentages and other similar mechanisms. These methods of capitalising costs are not allowed under IFRS/IAS. Capitalisation of interest expense and structure costs is possible only through the application of strict criteria governing the allocation of internal costs to assets under development and/or construction. Under IFRS/IAS the concept of Own work capitalised does not exist and capitalisation is undertaken directly or by deduction from costs by nature of expense when this type of profit and loss account is presented. However, despite the strict rules governing the application of what can be capitalised, or not, the IFRS/IAS 1, according to the exemption mentioned above, allows these amounts to be considered as part of the costs of the fixed asset on transition date. The difference between the fair value of the assets on transition date and their integrated cost will be disclosed in the first financial statements under IFRS/IAS in 2005.

5) Finance lease assets: the energy acquisition contracts (CAEs) as at December 31, 2003 determine that all the electricity generated by the various EDP Produção power stations be sold to REN during the useful life of these power stations. The existence of the CAEs therefore gives rise to an accounting procedure different from that recorded in the POC (Official Plan of Accounts), since these electricity-generating assets based on the substance of the transactions and not only with their form, were effectives sold to REN. This criteria requires that these transactions be recognised as a finance lease asset, measured at the present value of the future finance lease payments. At transition date, this transaction will be recorded as a finance leases asset giving rise to obligations payable under finance leases. At the same time electricity-generating tangible fixed assets as classified under current standards will be annuled against shareholders' equity.

It is expected that the CAEs will be terminated during 2004 after the MIBEL comes into operation and that, in turn, these finance lease assets recorded on transition date will be compensated by electricity-generating assets (see hereunder – electricity-generating assets).

6) Provision for the correction of Hydraulicity: hydraulicity correction is not compatible with the IFRS/IAS requirements. This practice of recording a regulatory liability must be discontinued under IFRS/IAS, and therefore this heading of liabilities will be annuled against shareholders' equity both at transition and in the future.

7) Provisions: recording provisions under IFRS/IAS on the balance sheet date is allowed if there are contractual or legal obligations. In accordance with IAS 37 neither provisions nor accrued costs may be recognised in relation to repair and mantenance, since there is no contractual obligation to undertake any kind of repair. What IFRS/IAS suggests is that major repairs be recorded as part of the tangible assets and that this amount be amortised over the estimated useful life.

8) Adjustment to financial assets: in accordance with the POC, the provision for doubtful debt is based on experience and on current evaluation of debtor balances. However, these debts may only be considered bad debt when the customer is considered bankrupt by the courts. Under IFRS/IAS, investments in respect of debtors are measured at cost, and the amount recorded must be reduced to the recoverable value by means of a provision. After a reasonable period for the correction of such doubtful debts, both costs and the provision should be written of.

9) Regulatory assets: there are assets of the "regulatory" type, that are assets that have been recorded under rules imposed by the electricity company regulator in the consolidated financial statements of the Group (e.g. Portugal and Brazil) that cannot be classified as assets under IFRS/IAS, as they correspond to losses to be recovered through future tariffs, during a time period established by the regulator. These regulatory assets can only be recovered through the generation and distribution of electricity in the future. Therefore, under IFRS/IAS, their realisation as an asset is linked to future sales to customers and not the result of the loss of consumption of energy in previous periods. On transition date these regulatory assets will be adjusted against shareholders' equity. This adjustment will continue in the future following transition date, since no harmonisation is planned between the accounting rules applicable to the companies and the IFRS/IAS.

10) Employee benefits – Bonus: current practice is to pay bonuses (as distribution of profits) to certain categories of employees of the Portuguese companies. Payment of these sums is based on the provision of services by them during the year prior to their recording under shareholders' equity, since they are only recorded following the General Meeting that approves the Report and Accounts for the previous year. These services must be recognised in a provision for employee benefits during the year prior to their approval by the General Meeting.

11) Obligations tied to the concession: it is considered that these resources, received from customers of Bandeirante Energia (Brazil) and, in fact, assigned to the execution of undertakings related to the supply of electricity under the determinations of ANEEL (Regulator) cannot be recognised as a liability under IFRS/IAS, since, in the same way that there are no regulatory assets, there are no regulatory liabilities (see the concept of liabilities and of provisions). Under IAS 20 – Subsidies, these obligations must be recorded either as deferred income and written down over the useful life of the assets to which they refer or recorded net, against the assets, and therefore resulting in criteria applicable to business combinations a reduction of the depreciation of the assets. On transition date, this adjustment will lead to an increase of shareholders' equity. After transition date, these adjustments will continue to be made since no harmonisation of the IFRS/IAS with Brazilian Accounting Standards can be expected.

12) Impairment of long-term assets/ goodwill: As of transition date, IFRS/IAS 1 allows the revision of the criteria applicable to business combinations in accordance with three methods. First, business combinations prior to transition date are not re-restated, that is, the criteria in accordance with national standards is accepted. Second, the re-expression is allowed of all businen cambinations prior to transition date. In the third, restated is allowed of the specific business combinations and, in this case, all subsequent business combinations will have to be restated.

Taking January 1, 2003, as the begiming of transition of the EDP Group to IFRS/IAS and December 31, 2005, as the first date of IFRS/IAS Financial Reporting and considering also that the adoption of IFRS/IAS will be undertaken by implementation of the IFRS/IAS which are applicable on the date of the report, it should be pointed out that as "Exposure draft ED 3 – business combinations" will become past of IFRS/IAS during 2004, it is likely that non-amortisation of goodwill will be allowed. If so, the value of goodwill and of other long-term assets will come to be reviewed annually as far as any impairment is concerned.

13) Investments available for sale: under IFRS/IAS, investments available for sale must be carried at market value under shareholders' equity.

14) Derivatives and financial instruments: The EDP Group uses derivatives essentially to manage the interest-rate risk underlying debt that is issued. However, IFRS/IAS 39 require compliance with strict rules regarding the adoption of hedge accounting which may prevent the appication of this criteria and oblige the recognition and measurement of these instruments in the trading category. The potential impacts on shareholders' equity, as described in detail in the following chapters of this report, depend on the type of operation in question, in particular: fair-value hedging transactions, cash-flow hedge transactions and/or absence of hedge accounting.

15) Elimination of deferred actuarial gains and losses: the EDP Group already records benefit plans in accordance with IAS 19. However, in accordance with transition rule IFRS/IAS 1, companies on transition on are allowed to choose and decide whether deferred actuarial losses on that date are fully recognised and recorded against retained earnings. This exemption provided for in IFRS/IAS 1 is allowed even if the Group continues to apply the method of not immediately recognising actuarial gains following transition date. If this alternative is chosen, it must be applied to all employee benefit plans.

16) Currency exchange reserve: IFRS/IAS 1 states that currency exchange reserves may revert to zero on transition date. In accordance with IFRS/IAS 1, the currency exchange reserve may be regularised through retained earnings and it is therefore eliminated under a separate live in shareholders' equity.

General information

In addition to the alterations to the financial statements referred to above, the following information will have to be disclosed in the Notes to the accounts:

1. Date on which the issue of the financial statements was authorised;

2. The corporate office that so authorised;

3. Whether the shareholders or other entities are empowered to alter the financial statements; and

4. Unambiguous statement to the effect that the financial statements are compliant with to IFRS/IAS.

IFRS/IAS accounting policies of the EDP Group as from January 1, 2005

The principal accounting and evaluation criteria applied in the preparation of Consolidated IFRS/IAS Financial Statements are detailed hereunder:

Basis of preparation of the Consolidated Financial Statements

The financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS/IAS). The financial statements shall be prepared in accordance with the historical cost principle, modified by the revaluation of tangible fixed assets, investment securities available for sale, financial assets, financial liabilities and trading securities.

Preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that effect the values of assets and liabilities reported, as well as values of income and costs reported during the reporting period. Despite the fact that these estimates are based on management's best knowledge of current events and activities, actual results may differ from these estimates.

Bases of Consolidation

i) Reference dates: the Consolidated financial statements includes the assets, liabilities and results of the Group companies and jointly controlled entities.

ii) Holdings in Group companies: shareholdings in subsidiaries and in companies in which the Group holds directly or indirectly more than 50% of the voting rights at General Meetings or has in any other way the power to govern financial and operating policies have been included in the consolidated financial statements using the purchase method.

Subsidiaries are included in the consolidation from the date on which control is acquired to that on which it actually ends. The purchase method is used in the accounting of the acquisition of subsidiaries. The cost corresponds to the fair value of the assets of acquisition, shares issued and liabilities assumed as of acquisition date, plus costs directly imputable to the acquisition. Intra-group transactions, dividends distributed between Group companies, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated, unless the costs cannot be recovered. When deemed materially necessary, the accounting policies of the subsidiaries have been altered to ensure consistency with the policies adopted by the Group.

The results of subsidiaries acquired or sold during the year are included in the statement of income from the date of their acquisition up to the date of their sale. When a subsidiary is sold, it is excluded from the consolidation and the respective unamortised goodwill is transferred to results. Goodwill carried under shareholders' equity is reclassified to retained earnings.

The companies consolidated using the purchase method are detailed in Note 35.

iii) Associates: investments in associates are recorded using the equity method. In accordance with this method, the consolidated financial statements include the Group's share of the total profits and losses recognised as from the date on which the significant influence commences and up to that on which it actually ends. Associates are understood to be those entities in respect of which the Group has between 20% and 50% of the voting rights or over which the Group exercises significant influence, but cannot exercise control thereof. Unrealised gains or losses on transactions between the Group and its associates are eliminated, unless the transaction provides evidence of impairment of a transferred asset. Group investment in associates includes goodwill (net of accumulated amortisation) on the acquisition. When the share of the losses in an associate exceeds the value of the investment in the associate, the Group does not recognise losses in the future unless the Group shall have incurred obligations or made payments in benefit of the associate.

iv) Jointly controlled entities: the Group's interests in jointly controlled entities, namely HidroCantábrico, are recorded using the proportional consolidation method. The group combines its proportion of the expenditure and revenues, the assets and liabilities and the cash flows of jointly controlled entities on a line-by-line basis with the respective similar components of the Group's financial statements. The Group recognises the proportion of the gains or losses on the sale of Group assets to the jointly controlled entities attributable to the other partners. The Group does not recognise its proportion of losses and gains of the joint partners resulting from the purchase of shares by the Group in the jointly controlled entities until such time as it resells such assets to an independent entity. Nevertheless, if a loss on a transaction provides evidence of a reduction of the net realisable value of the current assets or of a loss for impairment, the loss is recognised immediately.

v) Transactions in currencies other than the euro

v.a) Measurement currency: items included in the financial statements of each Group company are measured using the currency that best reflects the economic substance of the events and circumstances relevant to the company. The consolidated financial statements are presented in euros, which is the measurement currency of the parent company.

v.b) Transactions and balances: transactions in currencies other than the euro are translated into the measurement currency using the exchange-rate ruling on the date of the transaction. Gains and losses resulting from the settlement of these transactions and of the exchange of monetary assets and liabilities expressed in currencies other than the euros are recognised in the statement of income.

Currency exchange differences generated by debt securities and other monetary investments measured at their fair value are included as currency exchange gains and losses. Currency exchange differences on non-monetary assets, such as equities, are reported as part of a gain or loss on its fair value.

v.c) Group companies: the financial statements and cash flows of foreign entities are translated into the currency of the Group's report at the average exchange rates for the year, while their balance sheets are translated in the exchange-rate ruling at the year-end. Currency exchange differences generated by the transposition of net investments in foreign entities and of loans and other currency instruments designated as hedging instruments of such investments are recorded under shareholders' equity. When a foreign entity is sold, such currency exchange differences are recognised in the statement of income as part of the gain or loss on the sale.

Adjustments to the goodwill/ concession rights to the fair value of assets and liabilities generated by the acquisition of a foreign entity are processed as assets and liabilities of the parent company and are recorded and amortised on the basis of the exchange-rate ruling on the date of acquisition.

vi) Tangible fixed assets: tangible fixed assets are measured at cost net of accumulated depreciation and impairment losses. Tangible fixed assets consist mainly of specific technical equipment used in generating electricity, as well as electricity distribution equipment.

Fixed assets part funded by third parties are depreciated on the same basis and at the same rates as the Group's other fixed assets, the respective cost compensated under income and gains by amortisation of the part funding to results (recorded under Investment Subsidies), undertaken on the same basis and at the same rates as the respective part-funded fixed assets.

vii) Fixed assets assigned to EDP Distribuição concessions: under the terms of Decree-Law 344-B/82, the low-tension electricity distribution concession does not involve the sale of the assets of the concessor municipalities, which remain in their formal possession, without prejudice to their assignment to operation by the Group. In accordance with the foregoing, fixed assets assigned to the concession are carried under tangible fixed assets with the contract entry under medium-and long-term liabilities included under Other Creditors in the balance sheet.

The values of these fixed assets were established by an evaluation undertaken during 1992, net of accumulated depreciation.

Fixed assets assigned to the concession are depreciated on the same basis and at the same rates as the Company's own fixed assets, the respective cost offset under operating income and gains (Note 2), by the reduction, or by an equal amount, of the liability towards municipalities recorded under liabilities.

The Group is responsible for the maintenance and repair of these fixed assets during the life of the concession contract, the respective cost been recorded consistantly with the Group's own fixed assets.

viii) Multipurpose hydroelectric plant: multipurpose hydroelectric plants comprise that part of the hydroelectric power stations built by the Group, used for various purposes outside the scope of its electricity generating business (irrigation, water supplies to local populations, etc.), and for this reason have been subsidised by the State.

These fixed assets are carried at construction cost, which includes overheads as indicated for the fixed assets owned by the Group.

The value assigned to the investment that is the State's responsibility in the multipurpose hydroelectric plants has been determined by application of provisional percentages to the direct accumulated cost of the plant in question.

Part funding received from the State in respect of these hydroelectric power stations is carried under Other non-recurrent creditors.

Depreciation is calculated using the straight-line method to write down the cost or amount revalued of each asset to its revalued cost, over its estimated useful life.

If the net book value of an asset is greater than its recoverable value, the former is immediately adjusted to its recoverable value.

Gains and losses on sales are determined by comparison of the selling price with the book value and are taking to the operating profit. When revalued assets are sold, the amounts included in the fair value reserves and other reserves are transferred to retained earnings.

Costs of loans obtained to finance the construction of tangible fixed assets are capitalised during a period of time needed to complete and prepare the asset for its assigned use. Other loan costs are taken directly to the statement of income for the period.

Repairs and maintenance are taken to the statement of income during the financial period in which they are incurred. The cost of major renovations is included in the book value of the asset provided that future economic benefits are likely to extend the original performance level of the existing assets. Major renovations are written down over the life of the respective future economic benefits.

ix) Investment properties: these mainly include buildings kept for the purpose of appreciation or rental and are not occupied by Group companies. Investment properties are dealt with as long-term investments and are carried at cost.

x) Intangible fixed assets

x.i) Goodwill and Concession Rights: goodwill represents the excess of acquisition cost over fair value of the net assets of the subsidiary/ associate acquired as of the date of acquisition. Goodwill/ concession rights are amortised over an equivalent period and are subject to an impairment test. In the event that the book value of goodwill exceeds its recoverable value, it will be adjusted for the difference. Any loss or impairment is taken to the statement of income.

Management determines the estimated useful life of goodwill on the basis of an evaluation of the respective investments in the companies as of the date of acquisition, considering factors such as market share at that date, potential growth and other factors inherent in the companies that are acquired.

x.ii) Research and development costs: research costs incurred in the search for new technical or scientific knowledge or in the search for alternative solutions are recognised in the statement of income as and when incurred. Development costs are recognised as intangible fixed assets when the technical feasibility of the product or process under development can be demonstrated and it is seen that the Group intends to and has the capacity to complete its development, its commercial feasibility is ensured and its costs can be reliably measured.

These assets are written down using the straight-line method over the period of the expected benefit, though not exceeding 3 to 5 years.

x.iii) Software: costs inherent in the development and maintenance of software are recognised as a cost as and when incurred. Those costs directly involved in software products controlled by the Group that will generate economic benefits are recognised as intangible fixed assets. Capitalised costs include direct costs related to the staff of the software development team and indirect costs.

Investments that improve the performance of software programs beyond their original specifications are added to the original costs of the software. Software development costs recognised as assets are amortised using the straight-line method over their useful life, not to exceed a period of 3 years.

x.iv) Other intangible fixed assets: investments made in the acquisition of patents, registered brands and licences are capitalised and amortised using the straight-line method over their useful life, though not exceeding 20 years.

Intangible fixed assets are not revalued.

xi) Impairment of long-term assets: tangible assets and other non-current assets, including goodwill, concession rights and intangible assets are subject to annual review to determine whether there was impairment, when events or circumstances indicate that its book value may not be recoverable. A loss for impairment is recognised by the excess of the book value over the recoverable value, defined as the higher of the net selling price of the asset and its value in use. For the purpose of evaluation of possible impairment, the assets are grouped at the lowest level at which separate cash inflows can be identified.

xii) Investments: the EDP Group classifies its investments as provided for in IAS 39 – Financial Investments: Recognition and Measurement. It carries investments in financial assets in accordance with the following categories: held-for-trading, held-to-maturity and available-for-sale. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at the time of acquisition and re-evaluates this classification on a regular basis. Investments that are acquired mainly for the purpose of generating a profit on price fluctuations are classified as Trading Securities and are carried under current assets; for the purpose of these financial statements short term is defined as 3 months. Fixed-term investments that management has the intention and capacity to hold to maturity are classified as held-to-maturity and are carried under non-current assets, except those maturing within 12 months of the balance sheet date, which are classified as current assets; during the period, the Group held no investments in this category. Investments that are to be held for an undetermined period of time, that can be sold because of liquidity needs or alterations to interest rates, are classified as available-for-sale and are carried under non-current assets, unless management expressly intends to hold the investments for less than 12 months from the balance sheet date or there is a need to sell them to obtain operating capital, in which case they are carried under current assets.

Acquisitions and disposals of investments are recognised on the date of the transaction, which is the date on which the Group undertakes to acquire or sell the asset. The cost includes transaction costs. Investments held for sale are subsequently recorded at fair value under shareholders' equity. Investments held to maturity are carried at amortised cost, using the effective interest rate method. Realised and unrealised gains on losses resulting of changes in the fair value of Trading Securities are included in the statement of income for the period in which they are incurred. Unrealised gains or losses resulting of changes in the fair value of investments classified as held for sale are taken to shareholders' equity. The fair value of the investment is based on listed values or on amounts derived from cash-flow models. Fair values for unlisted shareholders' equity instruments are estimated using the applicable price/earnings or price/cash-flow ratios, adjusted to reflect any specific circumstances of the issue of the security. Equities for which fair values cannot reliably be 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 included in the statement of income as gains and losses on financial investments.

xiii) Leases: leases of tangible fixed assets in which the Group holds in substance all the risks and returns on the assets are classified as finance leases. Finance leases are capitalised at the beginning of the lease at the lower of the fair value of the leased asset or the present value of the minimum payments of the lease. Each lease payment is allocated to liabilities and to financial charges in order to calculate a constant rate of return on the debt. The corresponding lease liabilities, net of financial charges, are recorded in long-term accounts payable. The interest element of the financial charges is recorded in the statement of income during the life of the lease to produce a constant periodic interest-rate on the remaining balance of the liability for each period. Tangible fixed assets acquired under finance leases are depreciated during the shorter of the useful life of the goods or of the term of the lease.

Leases in which a significant part of the risks and returns of ownership are held by the lessor are classified as operational leases. Payments made under operational leases, net of any incentives received from the lessor, are taken to the statement of income using the straight-line method during the life of the lease.

xiv) Stocks: stocks are carried on the lower of cost or net realisable value. Cost is determined using the FIFO (first-in/first-out) method. The cost of finished products and work in process includes raw materials, direct labour, other direct costs and related indirect production costs (based on normal operating capacity) but excludes cost of loans. Net realisable value is the estimated selling price during the normal course of business, less finalisation cost and sales expenses. In the event of the net realisable value of stocks having been recorded in previous periods and that they now reflect an increase of value, this amount is recognised as a reduction of the cost of stocks consumed.

xv) Accounts receivable: Acconts receivable are recorded at face value of the invoice, less provisions set aside for impairment of these debts. The provision for impairment of accounts receivable is established if there is objective evidence that the Group will not be able to collect all the sums owed, in accordance with the original terms of the debts. The amount of the provision is the difference between the amount recorded and the recoverable amount, the latter being the present value of expected cash flows, discounted at the market rate for similar debts.

xvi) Cash and cash equivalents: cash and cash equivalents are recorded in the balance sheet at cost. For the cash-flow statements, Cash and cash equivalents include cash, demand deposits at banks, and other short-term fairly liquid investments with maturities of up to three months, and bank overdrafts. Bank overdrafts are included as bank loans under current liabilities in the balance sheet.

xvii) Share capital: Ordinary shares are classified under shareholders' equity. When the company or its subsidiaries buy own shares of the parent company, the payment made, including any incremental external costs net of income tax, is deducted from total shareholders' equity as treasury stock, until such time as they are cancelled or sold. When such shares are subsequently sold or reissued, the amount received is included in shareholders' equity.

xviii) Restrictions to Shareholders' equity: Components of shareholders' equity that are restricted in terms of dividend distribution include the share issue premium, exchange differences arising on consolidation foreign entities, other gains and losses not recognised in net income and the required legal reserves in accordance with the Companies Code of the country in which the companies are resident.

xix) Loans: loans are initially recognised for the amount received, net of transaction costs incurred. Loans are subsequently recorded at amortised cost using the effective interest rate method; any difference between the amounts received (net of transaction costs) and the amount payable is recognised in the statement of income during the life of the loans.

xx) Income tax: income tax is calculated on the basis of the taxable income of companies included in the consolidation and considers deferred taxation. Deferred tax is calculated on the basis of the balance sheet liability method, on the temporary differences between the book values of assets and liabilities and the respective bases of taxation. Deferred tax is not calculated on goodwill and on differences of the initial recognition of assets and liabilities provided they affect neither the book results nor the fiscal result.

The tax base of assets and liabilities is determined in such a manner as to reflect the consequences of taxation derived from the way in which the company expects, as of the balance sheet date, to recover or to pay the amount recorded in respect of its assets and liabilities.

In determining deferred tax the rate used is the one likely to be in force during the year in which the temporary differences revert.

Deferred taxes are recognised when it is likely that future profits will be generated, against which the assets can be used.

xxi) Employee benefits

xxi.a) Pension obligations: Group companies have various pension plans in accordance with the local conditions and practices of the countries in which they operate. The plans of the EDP Group are generally defined-benefit plans. A defined-benefit plan is a pension plan that establishes the amount of the benefit to be attributed, usually in proportion to one or more factors such as age, length of service and/or compensation. A defined contribution plan is a pension plan in accordance with which the Group pays fixed contributions to a separate entity (fund) and will have no constructive or legal obligation to pay additional contributions if the fund has insufficient assets to pay all the benefits of the employees related with their service during the current period and in past periods.

The liability in respect of the defined-benefit pension plans is the present value of the benefit liability as at the balance sheet date, less the fair value of the assets of the plan in conjunction with adjustments of actuarial gains/losses and costs of past services. The liability for defined-benefit plans is calculated annually by independent actuaries, using the projected credit unit method. The present value of the liabilities of defined-benefit plans is determined by future cash flows using the interest rates on treasury bonds that have maturities similar to those of the respective liability.

Actuarial gains and losses arising from adjustments resulting from experience, alterations to the actuarial assumptions and alterations to the pension plans are debited or credited to the statement of income during the average expected remaining service life of the respective employees.

For defined-contribution plans, the company pays contributions to pension insurance plans managed publicly or privately on a mandatory, contractual or voluntary basis. As soon as the contributions are paid, the company has no further payment obligations. Regular contributions constitute costs for the year in which they are owed and as such are included in personnel costs.

xxi.b) Other post-retirement obligations: some Group companies created as a result of the split of EDP in 1994 grant post-retirement medical benefits to the pensioners, of the defined-benefit type. Entitlement to the benefit is based on the employee remaining in service up to retirement age, subject to any minimum period of service. The expected costs of these benefits are recorded during the period of employment, using an accounting methodology similar to that used for the defined-benefit pension plans. Qualified independent actuaries value these liabilities annually.

xxi.c) Compensation benefits through shareholders' equity: stock options are granted to senior staff and directors with a view to stimulating the creation of value, in line with the practice of similar companies. The amount payable for acquisition of the EDP shares is defined during the period prior to the date stipulated as the date of attribution of these options, by the EDP Board of Directors. The exercise price may be corrected in the event of: a) change of 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 the similar nature which, in the free judgement of the EDP Board of Directors warrants such corrections. The aim of the correction of the exercise price is to ensure that the position of the beneficiaries is maintained in terms substantially the same as those that existed before the occurrence of any of the facts referred to, and shall be determined by means of a technical judgement taking into account the theoretical effect of such facts on the value of the EDP shares. The exercise price cannot be lower than the par value of the EDP shares. The EDP Group does not recognise stock options in the accounts.

xxi.d) Early-retirement benefits: early-retirement benefits are paid when the employment ends before normal retirement age or when the employee accepts voluntary redundancy in exchange these benefits. The Group recognises early-retirement benefits when there is evidence of a commitment to terminate the employment of current employees in keeping with a formal plan that cannot be waived or it may provide early-retirement benefits to encourage voluntary retirement. Benefits owed during more than 12 months following the balance sheet date are discounted to present value.

xxii) Subsidies: government subsidies are recognised at fair value provided there is sufficient guarantee that the subsidy will be received and that the EDP Group complies with all its conditions.

Operating subsidies are recognised in the profit and loss account on a systematic basis during the period in which the costs they are designed to compensate are recognised.

Government subsidies related with the acquisition of tangible fixed assets are carried under deferred income and are credited to the profit and loss account using the straight-line method over the expected useful life of the respective assets.

xxiii) Provisions: provisions are charged in the balance sheet whenever the Group has a present obligation (legal or implicit) resulting from a past event, provided that it is likely that a reduction that can reasonably be estimated of resources incorporating economic benefits will be demanded to settle the obligation.

Restructuring provisions include penalties for cancellation of leases and payments deriving from early-retirement benefits, and are recognised during the period in which the Group becomes legally or constructively committed to payment. Costs related to the current business on the Group are not recorded as early retirements or provisions.

xxiv) Recognition of revenue: revenue comprises the amounts invoiced on the sale of products or provision of services, net of value added taxes, rebates and discounts, after eliminating intra-group sales.

The billing of electricity sales is undertaken on a monthly basis throughout each month. Monthly electricity bills are based on real meter reading or on estimated consumption based on the historical data of each consumer. In Portugal the SEP electricity tariffs are fixed by ERSE.

Revenue on the provision of services is recognised by the percentage-of-finishing method, determined with reference to the services actually provided as a percentage of the whole of the services to be provided.

Interest received is recognised on the basis of accrual accounting, taking into account the amount in debt and the actual rate during the period to maturity.

Dividends are recognised when there is entitlement thereto.

xxv) Dividends payable: dividends payable are recorded in the Group's financial statements during the period in which they are approved by the shareholders of the parent company – EDP S.A..

xxvi) Earnings per share: the EDP Group calculates its 'basic' earnings per share and per diluted share in accordance with IAS 33, Earnings Per Share. According to IAS 33, it is calculated using the weighted average of the shares issued during the reporting period.

xxvii) Information by segments: the business segments have products or services that are subject to risks and returns that differ from those of other business segments. The geographic segments have products or services within a particular economic environment that are subject to risks and returns that differ from those in other economic environments.

xxviii) Estimates: preparation of the financial statements requires that Board make estimates and adopt assumptions that affect assets and liabilities, and the disclosure of contingent assets and liabilities at the reporting date of these financial statements as well as the figures reported for revenues and expenditure incurred during the reporting period. The actual results may differ from the estimated results.

xxix) Comparatives: when necessary, the comparative figures will be adjusted to bring them into line with the alterations in the presentation of the current year.

xxx) Financial-risk Management Policy

xxxi) Financial-risk factors: the business of the EDP Group exposes it to a number of financial risks, including the effects of alterations to debt market prices and to shareholders' equity, exchange rates and interest rates.

The Group's exposure lies mainly in its debt portfolio as a result of the interest-rate and exchange-rate risk and, to a limited extent to counterparty non-compliance risk on each transaction.

The uncertainty of the financial markets is analysed on an ongoing basis in accordance with the Group's risk--management policy. To minimise potentially adverse effects on its financial performance interest-rate and/or exchange-rate derivatives are employed as well as the more complex 'caps' structures.

Financial-risk management is undertaken by the financial department in accordance with policies approved by the Board. The financial department identifies, evaluates and defines hedging mechanisms appropriate to each exposure. The Board of Directors is responsible for defining the general risk-management principles, as well as areas of exposure or specific operations.

All transactions involving derivatives require the approval of the Board of Directors, which defines the parameters of the transaction and approves the formal documents describing the objectives of the transaction.

The policy employed by the EDP Group consists of undertaking derivatives transactions only for the purpose of hedging risks and with characteristics similar to those of the liabilities hedged. Transactions are monitored during their life and their efficiency is evaluated in the pursuit of the objective of controlling and hedging the risk that gave rise to the transaction. In parallel, as a form of supporting the decisions of continuation or restructuring, these transactions are revalued in the light of the market on an ongoing basis

xxxii) Exchange-rate risk: the Group operates internationally and is exposed to the exchange-rate risk resulting from exposure to several currencies, principally: USD, GBP, JPY and BRL.

At present, exposure to the USD/Euro exchange-rate risk results from the consolidation of the Brazilian companies that have debt in other currencies, particularly United States dollars. The exposure to the GBP/Euro and JPY/Euro exchange-rate risks stems from the Medium Term Notes issued by EDP Finance, B.V.. The debt contracted by the holding company is entirely denominated in euros.

The financial department is responsible for monitoring the exchange-rate evolution of the currencies referred to above, in an endeavour to mitigate the impact of currency fluctuations on the financial costs of these companies and, consequently, on consolidated results, through currency derivatives or through restructuring the debt in question.

The Brazilian subsidiaries exposed to USD/BRL currency fluctuation through debt in United States dollars use forward rate agreements and currency swaps to hedge this risk.

Additionally, the investments in the Brazilian subsidiaries, whose net assets are exposed to currency exchange risks, are monitored through the appraisal of the evolution of the BRL/Euro exchange rate.

Given the long-term nature determined for the investments in the Brazilian subsidiaries, the Group has decided not to use financial instruments to hedge the currency risk inherent in the value of the investments in these subsidiaries. This position is further strengthened by the short term nature of the currency fluctuations that have occurred. Nevertheless, the necessary monitoring of these investment decisions is provided, taking into consideration the evolution of the respective exchange rates.

xxiii) Interest-rate risk: the operating and financing cash flows of the Group are substantially independent of the fluctuation of the interest-rate markets. The Group has no interest-earning assets of substantial volume.

The policy employed consists of: i) meeting liquidity needs in accordance with best market offers, taking into consideration the credit rating of the counterparty; ii) reducing the financial costs of the debt and, subsequently; iii) immunising the cash flows of the debt from market fluctuations by contracting derivative instruments to fix the debt rates (swaps and caps), taking into consideration a comfortable margin in the light of its regulated operating inflows.

In floating-rate loans, current practice consists of contracting interest-rate swaps to hedge cash flows associated with future interest payment, the effect of which is to convert floating interest-rate loans into fixed interest-rate loans.

Long-term loans contracted at fixed rates are, as and when appropriate, converted into floating rates through interest-rate swaps designed to reduce financial charges and to adjust them to present market conditions. When necessary more structured operations such as caps are added to these swaps, to avoid the cash-flow exposure of the debt to market--rate fluctuations.

All these transactions are realised on liabilities existing in the Group's debt portfolio and mostly constitute perfect hedging through matching the maturities of payments/receipts between both transactions, while also taking into account their principal repayment profiles.

The Group has an interest-rate swap portfolio whose maturities vary between 1 and 15 years approximately, and it does not intend to cancel them before the initially planned date.

The financial department undertakes estimates of the sensitivity of the fair value of the financial instruments to interest-rate variations.

xxxiv) Credit risk: in terms of the counterparty risk on financial transactions, the policy of the EDP Group is governed by the analysis of the technical capacity, competitiveness, credit notation and exposure of each counterparty, preventing significant concentration of credit risks.

The derivatives and financial transaction counterparties are restricted to first-rate credit institutions and for this reason no significant risk is attributed to counterparty non-compliance. Therefore, no collateral is demanded in this type of transaction.

Whenever possible the Group has adopted best market practice in respect of the documentation of the financial transactions that it realises. Therefore all derivatives transactions are contracted under the ISDA Master Agreements, and bond issues are issued under a Debt Instrument Issue Programme.

With regard to third-part debt generated by the Group's day-to-day business, the credit risk largely results from the legal obligation of supplying low--voltage electricity to municipalities that do not pay.

xxxv) Liquidity risk: the EDP Group undertakes prudent management of the liquidity risk by maintaining sufficient financial balances, simplicity in obtaining funds through adequate credit lines and through monitoring the possibility of closing market positions in financial instruments. Given the dynamics of the Group's business, the main object of Treasury is to maintain flexibility in financing cash flows by ensuring that credit lines are available.

xxxvi) Accounting for derivatives and hedging activities: derivatives are initially measured in the balance sheet at cost and are subsequently measured at fair value. The method of recognition of the resulting gain or loss depends on the nature of the hedged item. The Group identifies derivatives either as: 1) the fair-value hedging of a recognised asset or liability; 2) hedging of a planned transaction or of a firm commitment; or 3) hedging of a net investment in a foreign entity as of the date on which the derivative is acquired.

Alterations to the fair value of derivatives identified as fair-value hedging, qualified as efficient for valuation purposes, are recognised in the statement of income as fair-value adjustments of the asset or liability for which the risk hedge was granted.

Alterations to the fair value of derivatives identified as cash-flow hedging and are highly effective are recognised under shareholders' equity. When the planned transaction or the firm commitment leads to recognition of an asset or liability, the gains and losses previously referred under shareholders' equity are included in the initial measurement of the costs of the respective asset or liability. In any other case, the amounts deferred under shareholders' equity are transferred to the statement of income and classified as income or cost during the period in which the firm commitment or planned transaction that is hedged has an impact on the statement of income.

Gains and losses on any transactions which, despite the economic hedging in accordance with the Group's risk-management policies, do not qualify as hedging in accordance with IAS 39 must immediately be recognised in the statement of income.

On the date on which the hedging instrument expires or is sold, or when the hedging transaction no longer meets the requirements for accounting as hedging in accordance with IAS 39, any cumulative gain or loss recorded under shareholders' equity remains so up to the date on which the planned transaction or firm commitment is recognised in the statement of income. If this planned transaction does not provide for a cumulative gain or loss reported under shareholders' equity it is transferred to the statement of income.

The hedging of a net investment in a foreign entity is recorded as 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 as part of shareholders' equity. The gain or loss on the ineffective part is immediately recognised in the statement of income. Nevertheless, if the hedging instrument is not a derivative, all gains and losses on exchange-rate fluctuations are recognised under shareholders' equity.

On the start date of the transaction the Group documents the relationship between the hedging instruments and the hedged items, as well as the respective risk-management objectives and strategy underlying the respective hedging transactions. This process includes the link between all derivatives identified as asset and liability hedging all for specific transactions or firm commitments. The Group also documents in its evaluation, not only at the start of the hedging but throughout the life of the hedging, whether the derivatives used in the hedging transactions are highly effective in compensating the fair values or cash flows of the hedged items.

The fair values of the various derivative instruments used for hedging purposes are disclosed in Note 26. Alterations to the hedging reserve under shareholders' equity are disclosed in Note 28.

xxxvii) Fair-value estimate: the fair value of derivatives traded on liquid markets and of assets available for sale are based on their 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.

In evaluating the fair value of non-negotiable derivatives and other financial instruments, the Group uses a variety of methods and makes assumptions based on market conditions existing on the balance sheet date. Market prices or prices of market operators for a specific instrument or similar products are used in terms of long-term debt. The estimated value of future cash flows is used to determine the fair value of the other financial instruments.

The book values of investments and liabilities with a maturity of less than one year are assumed to be close to their fair value.

III – FINANCIAL STATEMENTS 2003 and 2002

Contents

EDP – Electricidade de Portugal, S.A.

Consolidated Balance Sheet as at December 31, 2003 and 2002

	Notes	2003	2002
		(Thousands of euros)	
Assets			
Tangible fixed assets	4	11 651 599	11 204 237
Intangible fixed assets	5	950 182	1 104 164
Goodwill	6	899 514	738 955
Investments	7	1 582 784	1 895 984
Deferred taxes	8	609 338	545 979
Customers	10	85 797	84 021
Debtors and other sundry assets	11	350 045	176 563
Total Non-Current Assets		16 129 259	15 749 903
Inventories	9	159 236	150 305
Customers	10	1 022 871	864 633
Debtors and other sundry assets	11	429 390	573 211
Accrued income and deferred costs	12	622 417	573 165
Trading securities	13	143 953	175 258
Cash and bank deposits	13	143 543	38 715
Total Current Assets		2 521 410	2 375 287
		18 650 669	18 125 190
Shareholders' Equity			
Share capital	14	3 000 000	3 000 000
Treasury stock	16	(49 020)	(43 494)
Reserves and retained earnings	17	1 965 918	2 202 460
Consolidated net profit	17	381 109	335 216
Total Shareholders' Equity		5 298 007	5 494 182
Minority interests	18	236 485	65 199
Hydrological correction account	19	387 506	324 111
Liabilities			
Long term debt	20	5 913 579	6 107 042
Provisions for liabilities and charges	21	819 574	806 282
Deferred taxes	8	616 056	344 122
Creditors and other liabilities	22	542 942	126 780
Total Non-Current Liabilities		7 892 151	7 384 226
Short term debt	20	1 579 130	1 887 033
Creditors and other liabilities	22	1 238 991	1 242 000
Accrued cost and deferred income	23	2 018 399	1 728 439
Total Current Liabilities		4 836 520	4 857 472
Total Liabilities		12 728 671	12 241 698
		18 650 669	18 125 190

THE OFFICIAL ACCOUNTANT N.º 17,713

THE PLANNING, CONTROL AND CONSOLIDATION MANAGER

THE BOARD OF DIRECTORS

See accompanying notes to the Financial Statements

EDP – Electricidade de Portugal, S.A.

Consolidated Profit and Loss Account
for the years ended December 31, 2003 and 2002

	Notes	2003	2002
		(Thousands of euros)	
Sales	24	6 456 361	5 988 140
Cost of sales	24	3 921 046	3 687 097
Gross Margin		2 535 315	2 301 043
Other operating income			
Services rendered	24	521 159	398 417
Own work capitalised	25	235 623	241 769
Other income	26	18 081	30 614
		774 863	670 800
		3 310 178	2 971 843
Other operating costs			
Supplies and services	27	632 518	675 070
Personnel costs	28	646 636	624 771
Other operating costs	29	203 984	183 112
		1 483 138	1 482 953
Gross Operating Margin (EBITDA)		1 827 040	1 488 890
Provisions	30	75 706	100 645
Depreciation and amortisation	31	845 592	739 541
Operating Margin (EBIT)		905 742	648 704
Financial income / (expense)	32	(266 600)	(157 413)
Amortisation of goodwill and concession rights	32	(92 420)	(65 431)
Current Results		546 722	425 860
Extraordinary Gains/ (losses)	33	(14 443)	(138 939)
Profit before tax		532 279	286 921
Charge for income taxes	34	239 255	171 168
Charges for deferred income taxes	34	(43 721)	571
Profit after tax		336 745	115 182
Minority interests		(44 364)	(220 034)
Consolidated Net Profit		**381 109**	**335 216**
Net Profit per share - Basic - Euros	14	**0,13 euros**	**0,11 euros**

See accompanying notes to the Financial Statements

EDP – Electricidade de Portugal, S.A.

Individual Balance Sheet as at December 31, 2003 and 2002

	Notes	2003	2002
		(Thousands of euros)	
Assets			
Tangible fixed assets	4	117 547	142 048
Intangible fixed assets	5	207 356	215 893
Goodwill	6	106 738	112 534
Investments	7	7 195 266	5 122 594
Deferred taxes	8	336 924	300 245
Debtors and other sundry assets	11	2 431 736	4 692 807
Total Non-Current Assets		10 395 567	10 586 121
Customers	10	4 171	2 056
Debtors and other sundry assets	11	1 692 895	2 057 161
Accrued income and deferred costs	12	432 841	249 574
Trading securities	13	85 641	91 591
Cash and Bank deposits	13	8 332	490
Total Current Assets		2 223 880	2 400 872
		12 619 447	12 986 993
Shareholders' Equity			
Share capital	14	3 000 000	3 000 000
Treasury stock	16	(49 020)	(43 494)
Reserves and retained earnings	17	1 965 918	2 202 460
Net profit	17	381 109	335 216
Total Shareholders' Equity		5 298 007	5 494 182
Hydrological correction account	19	387 506	324 111
Liabilities			
Long term debt	20	3 207 572	3 388 551
Provisions for liabilities and charges	21	383 608	590 498
Deferred taxes	8	474 839	285 789
Creditors and other liabilities	22	315 646	4 744
Total Non-Current Liabilities		4 381 665	4 269 582
Short term debt	20	2 176 932	2 537 192
Creditors and other liabilities	22	266 465	272 360
Accrued cost and deferred income	23	108 872	89 566
Total Current Liabilities		2 552 269	2 899 118
Total Liabilities		6 933 934	7 168 700
		12 619 447	12 986 993

THE OFFICIAL ACCOUNTANT N.º 17,713

THE PLANNING, CONTROL AND CONSOLIDATION MANAGER

THE BOARD OF DIRECTORS

See accompanying notes to the Financial Statements

EDP – Electricidade de Portugal, S.A.

Individual Profit and Loss Account
for the years ended December 31, 2003 and 2002

	Notes	2003	2002
		(Thousands of euros)	
Sales		-	-
Cost of sales		-	-
Gross Margin		-	-
Other operating income			
Services rendered	24	24 252	16 242
Own work capitalised	25	-	310
Other income	26	3 170	882
		27 422	17 434
		27 422	17 434
Other operating costs			
Supplies and services	27	61 360	67 126
Personnel costs	28	5 637	4 316
Other operating costs	29	2 099	3 048
		69 096	74 490
Gross Operating Margin (EBITDA)		(41 674)	(57 056)
Provisions	30	873	11 183
Depreciation and amortisation	31	8 112	6 151
Operating Margin (EBIT)		(50 659)	(74 390)
Financial income / (expense)	32	354 350	272 158
Amortisation of goodwill and concession rights	32	(13 541)	(11 126)
Current Results		290 150	186 642
Extraordinary Gains/ (losses)	33	81 712	173 885
Profit before tax		371 862	360 527
Charge for income taxes	34	(14 479)	(24 587)
Charge for deferred income taxes	34	5 232	49 898
Net Profit		**381 109**	**335 216**
Net Profit per share - Basic - Euros	14	**0,13 euros**	**0,11 euros**

See accompanying notes to the Financial Statements

EDP – Electricidade de Portugal, S.A.

Consolidated and Individual Profit and Loss Account by Function
for the years ended December 31, 2003 and 2002

(Thousands of euros)

	Consolidated			Individual		
	2003	2002		2003	2002	
		Pro forma	Published		Pro forma	Published
Sales and Services supplied	6 977 520	6 386 557	6 386 557	24 252	16 242	16 242
Cost of sales and provision of services	(3 921 046)	(3 687 097)	(5 680 951)	(61 360)	(67 126)	(10 705)
Gross Margin	**3 056 474**	**2 699 460**	**705 606**	**(37 108)**	**(50 884)**	**5 537**
Other operating income and gains	253 704	272 383	579 920	3 170	1 192	160 765
Administrative costs	(1 279 154)	(1 299 841)	(377 075)	(5 637)	(4 316)	(62 775)
Other expenses and losses	(1 125 282)	(1 023 298)	(242 544)	(11 084)	(20 382)	(27 615)
Operating profit/(loss)	**905 742**	**648 704**	**665 907**	**(50 659)**	**(74 390)**	**75 912**
Net cost of financing	(334 440)	(201 261)	(184 151)	8 931	33 619	70 822
Gains / (losses) on subsidiaries and associates	33 156	(78 734)	(78 734)	393 868	195 321	184 195
Gains / (losses) on the investments	(57 736)	57 151	40 041	(61 990)	32 092	6 004
Non-recurrent results	(14 443)	(138 939)	(156 142)	81 712	173 885	23 594
Current Results	**532 279**	**286 921**	**286 921**	**371 862**	**360 527**	**360 527**
Tax on current profit	(195 534)	(171 739)	(171 739)	9 247	(25 311)	(25 311)
Profit after tax	**336 745**	**115 182**	**115 182**	**381 109**	**335 216**	**335 216**
Minority interests	44 364	220 034	220 034	-	-	-
Net Profit for the year	**381 109**	**335 216**	**335 216**	**381 109**	**335 216**	**335 216**
Net Profit per share - Basic - Euros	**0.13**	**0.11**	**0.11**	**0.13**	**0.11**	**0.11**

(*) See Note 35 to the Financial Statements that reconciles the balance 'Extraordinary results' in this profit and loss account.

EDP – Electricidade de Portugal, S.A.

Consolidated and Individual Cash-flow Statements
for the years ended December 31, 2003 and 2002

(Thousands of euros)

	Consolidated		Individual	
	2003	2002	2003	2002
Operating Activities				
Cash receipts from customers	6 871 324	6 215 764	-	-
Cash paid to suppliers	(4 255 316)	(4 085 818)	(37 228)	(47 967)
Cash paid to staff	(707 233)	(685 792)	(6 159)	(4 012)
Concession rents paid	(171 749)	(158 176)	-	-
Cash flow from operating activities	1 737 026	1 285 978	(43 387)	(51 979)
Income tax received / (paid)	(146 033)	(277 444)	103 294	(27 807)
Other variations of operating assets and liabilities	149 004	(62 527)	129 375	(279 337)
	2 971	(339 971)	232 669	(307 144)
Cash flow before extraordinary items	1 739 997	946 007	189 282	(359 123)
Proceeds in respect of extraordinary items	166 809	28 026	24 190	5 115
Payments in respect of extraordinary items	(133 207)	(76 363)	(7 484)	(6 080)
	33 602	(48 337)	16 706	(965)
Cash Flow from Operating Activities	**1 773 599**	**897 670**	**205 988**	**(360 088)**
Investing Activities				
Proceeds:				
Investments	456 820	193 377	2 662 348	799 137
Tangible and intangible fixed assets	33 604	77 603	6 281	94 287
Investment subsidies	74 059	56 448	-	188
Interest and similar income	13 266	4 083	191 811	207 225
Dividends	36 663	40 042	375 952	364 555
Effects of the variation on the perimeter	-	315 000	-	-
	614 412	686 553	3 236 392	1 465 392
Payments:				
Investments	(40 599)	(55 511)	(2 342 512)	(1 492 705)
Tangible fixed assets	(934 813)	(931 346)	(5 843)	(32 415)
Intangible fixed assets	(67 913)	(42 981)	(1 581)	(5 136)
Effects of the variation on the perimeter	(100 235)	(798 124)	-	-
	(1 143 560)	(1 827 962)	(2 349 936)	(1 530 256)
Cash Flow from Investing Activities	**(529 148)**	**(1 141 409)**	**886 456**	**(64 864)**
Financing activities				
Proceeds:				
Loans obtained	13 434 657	12 905 666	12 708 000	10 982 196
	13 434 657	12 905 666	12 708 000	10 982 196
Payments:				
Loans obtained	(13 823 408)	(11 884 708)	(13 206 114)	(9 897 929)
Interest and similar costs	(456 069)	(375 734)	(247 413)	(222 621)
Dividends	(268 275)	(337 675)	(268 275)	(337 675)
Acquisition of treasury stock	(5 526)	(10 399)	(5 526)	(10 399)
	(14 553 278)	(12 608 516)	(13 727 328)	(10 468 624)
Cash Flow from Financing Activities	**(1 118 621)**	**297 150**	**(1 019 328)**	**513 572**
Variation of cash and cash equivalents	**125 830**	**53 411**	**73 116**	**88 620**
Effect of currency exchange differences	(26 981)	7 857	(26 981)	9 178
Cash and cash equivalents at the beginning of the period	(407 259)	(468 527)	47 838	(49 960)
Cash and cash equivalents at the end of the period (*)	**(308 410)**	**(407 259)**	**93 973**	**47 838**

(*) See note 13 to the Financial Statements, detailing the breakdown of 'Cash and Cash equivalents'

See accompanying notes to the Financial Statements

EDP – Electricidade de Portugal, S.A.

Statement of Changes in Consolidated and individual Shareholders' Equity
for the years ended December 31, 2003 and 2002

(Thousands of euros)

	Total Shareholders' Equity	Share capital	Legal reserve	Reserves and retained earnings	Fair Value reserves	Treasury stock
Balances as at December 31, 2001	**6 096 758**	**3 000 000**	**287 090**	**2 842 763**	**-**	**(33 095)**
Transfer to reserves:						
Legal reserve	-	-	22 541	(22 541)	-	-
Bonus to employees	(22 073)	-	-	(22 073)	-	-
Dividends paid	(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	-	-
Balances as at December 31, 2002	**5 494 182**	**3 000 000**	**309 631**	**2 497 020**	**(268 975)**	**(43 494)**
Transfer to reserves:						
Legal reserve	-	-	16 760	(16 760)	-	-
Bonus to em ployees	(25 062)	-	-	(25 062)	-	-
Dividends paid	(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 of implementation of IAS 36 and 39 (*):						
- Financial derivatives instruments	131 181	-	-	131 181	-	-
- Impairment reclassification on BCP in 2002	-	-	-	(247 750)	247 750	-
- Fair value of investments available for sale	10 758	-	-	-	10 758	-
- Reversion of 'Fair value' 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	-	-
Balances as at December 31, 2003	**5 298 007**	**3 000 000**	**326 391**	**2 009 880**	**10 756**	**(49 020)**

(*) see Notes 2, 3, 7,17, 37 and 39 to the Financial Statements

See accompanying notes to the Financial Statements

EDP – Electricidade de Portugal, S.A.

Notes to the Financial Statements
December 31, 2003 and 2002

1. **The economic activity of the EDP Group**

The EDP Group operates essentially on the Iberian and Brazilian markets in the electricity and telecommunications sectors.

Activity in the Energy Sector in 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 linked to RNT by long-term exclusive supply contracts. Binding Distributors are obliged to supply their customers in accordance with prices fixed, under the law, by the Energy Services Regulatory Entity (ERSE). Binding Customers are those electricity companies that cannot opt for a SENV supplier (currently low-voltage consumers) or those that, able to do so, 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 tariffs fixed 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 Electricity Services Regulatory Entity (ERSE) is in charge with exercising regulation of the sector, through the preparation, issue, and application of regulations, and also through definition of the tariffs both for the use of infrastructures and for the supply of electricity to SEP customers. Through its 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 participation in a 40% joint interest in Hidroeléctrica del Cantábrico, S.A. (hereinafter known as Hidrocantábrico), a company in which it undertakes operational significant influence. Hidrocantábrico is the parent company of corporate group that carries on its business in the electricity (generation, transport, distribution and supply electricity), gas (distribution and supply) and telecommunications sectors. This EDP holding in Hidrocantábrico forms part of a reasoning of 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 in generation, distribution and supply. In distribution it has a 96.5% holding in Bandeirante Energia S.A., and controls 99.97% of IVEN, S.A., which in turn controls Escelsa Espírito Santo Centrais Eléctricas, S.A., and in 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, it was successful in the auctions for the concession of the construction and operation of the Peixe Angical and Couto Magalhães hydroelectric power stations.

In electricity supplying sector, 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.

Activity in the Telecommunications Sector

In the telecommunications sector the EDP Group holds 56.025% of the share capital of ONI SGPS, the remainder of the share capital being held by BCP, Galp Energia and Brisa. ONI operates in fixed telecommunications, providing voice and data services and is engaged in the Portuguese market (in the corporate and residential statements) and the Spanish market (in the corporate segment).

Activity in the Information Technologies Sector

The EDP Group is involved in information technologies through Edinfor - Sistemas Informáticos S.A., a company wholly owned by the Group, which in turn also holds 57.8% of ACE. The strategic positioning in this sector is of one-stop-shopping in those areas in which it operates: Consultancy and Systems Integration, Process and Application Outsourcing, IT Infrastructures, Georeferenced Solutions and Printing Solutions, and Finishing.

Low-voltage Electricity Distribution Concession Regime

In accordance with specific legislation (Decree-Law 344-B/82), the right to distribute low-voltage electricity in Portugal is in the hands of the municipalities. However, EDP is allowed to carry on this activity, under concession, by entering into concession contracts generally with a life of 20 years, which can be revoked with a previous 2 years notice. During the split process that took place in 1994 this possibility was maintained in relation to the 4 electricity distribution companies created at that time, later merged into EDP Distribuição S.A., in 2000. In consideration to these concessions, a rent is paid to the concessor municipalities.

Public Domain Assets

In Portugal some fixed assets allocated to electricity generation and distribution within the SEP are subject to the public domain regime. These fixed assets are assigned to the Group's business and the Group is free to manage them in this respect, although it cannot dispose them under the private trade domain for as long as they remain assigned to the Group. In Brazil the fixed assets used in the distribution and supply of electricity are binded 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 binding bank account, to be used in the concession.

2. Accounting policies

a) Bases of presentation

The Group's parent company, EDP – Electricidade de Portugal, S.A. (hereinafter known as EDP), was created in 1976 as a consequence of the nationalisation and 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 Decrees-Law 7/91 and 131/94, the EDP Group was set up (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, though they also include other complementary, related areas such as water, engineering, laboratory tests, vocational training and property management.

The financial statements of the EDP Group have been prepared in accordance with accounting principles generally accepted in Portugal, derogated as stated in notes 7, 37, 38 and 39, particularly as a result of the adoption of International Accounting Standards IAS 19, IAS 32, IAS 36 and IAS 39.

The accounting standards are consistent with those applied in the previous year, with exception to the changes resulting from the early adoption of 'International Accounting Standards IAS 32, IAS 36 and IAS 39. The effects of the derogation of the Official Plan of Accounts for these international financial reporting standards (IFRS) are presented in Note 39 to the Financial Statements. For more details see Notes 7 and 37, particularly with regard to financial holdings and financial commitments.

The following explantory notes have due regard for the sequential numbering of the balance sheet and profit and loss account headings included in this chapter III - Financial Statements. All the financial information, both on a consolidated and on an individual basis, required in accordance with the Portuguese Official Plan of Accounts are set out in chapter IV - Accounting Information required by the Official Plan of Accounts (POC) is detailed in full in the following notes to the financial statements.

c) Bases 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 result of the financial holding in associate companies in respect of the years ended December 2003 and 2002.

Shareholdings in subsidiaries

Holdings 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 full consolidation 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. This method is used in accounting the acquisition of subsidiaries. The cost of acquisition corresponds to the fair value of the assets acquired, shares issued and liabilities assumed on the date of acquisition, plus those costs directly imputable to the acquisition.

Intra-group transactions, dividends distributed between Group companies, balances and unrealised gains on transactions between Group companies are eliminated. The value corresponding to the external shareholders 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 this method are detailed in Note 37.

Shareholdings in associate companies under the form of joint control

The interests of the Group in jointly-controlled entities namely Hidrocantábrico are consolidated using the proportional method. 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

The Group recognises the proportion of the gains or losses on the sale of Group assets to the joint undertaking that are attributable to the other partners.

Shareholdings in associated companies

Investments in associates are carried at the value resulting from the application of the equity method. The differentials determined from the application of fair values are implicitly considered. In accordance with this method, the consolidated financial statements include the Group's share of the total profits 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 in an associate exceeds the value of the investment in that associate, the Group recognises additional losses only if the Group shall have incurred in obligations or make payments 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 exchange into euros of the balance sheet at the beginning 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

The Goodwill arising from the acquisition of shareholdings in subsidiaries and associates is defined as the difference between the cost of acquisition and the proportional fair value of the net assets of the company that is acquired. Positive Goodwill is recorded under assets and amortised over the estimated useful life of 20 years. Negative Goodwill is recorded in the same way, unless it can be imputed 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 impairment as necessary.

Concession rights in Brazil (the investments in Bandeirante, Escelsa and Enersul)

The Concession rights in Brazil, namely the investments in Bandeirante, Escelsa and Enersul, are the result of application of calculations and methodologies identical to those of Goodwill, that is the difference between the cost and the proportional fair value of the acquired net assets. Concession rights are recorded under intangible fixed assets and are amortised over the useful life of the concession, in this case 30 years.

Accounting on an individual basis of Shareholdings in subsidiaries and associates

Financial investments in subsidiaries and associates, on an individual basis, are recorded using the equity method as defined by Portuguese official Accounting Directive 9. The difference between cost and the proportional value of the shareholders' equity of the shareholdings on the date of acquisition is recorded identical to Goodwill. The net results of these companies are recorded, as from the date of acquisition, as profits and/or losses in the profit and loss account.

d) Investments – Application by the EDP Group of International Accounting Standard 39 to financial instruments

Derogating accounting principles generally accepted in Portugal, the EDP Group has adopted early implementation of International Accounting Standard 39: Recognition and Measurement of financial instruments during fiscal 2003, having calculated the retroactive effects as to December 31, 2002. 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 investments: Trading; Held to maturity; and Available for sale. The classification depends on the purpose for which the investments were acquired. The Board determines the classification of its investments on the date of acquisition and re-assesses this classification on a regular basis.

Trading account securities

Investments acquired mainly to be traded in the very short term are classified as Trading Securities and are recorded as current assets; for the purpose of these financial statements, short term is defined as 3 months. Realised and unrealised gains and losses caused by variations in 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 securities (investments securities available for sale)

Investments to be held for an undetermined period of time, that can be sold to meet liquidity requirements or because of changes to interest rates, are classified as Available for sale under non-recurrent assets, unless the Board has the express intention of holding the investments during a period of less than 12 months as 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. Aquisition cost includes transaction costs. Investments available for sale are measured at their fair value.

Unrealised gains and losses caused by variations in the fair value of investments classified as available for sale are recognised against fair value 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 equity investments 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 included in the profit and loss account as gains and losses on financial investments.

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 realisable value of the asset and its value in use. For the purpose of evaluation of possible impairment, assets are grouped together in the smallest identifiable group of assets that generates 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 exchange differences caused by 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 and losses in the profit and loss account for the year.

g) Tangible fixed assets

Fixed assets owned by the Group

Tangible fixed assets, except with regard to those assets existing at the time of the split of EDP in 1994, which are carried for 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 exchange differences capitalised during the construction stage, resulting from loans taken out to finance them, as well as overheads.

Fixed assets that are contributed by third parties are amortised on the same basis and at the same rates as the Group's other fixed assets, the respective costs compensated under extraordinary income, by the amortisation of the contribution (recorded under Accruals and Deferrals - Investment Subsidies), undertaken 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. Expenditure on major repairs and improvements are considered as deferred costs and are amortised over a maximum of 6 years.

Fixed assets allocated to the EDP Distribuição concessions

Under the terms of Decree-Law 344-B/82, as mentioned in indent h) of the introductory note, low-voltage electricity distribution concessions do not involve the sale of the assets of the concessor 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, or 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 manner consistent with the Group's own fixed assets.

Multipurpose Hydroelectric Plants (the part not assigned to electricity production) 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 does 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.

The amounts received from the State in respect of these facilities is carried under medium-and long-term liabilities.

k) Financial investments in properties

Financial investments in Properties are carried for the amount of the valuation undertaken during 1992, the difference between this and historic costs has been recorded under revaluation reserves. These investments are amortised over the useful life of the property.

i) Intangible fixed assets

Excluding goodwill and the Concession rights in Brazil, intangible fixed assets include incorporation costs, research and development costs, and intellectual property and other rights. These balances are amortised 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 mangement systems developed on SAP platforms are amortised using the straight-line method over their useful life of 10 years.

j) Inventories

Inventories are carried at cost or at market value if less than cost, warehouse outgoings (consumption) are valued at average cost.

k) Recognition of costs and revenues

Costs and revenues are recorded during the year to which they refer regardless of when paid or received, in accordance with the accrual accounting principle. 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 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.

Revenues in respect of energy to be invoiced in respect of actual consumption not yet metered as at the balance sheet date are accrued on the basis of average recent consumptions.

The revenues of telecommunications services are recognised during the period in which they occur. Invoicing of these services is carried out on a monthly basis, and amounts not invoiced between the last invoicing cycle and the end of the month are recorded on the basis of an estimate of actual traffic. Differences between estimated amounts and the actual amounts, which are not normally significant, are recorded during the subsequent periods.

Interest earned is recognised using the accrual accounting principle, taking into account the amounts owed and the real interest-rate during the period to maturity. Dividends are recognised when there is a right to receive them.

l) Accounts receivable

Accounts receivable are recorded at their net recovery amount, determined taking into consideration the necessary provisions for doubtful debt. These provisions are set aside on the basis of the valuation of estimated losses from non-collection of accounts receivable at the end of each year.

m) Liabilities for holiday pay and holiday bonus

The amount of liabilities for holiday pay and holiday bonus and the respective Social Security charges for the current year, payable in the following year, are recorded as costs for that year, against Accrued costs.

n) Social benefits extended to EDP Group employees

The Group records costs resulting from pensions and associated charges in accordance with the International Accounting Standard 19, derogating, the Portuguese Official Accounting Directive 19, which results from the transposition to Portuguese accounting standards of the earlier version of the referred international standard. Social benefits are detailed in Note 37 to the financial statements, as is the quantification of the effects of the respective derogation.

o) Own work capitalised

Using specific imputation criteria, costs incurred by the Group (essentially materials, personnel costs and financial charges) in the construction of fixed assets on a cost-plus basis, which are recorded in the profit and loss account, are included under fixed assets with a contra entry in this account.

p) 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 SA.

q) Taxation

Income tax is calculated in accordance with the applicable legal provisions. Deferred income taxes are, if applicable, recognised in the accounts in accordance with International Accounting Standard 12.

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.

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 used is the one in effect at the balance sheet date that or has substantially been approved to be applicable at the balance sheet date. Deferred tax assets are only recognised to the extent that they are recoverable by the expected future 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 varation in market prices, exchange rates and interest rates. The Group's exposure to financial risks lies essentially in its debt and derivatives portfolio, stemming 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 uncertainty 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 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) is undertaken by Central Treasury in accordance with policies approved by the Board. Central Treasury identifies, evaluates and submits to the Board for approval hedging mechanisms appropriate to each exposure, and the Board of Directors is responsible for the definition of general risk-management principles and of exposure limits.

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

Exchange-rate risk management

The Group operates internationally and is exposed to exchange-rate risks, resulting from exposure to various currencies, mainly: US Dollars and Brazil Reals. Currently, the exposure to the USD/Euro currency fluctuation risk results from the consolidation of the Brazilian companies that have debt expressed in US dollars. Debt contracted by the EDP SA 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 to above, seeking to mitigate the impact of currency fluctuations on the financial expense of the companies in question and, consequently on consolidated results, using exchange-rate derivatives and/or other hedging instruments, restructuring these debts if required.

The Brazilian subsidiaries exposed to USD/Real currency fluctuation through their debt in US 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 Real/Euro exchange-rate. Given the long-term nature determined for 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. Nevertheless, these investment positions are duly monitored, taking into consideration the evolution of the respective exchange rates.

The policy implemented by the EDP Group consists of undertaking derivatives operations for the purpose of hedging risks with characteristics similar to those of the 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. As a support to the continuity and restructuring decisions, 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 objectives of the interest-rate risk management policy are: i) to reduce the 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 inflows.

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 a floating rates through interest-rate instruments and derivatives designed to reduce financial charges to and to level them to market conditions. In addition to these derivatives operations, more structured collar operations are added, as necessary, to mitigate exposure of the 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 the financial instruments to interest-rate fluctuations.

Counterparty credit-rate risk management in financial transactions

The EDP Group policy in terms of the counterparty-risk of financial transactions is governed by an analysis of the technical capacity, competitiveness, credit notation and exposure of each counterparty, avoiding significant concentrations of credit risks. Counterparties in derivatives and financial transactions are restricted to high-quality credit institutions, therefore, it is not considered that there is any significant risk of counterparty non-compliance. No collateral is demanded in these transactions.

The Group has adopted the best market practices relating to documentation of its financial transactions. Therefore all derivatives operations are settled under the ISDA Master Agreements, and bond issues are undertaken under a Debt Instrument Issue Programme.

Regarding external debt generated by the Group's day-to-day business, the credit risks stem essentially from the legal obligation of providing continuous low-voltage electricity supplies to municipalities that normally have delayed payments. This risk is mitigated by the large number of customers and by 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, through settling and maintaining credit lines and financing facilities with a firm underwriting commitment by domestic and international financial institutions of high credit rating notation, allowing immediate, flexible access to funds. These lines are used to complement and backup domestic and international commercial paper programmes, allowing the Group's short-term financing sources to be diversified.

Accounting of financial instruments

The EDP Group brought forward the implementation, during 2003, of International Accounting Standard 39. – Recognition and Measurement of Financial Instruments. The effects were calculated retroactive to December 31, 2002. Consequently, the EDP Group recognises its investments in accordance with this international accounting standard, namely regarding the financial instrument types, their recognition and measurement. Derivatives are initially measured in the balance sheet at cost and subsequently at fair value. The method of recognition the gain or loss depends on the nature of the item hedged. The group identifies derivatives as either: 1) hedging the fair value of the recognised asset or liabilities; 2) hedging of a planned transaction or firm commitment; or 3) hedging of a net investment in a foreign entity on the date on which the derivatives is acquired.

Changes in the fair value of derivatives identified as fair-value hedging instruments qualified as efficient for the purpose, 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 associated.

The effective portion of 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 gains or losses during the period in which the firm commitment or planned transaction impacts 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 matures or is sold, or when the hedging transaction no longer meets the requirements for hedging 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 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 as 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 hedging 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.

On the date 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, not only at the start of the hedging but also during the entire hedging period, 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 based on the present value of future estimated cash flows.

In the evaluation of the fair value of non-negotiable derivatives and other financial instruments, the Group uses a variety of methods and assumptions based on market conditions existing on balance sheet date. Market prices or the prices of parties involved in the market for a specific instrument or for similar products are used in terms of long-term debt. The estimated value of future cash flows is used to determine the fair value of other financial instruments.

The book values of investments and liabilities with a maturity of less than one year are assumed to be close to their fair values.

4. Tangible fixed assets

This balance is analysed as follows:

	Group		Individual	
	2003	**2002**	**2003**	**2002**
	Euro'000	**Euro'000**	**Euro'000**	**Euro'000**
Fixed assets under the DL 344-B/82 regime	240 607	259 916	-	-
Land and natural resources	128 169	122 260	55 838	55 747
Buildings and other constructions	410 982	336 746	81 413	68 770
Plant and machinery:				
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	2 032	1 856
Office equipment and utensils	344 250	325 556	59 511	58 604
Other tangible fixed assets	22 393	17 486	23	20
Fixed assets in progress	1 187 302	1 022 066	4 427	44 260
	26 200 167	24 650 949	203 244	229 257
Accumulated depreciation				
Depreciation charge for the year	(803 091)	(706 106)	(4 930)	(3 904)
Other accumulated depreciation	(13 745 477)	(12 740 606)	(80 767)	(83 305)
	(14 548 568)	(13 446 712)	(85 697)	(87 209)
	11 651 599	11 204 237	117 547	142 048

Tangible fixed assets under the Decree-Law 344-B/82 regime are those assets allocated to low-voltage 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 come to be transferred to Group ownership by settlement, by offsetting accounts, the debts to the respective municipalities (see Note 10).

The Tangible fixed assets movements for the Group during the year are analysed as follows:

	Balance as at 1-Jan Euro'000	Acquisitions /charge Euro'000	Disposals Euro'000	Transfers Euro'000	Perimeter Variations /Regularisations Euro'000	Balance as at 31-Dec Euro'000
Cost:						
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
Accumulated depreciation:						
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

The 'Perimeter Variations/Regularisations' column includes (i) adjustments to fair values arising from the economic revaluations of the tangible fixed assets of Escelsa / Enersul made during 2003, (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 interest cost were capitalised during the year under **Fixed assets in progress**:

	Group	
	2003 Euro'000	2002 Euro'000
Electricity generation	6 166	10 215
Electricity distribution	7 701	5 269
Studies and designs	10 101	533
	23 968	16 017

The Tangible assets movements on an individual basis during the year are analysed as follows:

	Balance as at 1-Jan Euro'000	Acquisitions /charge Euro'000	Balance as at Disposals Euro'000	Transfers Euro'000	/Regularisations Euro'000	Balance as at 31-Dec Euro'000
Cost:						
Land and natural resources	55 747	91	(89)	89	-	55 838
Buildings and other constructions	68 770	584	(7 427)	19 486	-	81 413
Transport equipment	1 856	517	(341)	-	-	2 032
Office equipment and utensils	58 604	71	(5 006)	5 842	-	59 511
Other tangible fixed assets	20	3	-	-	-	23
Fixed assets in progress	44 260	4 337	(18 753)	(25 417)	-	4 427
	229 257	5 603	(31 616)	-	-	203 244
Accumulated depreciation:						
Buildings and other constructions	36 652	1 525	(6 248)	-	-	31 929
Plant and machinery	-	-	-	-	-	-
Transport equipment	741	320	(177)	-	-	884
Tools and utensils	45	7	-	-	-	52
Office equipment and utensils	49 767	3 076	(17)	-	-	52 826
Other tangible fixed assets	4	2	-	-	-	6
	87 209	4 930	(6 442)	-	-	85 697

5. Intangible fixed assets

This balance is analysed as follows:

	Group		Individual	
	2003 Euro'000	2002 Euro'000	2003 Euro'000	2002 Euro'000
Set-up costs	85 157	93 056	7 085	6 469
Research and development costs	103 302	140 434	15 193	6 343
Industrial property and other rights	158 057	145 355	50	50
Intangible fixed assets in progress and other fixed assets	21 944	13 229	3 277	10 433
Key money on telecommunications business	40 209	-	-	-
Concession rights in Brazil	835 366	946 974	242 831	242 750
	1 244 035	1 339 048	268 436	266 045
Accumulated amortisation				
Amortisation of concession rights during the year	(30 439)	(26 849)	(7 745)	(7 745)
Amortisation of intangible fixed assets during the year	(42 501)	(33 435)	(3 182)	(2 247)
Other accumulated amortisation	(220 913)	(174 600)	(50 153)	(40 160)
	(293 853)	(234 884)	(61 080)	(50 152)
	950 182	1 104 164	207 356	215 893

The Intangible assets movements for the Group during the year are analysed as follows:

	Balance as at 1-Jan Euro'000	Acquisitions /charge Euro'000	Disposals Euro'000	Transfers Euro'000	Perimeter changes /Regularisations Euro'000	Balance as at 31-Dec Euro'000
Cost:						
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
Intangible fixed assets in progress	13 229	14 555	-	(14 623)	8 783	21 944
Key money on telecommunications business	-	40 209	-	-	-	40 209
Concession rights in Brazil	946 974	-	-	-	(111 608)	835 366
	1 339 048	61 638	(35 369)	-	(121 282)	1 244 035
Accumulated amortisation:						
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
Key money on telecommunications business	-	2 898			11 673	14 571
Concession rights in Brazil	107 027	30 439	-	-	(21)	137 445
	234 884	72 940	(158)	-	(13 813)	293 853

The 'Perimeter changes/Regularisations' column mainly includes the reclassification of the Concession rights in Brazil to tangible fixed assets concerning the part attributable to the EDP Group related with of the fair values stemming from the economic revaluations of the tangible fixed assets of Escelsa / Enersul undertaken in 2003.

The Intangible assets movements on an individual basis are analysed as follows:

	Balance as at 1-Jan Euro'000	Acquisitions /charge Euro'000	Disposals Euro'000	Transfers Euro'000	/Regularisations Euro'000	Balance as at 31-Dec Euro'000
Cost:						
Training costs	6 469	-	-	616	-	7 085
Research and development costs	6 343	2 310	-	6 540	-	15 193
Industrial property and other rights	50	-	-	-	-	50
Intangible fixed assets in progress	10 433	-	-	(7 156)	-	3 277
Concession rights in Brazil	242 750	81	-	-	-	242 831
	266 045	2 391	-	-	-	268 436

	Balance as at 1-Jan Euro'000	Acquisitions /charge Euro'000	Disposals Euro'000	Transfers Euro'000	/Regularisations Euro'000	Balance as at 31-Dec Euro'000
Accumulated amortisation:						
Set-up costs	3 862	1 366	-	-	-	5 228
Research and development costs	4 905	1 809	-	-	1	6 715
Industrial property and other rights	3	7	-	-	-	10
Concession rights in Brazil	41 382	7 745	-	-	-	49 127
	50 152	10 927	-	-	1	61 080

In the **Group, and on an Individual Basis**, **Concession rights** result from the difference between cost and the fair value of the company's assets attributable to the Group on the acquisition date. The net amount for the following acquisitions realised in Brazil to date, is as follows:

	2003			2002		
	Net amount Euro'000	Accumulated amortisation Euro'000	Gross rights Euro'000	Net amount Euro'000	Accumulated amortisation Euro'000	Gross rights Euro'000
Electricity Business - Brazil						
Consolidated - Group						
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
	697 921	(137 445)	835 366	839 947	(107 027)	946 974
Amortisation charges for the year		(30 439)			(26 849)	
Individual basis						
Bandeirante Energia	193 704	(49 127)	242 831	201 368	(41 382)	242 750
	193 704	(49 127)	242 831	201 368	(41 382)	242 750
Amortisation charges for the year		(7 745)			(7 745)	

The **Concession rights** over the Brazilian electricity distribution subsidiaries, namely over Bandeirante Energia SA, Escelsa - Espírito Santo Centrais Eléctricas SA, and Enersul - Empresa Energética do Mato Grosso do Sul SA, are amortised using the straight-line method over the life of the concessions, up to 2025, 2030 and 2030, respectively.

As at December 31, 2003, at the **Group**, by business area, the main **Research and Development** projects are as follows:

	Investment cost Euro'000	Accumulated amortisation Euro'000	Net amount Euro'000
Development projects by business area:			
Electricity generation	18 175	(10 609)	7 566
Information Technologies	8 475	(4 708)	3 767
Telecommunications	73 026	(28 467)	44 559
Quality	3 626	(822)	2 804
	103 302	(44 606)	58 696

As at December 31, 2003, at the **Group**, the breakdown of the main **Industrial property and other rights assets**, is as follows:

	EDP Group Company	Acquisition cost Euro'000	Accumulated amortisation Euro'000	Net amount Euro'000
Software licensing	Brazil and Hidrocantábrico	47 397	(24 975)	22 422
Optic fibre used rights	Oni Telecom	108 932	(6 609)	102 323
Other	Other companies	1 728	(792)	936
		158 057	(32 376)	125 681

6. Goodwill

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

	2003			2002		
	Net amount Euro'000	Accumulated amortisation Euro'000	Goodwill Euro'000	Net amount Euro'000	Accumulated amortisation Euro'000	Goodwill Euro'000
Electricity Business						
Hidrocantábrico Group	706 357	(46 319)	752 676	552 921	(15 510)	568 431
Investco	2 050	(127)	2 177	1 767	(106)	1 873
Enerpeixe	1 625	(4)	1 629	-	-	-
	710 032	(46 450)	756 482	554 688	(15 616)	570 304
Telecommunication 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
	87 366	(32 673)	120 039	98 193	(20 782)	118 975
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
	61 895	(17 378)	79 273	67 338	(11 694)	79 032
Other						
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
	40 221	(9 348)	49 569	18 736	(1 185)	19 921
	899 514	(105 849)	1 005 363	738 955	(49 277)	788 232
Amortisation charge for the year		(54 439)			(38 582)	

The increase of €184.3 million under Goodwill for the Hidrocantábrico Group relates to the corresponding part of the 40% of the Goodwill generated by the acquisition of the Naturcorp Group in July 2003.

On an **Individual Basis**, **Goodwill**, resulting from the difference between the cost of the investment and the corresponding share of the fair value of the net assets acquired is analysed as follows:

	2003			2002		
	Net amount Euro'000	Accumulated amortisation Euro'000	Goodwill Euro'000	Net amount Euro'000	Accumulated amortisation Euro'000	Goodwill Euro'000
Electricity Business - Spain						
Spain						
Hidrocantábrico Group	106 738	(9 177)	115 915	112 534	(3 381)	115 915
	106 738	(9 177)	115 915	112 534	(3 381)	115 915
Amortisation charge for the year		(5 796)			(3 381)	

Goodwill in respect of subsidiary and associated companies is amortised using the straight-line method over the estimated useful life (10 years in general, and 20 years for ACE, Affinis, Turbogás and Hidrocantábrico).

7. Investments

The breakdown of this heading is as follows:

	Group		Individual	
	2003	**2002**	**2003**	**2002**
	Euro'000	**Euro'000**	**Euro'000**	**Euro'000**
Shareholdings:				
Subsidiary companies	1 305	202 518	5 598 313	3 770 192
Associated companies	441 449	483 295	998 617	971 044
Medium long-term investments available for sale	1 260 133	1 366 483	314 749	-
Other companies	91 825	30 015	2 323	2 072
	1 794 712	2 082 311	6 914 002	4 743 308
Real-estate investments				
Buildings and other constructions	1 417	536	-	-
	1 417	536	-	-
Other financial assets				
Bank deposits	-	58	-	-
Public debt securities	19	19	19	19
Other securities	70 143	86 442	282 193	379 965
Other financial placements:	4 029	5 085	-	-
Fixed assets in progress	-	2	-	-
	74 191	91 606	282 212	379 984
	1 870 320	2 174 453	7 196 214	5 123 292
Provision for financial assets:				
Shareholdings	(285 790)	(276 734)	(948)	(698)
Other financial assets:	(1 391)	(1 391)	-	-
	(287 181)	(278 125)	(948)	(698)
Amortisation of the real-estate investments	(355)	(344)	-	-
	(355)	(344)	-	-
	(287 536)	(278 469)	(948)	(698)
	1 582 784	1 895 984	7 195 266	5 122 594

The financial investment in CERJ - Companhia de Electricidade do Estado do Rio de Janeiro SA, is booked net of amortised Goodwill up to 2000, the date that the EDP Group stopped consolidating the company using the equity method. Starting 2001 the EDP Group no longer exercised influence, holding since then 11.27% of the respective share capital. In accordance with the Portuguese Official Plan of Accounts, the equity method is no longer applicable, and the financial investment is therefore accounted for the amount resulting from the application of this method as of the date when the Group ceased to exercise significant influence.

The breakdown of shareholdings is analysed as follows:

	Group		Individual	
	2003 Euro'000	2002 Euro'000	2003 Euro'000	2002 Euro'000
Investment in subsidiary companies:				
SPE - Macau	-	32 698	5	32 698
Calibre	-	137 898	-	-
135 Participações	-	3 093	-	-
EDP Distribuição de Energia, SA	-	-	1 566 925	1 519 189
HDN - Energia do Norte, SA	-	-	-	12 033
Hidrocenel - Energia do Centro, SA	-	-	-	22 512
EDP Energia, SA	-	-	46 665	45 344
Edinfor - Sistemas Informáticos, SA	-	-	53 963	67 779
EDP Gestão de Produção de Energia, SA	-	-	1 910 017	1 859 667
EDP-Participações, SGPS	-	-	1 033 566	-
Enernova,SA	-	-	21 235	-
EDP Produção Bioeléctrica, SA	-	-	11 095	-
EDP Internacional, SA	-	-	879 478	-
Enercorp	-	-	6 471	-
EDP Valor - Gestão Integrada de Serviços, SA	-	-	7 136	13 245
EDALPRO - Imobiliária, Lda	-	-	1 728	4 796
Labelec - Est. Desenv. Activ. Laboratoriais,SA	-	-	6 481	6 114
Electra de Cabo Verde	-	27 213	-	27 213
EDP Brasil, SA	-	-	-	155 933
EDP Investimentos, LDA	-	-	50 586	-
Other	1 305	1 616	2 962	3 669
	1 305	202 518	5 598 313	3 770 192
Investment in associate companies:				
DECA - Distribucion Eléctrica Centroamerica, SA	67 894	68 423	67 894	68 423
Companhia de Electricidade de Macau	65 129	-	-	-
REN - Rede Eléctrica Nacional, SA	254 223	236 366	254 223	236 366
Associate companies of the Hidrocantábrico Group	39 398	100 399	-	-
Portsines - Terminal de Sines	7 501	7 907	-	-
Turbogás - Produtora Energética	5 211	22 221	-	-
Hidrocantábrico	-	-	676 213	665 968
Other	2 093	47 979	287	287
	441 449	483 295	998 617	971 044
Medium/long-term investment available in 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	-	314 749	-
	1 293 517	1 314 863	314 749	-
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	2 323	2 072
	58 441	81 635	2 323	2 072
	1 794 712	2 082 311	6 914 002	4 743 308

At the end of September 2003 and beginning of October 2003, the EDP Group sold the investiment held in Iberdrola, generating a gain in the amount of €17.8 million.

The balance **Medium/long-term investments in companies (investments available for sale)**, in the **Group**, and on an **Individual basis**, results from the full application during 2003, by the EDP Group of International Accounting Standard 39. – Recognition and Measurement of financial instruments, with retroactive effects to December 31, 2002. The movements during 2003, as well as the effects of this derogation to the Portuguese accounting standards, are reviewed as follows.

The year's movements under the **Medium/long-term investments in companies (investments available for sale)**, in the **Group**, and on an **Individual basis**, are recorded as follows:

- Positive fluctuations/valuations on the investments are added to their acquisition cost
- The losses from investments are provided for against =>

=> results, in the case of non-temporary potential losses (non-temporary impairment)

=> reserves, in the case of potential temporary losses

As at December 31, 2003, the provision for potential losses accounted into the balance **Medium/long-term investments in companies (investments available for sale)**, in the **Group**, and on an **Individual basis**, is as follows:

	Group			
	Carrying Value Euro'000	Market Value Euro'000	Potential Gain Euro'000	Potential loss 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)
	1 288 122	1 008 826	5 645	(284 941)

As an immediate consequence of the full application by the EDP Group, for the first time, of International Accounting Standard 39: Recognition and Measurement of Financial Instruments, in the **Medium/long-term investments in companies (investments available for sale)**, in the **Group**, and on an **Individual basis**, the investment held of OPTEP is fully accounted (whose assets included 25.72% of the share capital of Optimus SA), and, under liabilities, the liability of the EDP Group towards the entity that acquired this asset in 2002, since there is an "adjustment mechanism of the selling price of Optimus/OPTEP" agreement and, consequently, in accordance with International Accounting Standards, it cannot be classified as a definitive sale/commitment. In accordance with the international standard, the assets sold in 2002 are fully recorded under assets, as well as the respective liability, and the price fluctuations are recognised as though they were '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 perimeter of the EDP Group:

- After taking control of 62% of the share capital of the Naturcorp Group by Hidrocantábrico (HC), as a result of the respective privatisation process finalised at the end of the second half of 2003, the Naturcorp Group was included in the HC Group accounts using the purchase method, and consequently was included in the EDP Group accounts through the proportional consolidation of the 40% held in the HC Group.

The impact of the changes in the consolidation perimeter on the Consolidated Financial Statements was as follows:

	2003	
	100% Naturcorp Euro'000	40% Naturcorp Euro'000
ASSETS		
Intangible fixed assets	604 900	241 960
Tangible fixed assets	391 700	156 680
Investments	4 600	1 840
Long-term assets	2.900	1.160
Short-term assets	88.500	35.400
Cash and cash equivalents	36.100	14.440
Accrued income and deferred costs	800	320
	1.129.500	451.800
LIABILITIES		
Provisions for liabilities and charges	14 600	5 840
Financial debt	17 400	6 960
Amounts owed to third parties	79 100	31 640
Accrued costs and deferred income	28 300	11 320
	139 400	55 760
PROFIT AND LOSS ACCOUNT		
Sale of businesses	439 200	175 680
Direct costs	(305 400)	(122 160)
	133 800	53 520
Own work capitalised	(600)	(240)
Personnel costs	15 500	6 200
Other expenses (net)	21 900	8 760
Amortisations and provisions	29 400	11 760
	66 200	26 480
	67 600	27 040
Financial income	(31 100)	(12 440)
Extraordinary income	1 100	440
	37 600	15 040
Income tax for the year	12 600	5 040
Net profit for the year	37 600	15 040

The movement of the balance **Provisions for Financial Assets** is analysed as follows:

	Group		Individual	
	2003 Euro'000	2002 Euro'000	2003 Euro'000	2002 Euro'000
Provision for shareholdings:				
Balance as at January 1	276 734	5 547	698	698
Charge for the year	8 585	2 213	-	-
Charge against reserves - Balance sheet adjustments	15 967	268 974	250	-
Write-back	(15 496)	-	-	-
Balance as at December 31	285 790	276 734	948	698
Provision for other financial assets:				
Balance as at January 1	1 391	1 391	-	-
Balance as at December 31	1 391	1 391	-	-
	287 181	278 125	948	698

The **Subsidiary Companies** included in the consolidation using the **purchase method** as at December 31, 2003, were as follows:

Subsidiary Companies	Registered office	Share capital / Currency	Shareholders' equity 31/12/2003 Euro'000	Net profit 31/12/2003 Euro'000	% Group	% Individual
Group parent holding company:						
EDP, S.A.	Lisbon	3 000 000 000 EUR	5 298 007	381 109	-	-
Electricity Business - Portugal:						
Electricity Generation:						
EDP Produção, S.A.	Lisbon	1 250 000 000 EUR	1 906 280	328 522	100.00%	100.00%
EDP Produção Bioeléctrica S.A.	Lisbon	4 000 000 EUR	11 095	(2 057)	100.00%	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%	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 and 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%	60.00%
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%	-
Electricity Distribution:						
EDP Distribuição, S.A.	Lisbon	1 024 500 000 EUR	1 566 925	134 366	100.00%	100.00%
Electricity Business - Brazil:						
Electricity Generation:						
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%	-
Electricity Distribution:						
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 Azores	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 - Spain:						
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%	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%	-
Sigmaplano, S.A.	Lisbon	174 579 EUR	524	246	57.77%	-

Subsidiary Companies	Registered office	Share capital / Currency	Shareholders' equity 31/12/2003 Euro'000	Net income 31/12/2003 Euro'000	% Group	% Individual
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%	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%	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%	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%	-
ACE Consulting, Ltda	Luanda	45 000 EUR	(537)	(188)	71.84%	-
Comunitel Global, S.A.	Lisbon	250 000 EUR	(2 443)	(2 950)	57.77%	-
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%	100.00%
EDP Serviner, S.A.	Lisbon	50 000 EUR	922	686	100.00%	100.00%
Edalpro, Lda	Lisbon	748 197 EUR	1 728	353	100.00%	100.00%
Labelec, S.A.	Sacavém	2 200 000 EUR	6 481	2 126	100.00%	100.00%
EDP Participações S.G.P.S.	Lisbon	125 000 000 EUR	1 033 566	37 875	100.00%	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%	100.00%
EDP Brasil S.A.	São Paulo	1 303 839 767 BRL	347 798	(42 872)	100.00%	45.84%
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%	72.11%
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	Netherlands	20 000 EUR	(35 519)	(20 942)	100.00%	100.00%
EDP Ireland	Ireland	1 000 000 EUR	659	(61)	100.00%	100.00%
EDP - Investimentos, Lda	Macao	200 000 MOP	41 552	9 035	99.00%	99.00%

The **Associated Companies** included in the consolidation using the **proportional method** as at December 31, 2003, were as follows:

Associate Companies	Registered office	Share capital / Currency	Shareholders' equity 31/12/2003 Euro'000	Net profit 31/12/2003 Euro'000	% Group	% Individual
Investco S.A.	São Paulo - Brazil	665 643 638 BRL	171 264	(2 518)	27.65%	-
Hidroeléctrica el Cantábrico S.A.	Oviedo - Spain	425 721 430 EUR	1 690 536	30 973	40.00%	40.00%
Affinis S.A.	Lisbon - Portugal	1 500 000 EUR	46	(489)	45.00%	-

The **Associated Companies** included in the consolidation using the **equity method** as at December 31, 2003, were as follows:

Associate Companies	Registered office	Share capital / Currency	Shareholders' equity 31/12/2003 Euro'000	Net profit 31/12/2003 Euro'000	% Group	% Individual
REN S.A.	Lisbon - Portugal:	534 000 000 EUR	847 409	93 489	30.00%	30.00%
Bioeléctrica SPA	Pisa - Italy	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.	Macao	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%	30.60%
DECA-II	Guatemala	2 077 092 000 GTQ	65 339	2 554	21.00%	21.00%
Eólica da Alagoa, SA	Arcos Val. - Portugal	50 000 EUR	50	-	40.00%	-

The **Companies excluded** from the consolidation **though accounted using the equity method**, as at December 31, 2003, were as follows:

Companies excluded	Registered office Country	% Group held	% of Individual held
Energia RE	Luxembourg	100.00%	100.00%
EDP Marrocos, SARL	Morocco	100.00%	-
Iberenergia, SA	Portugal	100.00%	100.00%
Parque Eólico do Candedo, LDA	Portugal	100.00%	-
Shipec-South China Inter.P.Eng.	China	24.00%	24.00%
EDEL, Lda	Portugal	47.77%	47.77%
CBE	Portugal	24.70%	24.70%
Comunedisa	Spain	50.00%	-
Cardoso and Cardoso	Portugal	40.00%	-
Exinfor.Case	Mozambique	33.33%	-

The **Other Companies** in which there are investments equal to or greater than 10% as at December 31, 2003, were as follows:

Other Companies	Registered office Country	% Group held	% of Individual held
Valorsul S.A.	Lisbon Portugal	11.00%	-
CERJ	Rio de Janeiro Brazil	11.27%	-
Tejo Energia	Abrantes, Portugal	10.00%	-
Galp Energia S.G.P.S., S.A.	Lisbon Portugal	14.27%	-
EDA, S.A.	Azores - Portugal	10.00%	-

8. Deferred taxes

The EDP Group records the tax effect arising from temporary differences between the assets and liabilities determined from an accounting and tax base approach, which are analysed, by company, as follows:

	Defened Tax assets		Defened Tax liabilities	
	2003 Euro'000	2002 Euro'000	2003 Euro'000	2002 Euro'000
Individual - EDP, SA	336 924	300 245	474 839	285 789
ONI Group	107 831	89 864	719	779
EDP Produção Group	1 037	-	-	-
EDP Brasil Group	131 707	143 140	103 066	25 132
Hidrocantábrico Group	12 814	12 524	37 432	32 422
EDP Finance BV	18 510	-	-	-
Other	515	206	-	-
EDP Group	609 338	545 979	616 056	344 122

The movements occurred in the balance Deferred Taxes are analysed as follows:

	Deferred tax assets		Deferred tax liabilities	
	Group Euro '000	Individual Euro '000	Group Euro '000	Individual Euro '000
Balance as at January 1, 2003	545 979	300 245	344 122	285 789
Charges Through Profit and Loss Account:				
Tax losses	14 023	-	-	-
Tax benefits	-	-	-	-
Provisions	970	(3 275)	920	-
Amortisation	3 917	-	(24 036)	(21 501)
Accounting revaluations	12 692	12 692	(3 014)	7 980
Tariff deviation	1 181	1 181	23 579	23 579
Other	9 317	(5 772)	930	-
Income charge	42 100	4 826	(1 621)	10 058
Charges against reserves:				
Revaluation of tangible fixed assets	-	-	220 050	136 838
Accounting revaluations	24 703	24 703	34 637	42 154
Other	(3 444)	7 150	18 868	-
Reserves charge	21 259	31 853	273 555	178 992
Balance as at December 31, 2003	609 338	336 924	616 056	474 839

9. Inventories

This balance is analysed as follows:

	Group		Individual	
	2003 Euro'000	2002 Euro'000	2003 Euro'000	2002 Euro'000
Merchandise	15 794	10 143	-	-
Purchases and advances	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	-	-
Sundry materials	62 495	44 220	-	-
	159 236	151 485	-	-
Provision for stocks depreciation	-	(1 180)	-	-
	159 236	150 305	-	-

The movements in **Provisions for stocks depreciation** during the year are analysed as follows:

	Group		Individual	
	2003 Euro'000	2002 Euro'000	2003 Euro'000	2002 Euro'000
Balance as at January 1	1 180	-	-	-
Changes in the consolidation perimeter	-	1 180	-	-
Write-back	(1 180)	-	-	-
Balance as at December 31	-	1 180	-	-

10. Customers

The **Customers** balance by sector of activity is analysed as follows:

	Group		Individual	
	2003 Euro'000	2002 Euro'000	2003 Euro'000	2002 Euro'000
Trade accounts receivable - short term:				
Resident customers:				
State and official entities	36 234	29 353	-	-
Local authorities	31 041	32 652	-	-
Corporate sector and individuals	789 986	651 686	4 171	940
Trade accounts - bills receivable	46	14	-	-
	857 307	713 705	4 171	940
Non-resident customers:				
Corporate sector and individuals	158 490	142 280	-	1 116
	158 490	142 280	-	1 116
	1 015 797	855 985	4 171	2 056
Doubtful debts	188 689	159 511	9 119	9 119
Provision for doubtful debts	(181 615)	(150 863)	(9 119)	(9 119)
	1 022 871	864 633	4 171	2 056
Trade accounts receivable, Medium-/long-term - Non-current:				
Resident customers:				
Customers - Local gov. - Debt at 31/12/88 (i)	181 689	185 343	-	-
Corporate sector and individuals	5 017	-	-	-
Trade accounts - bills receivable	413	-	-	-
	187 119	185 343	-	-
Provision for local government customers 31/12/88	(101 322)	(101 322)	-	-
	85 797	84 021	-	-
	1 108 668	948 654	4 171	2 056

(i) This amount is presented net of debits related to assets to be transferred to the Group and of the rents owed by the Group on that date.

The **Provision for doubtful debts** balance is analysed as follows:

	Group		Individual	
	2003 Euro'000	2002 Euro'000	2003 Euro'000	2002 Euro'000
Balance as at January 1	252 185	236 540	9 119	9 119
Changes in the consolidation perimeter	3 889	7 575	-	-
Charge for the year	9 649	21 676	-	-
Reclassifications between customers and debtors balances	17 214	-	-	-
Write-back	-	(13 606)	-	-
Balance as at December 31	282 937	252 185	9 119	9 119

11. Debtors and other sundry assets

The balance **Debtors and other sundry assets** is analysed as follows:

	Group		Individual	
	2003 Euro'000	2002 Euro'000	2003 Euro'000	2002 Euro'000
Trade accounts receivable - Current				
State and other public entities:				
- Income tax	73 398	-	194 725	223 998
- Value added tax	100 730	102 657	11 872	8 417
- Other taxes	5 647	17 762	-	-
Loans to subsidiaries	-	-	842 244	995 904
Other related companies	1 178	-	-	8 693
Advances to suppliers	2 478	3 298	480	-
Other debtors:				
- Current account Pension Fund	12 120	12 075	12 120	12 075
- Deposits	-	13 878	-	-
- Amounts owed to staff	8 536	7 092	1 418	-
- Amounts recoverable from the sale of Oniway	39 667	70 000	-	-
- Amounts owed by the State and Concessors	6 879	9 523	5 832	-
- Debtors from other goods and services	102 934	163 041	4 890	-
- Regulatory assets	51 732	51 062	-	-
- Other debtors - Subsidiaries	-	-	585 018	708 395
- INAG/EDP Protocol - Alqueva	26 082	-	26 082	-
- Other debtors and sundry operations	7 344	136 724	8 214	99 679
	438 725	587 112	1 692 895	2 057 161
Provision for short-term debtors	(9 335)	(13 901)	-	-
	429 390	573 211	1 692 895	2 057 161
Trade accounts receivable, Medium-/long-term - Non-current:				
Other related companies	-	18 744	90	90
Loans to subsidiaries	-	-	2 431 644	4 692 717
Other debtors:				
- Fixed assets in compensated integration (i)	9 270	19 246	-	-
- Regulatory assets (ii)	275 608	71 290	-	
- Deposits	44 991	29 771	2	-
- Other debtors and sundry operations	20 176	49 933	-	-
	350 045	188 984	2 431 736	4 692 807
Provision for medium-/long-term debtors - Non current	-	(12 421)	-	
	350 045	176 563	2 431 736	4 692 807
	779 435	749 774	4 124 631	6 749 968

The Provision for Debtors and other sundry assets is analysed as follows:

	Group		Individual	
	2003 Euro'000	2002 Euro'000	2003 Euro'000	2002 Euro'000
Balance as at January 1	26 322	17 723	-	-
Changes in the consolidation perimeter	-	6 829	-	-
Charge for the year	227	2 696	-	-
Reclassifications between headings of customers and debtors	(17 214)	-	-	-
Write-back	-	(926)	-	-
Currency exchange differences	-	-	-	-
Balance as at December 31	9 335	26 322	-	-

(i) Compensated fixed assets undergoing integration correspond to the net amounts, at integration date, of the debts of local authorities debits up to December 31, 1988, compensated by 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 will depend on the concession contracts or debt regularisation protocols to be settled between EDP and the local authorities.

(ii) The regulatory assets balance accounts for the costs associated with the 2003 Human Resources Rationalisation Plan, which were accepted by the Energy Services Regulatory Entity as an investment amortisable over a period of 20 years, starting in 2005.

12. Accrued income and deferred costs

This balance is analysed as follows:

	Group		Individual	
	2003 Euro'000	2002 Euro'000	2003 Euro'000	2002 Euro'000
Accrued income:				
- Interest receivable	193 234	137 575	275 789	127 041
- For sales and services provided	92 561	156 224	4 300	-
- From hydrological correction account	-	16 113	-	-
- Other accrued income	61 518	33 647	16 899	24 239
	347 313	343 559	296 988	151 280
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	-	-
- Inter-group losses	-	-	54 336	-
- Transitory retirement benefit obligation	50 993	62 330	50 993	62 330
- Advertising and propaganda costs	346	2 361	-	-
- Cost of negotiating loans (EIB)	24 537	29 012	24 537	28 979
- Discounts on bond issues	6 434	6 616	5 762	6 616
- Other deferred costs:	1 636	29 058	225	369
	275 104	229 606	135 853	98 294
	622 417	573 165	432 841	249 574

13. Cash, Bank deposits and Trading securities

The balance **Cash and Bank deposits** is analysed as follows:

	Group		Individual	
	2003 Euro'000	2002 Euro'000	2003 Euro'000	2002 Euro'000
Cash:				
- Cash in hand	20 375	1 427	-	-
	20 375	1 427	-	-
Bank deposits:				
- Repayable on demand	116 205	27 428	1 602	490
- Term deposits	6 963	9 860	6 730	-
	123 168	37 288	8 332	490
	143 543	38 715	8 332	490

The balance **Trading securities** is analysed as follows:

	Group		Individual	
	2003 Euro'000	2002 Euro'000	2003 Euro'000	2002 Euro'000
Trading securities:				
- Other securities	56 291	92 691	-	91 591
	56 291	92 691	-	91 591
Other treasury assets:				
- Financial products at domestic banks	85 300	82 367	85 300	-
- Financial products at foreign banks	2 368	206	341	-
	87 668	82 573	85 641	-
Provision for other treasury assets	(6)	(6)	-	-
	143 953	175 258	85 641	91 591

For the purpose of determination and disclosure of the **Cash and Cash equivalents components**, in the consolidated and individual statement of Cash-Flows, this balance is analysed as follows:

	Group		Individual	
	2003 Euro'000	2002 Euro'000	2003 Euro'000	2002 Euro'000
Cash components:				
- Cash	20 375	1 427	-	-
- Bank deposits	123 168	37 288	8 332	490
- Trading securities	56 291	92 691	-	91 591
	199 834	131 406	8 332	92 081
Cash equivalents:				
- Other treasury assets	87 668	82 573	85 641	-
- Overdrafts	(595 912)	(630 922)	-	(44 243)
	(508 244)	(548 349)	85 641	(44 243)
Cash and cash equivalents	(308 410)	(416 943)	93 973	47 838

14. Share capital

The share capital amounts to €3 billion represented by 3,000,000,000 shares with a nominal value of 1 euro, and is fully paid-up.

The net profit per share is analysed as follows:

	Group		Individual	
	2003	2002	2003	2002
Consolidated Net Profit in Euros	381 108 990.98	335 215 826.44	381 108 990.98	335 215 826.44
Average number of shares during the year	3 000 000 000	3 000 000 000	3 000 000 000	3 000 000 000
Net profit per share - Basic - Euros	0.13 euros	0.11 euros	0.13 euros	0.11 euros

EDP, which began by being 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. Currently the State and other Public Entities have a minority position in the company share capital. 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 earnings 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.

15. Legal reserve

In accordance with article 295 of the "Código das Sociedades Comerciais" and with the EDP´s By-Laws, the Legal Reserve must be provided 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 can only be used to cover losses or to increase share capital.

16. Treasury stock

This balance is analysed as follows:

	Group		Individual	
	2003 Euro'000	2002 Euro'000	2003 Euro'000	2002 Euro'000
Book value of EDP, SA shares	49 020	43 494	49 020	43 494
Number of shares	21 430 964 shares	17 428 926 shares	21 430 964 shares	17 428 926 shares
Price quoted of EDP, SA shares as at December 31	2.09 euros	1.59 euros	2.09 euros	1.59 euros
Market value of EDP, SA shares	44 791	27 712	44 791	27 712

The treasury stock held by EDP, S.A., lies within the limits established by the Company's By-Laws and by the "Cógido das Sociedades Comerciais".

17. Reserves, Retained earnings and Net Profit

This balance is analysed as follows:

	Group		Individual	
	2003 Euro'000	2002 Euro'000	2003 Euro'000	2002 Euro'000
Legal reserve	326 391	243 728	326 391	309 631
Revaluation reserves	89 449	1 172 729	89 449	1 172 729
Other reserves and retained earnings	3 031 892	1 287 194	3 031 892	1 221 291
Fair-value reserves	10 756	(268 975)	10 756	(268 975)
Net profit	381 109	335 216	381 109	335 216
Exchange differences arising on consolidation	(572 500)	(379 468)	(572 500)	(379 468)
Other reserves arising on consolidation	(920 070)	147 252	(920 070)	147 252
	2 347 027	2 537 676	2 347 027	2 537 676

The potential gains and losses recorded on the balance sheet date related with investments available for sale are accounted in a specific account under shareholders' equity, namely Fair value reserves. The movement during the year under this balance related to **Medium/Long-term investments in companies (investments available for sale)** in the **Group**, and on an **Individual basis**, with a direct impact on this account, is as follows:

	Group and Individual	
	Appreciation Euro'000	Depreciation Euro'000
Fair value reserves as at January 1, 2003	-	(268 975)
CERJ - Companhia Eléctrica do Estado Rio Janeiro	-	(9 050)
Iberdrola (cancellation on account of sale)	-	21 223
Galp, SGPS	5 644	-
Reclassification of the 2002 loss on BCP shares to retained earnings as a result of the fully implementation of IAS 36 and 39 (see Note 39)	-	247 750
BCP - Banco Comercial Português	-	(27 889)
OPTEP (Optimus)	42 303	(250)
Fair value reserves as at December 31, 2003	47 947	(37 191)
Value of potential gains/(losses) as at December 31, 2003		10 756

The amount resulting from the **fluctuation in national currency** of the Shareholders' Equity of the Subsidiary and Associated Companies expressed in foreign currencies resulting from exchange differences is recorded under arising on consolidation Exchange Differences. The exchange rates used in the preparation of the Financial Statements are as follows:

		Exchange rates in 2003		Exchange rates in 2002	
Currency		Rate Close	Average exchange-rate	Rates Close	Average exchange
American dollar	USD	1.263	1.1312	1.0487	0.9456
Brazilian Real	BRL	3.664	3.4590	3.7120	2.8010
Macao Pataca	MOP	10.099	9.0340	8.4000	7.5900

The Revaluation reserves balance registers the adjustments made against tangible fixed assets and Real-estate investments 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. These revaluations were undertaken pursuant to the foreign legislation:

Decree-Law 430/78	Decree-Law 111/88
Decree-Law 219/82	Decree-Law 7/91
Decree-Law 399-G/81	Decree-Law 49/91
Decree-Law 171/85	Decree-Law 264/92
Decree-Law 118-B/86	

Article 8 of Decree-Law 7/91, of January 8, which determined the formation of the new companies constituted by the simple split of EDP, required the valuation of EDP's assets 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, according with the Decree-Law 22/92 of February 14, is used for tax purposes, particularly with regard to the calculation of charges for the year. The following is a comparison of the book value of the tangible fixed assets with their respective historical costs:

	Group and Individual - 2002		
	Historical costs Euro'000	Accruals for revaluation Euro'000	Revalued amounts Euro'000
Gross assets	13 174 870	10 454 013	23 628 883
Depreciation	(4 124 019)	(9 322 693)	(13 446 712)
Net assets	9 050 851	1 131 320	10 182 171

During 2003, of the overall amount of the revaluation reserve, (i) the amount of €136,838,000 was constituted/transferred as deferred taxes, and (ii) the amount of €946,442,000 was transferred to retained earnings due to the revalued assets wholly depreciated and written off. Following these transfers, the Revaluation Reserve amounted to €89,449,000 as at December 31, 2003.

The **reserves under Decrees-Law 46031 and 46917** – for Self-financing and for Complement of the Financial Amortisation – were set up in accordance with the loan contracts settled with the International Bank for Reconstruction and Development, which were fully repaid during 1991.

18. Minority interests

This balance is analysed, by company, 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)
	236 485	65 199

19. Hydrological correction account

This balance is analysed as follows:

	Group		Individual	
	2003 Euro'000	2002 Euro'000	2003 Euro'000	2002 Euro'000
Opening balance on January 1	324 111	387 506	324 111	387 506
Differential for the year	71 916	(76 080)	71 916	(76 080)
Hydraulicity correction bonuses	(19 350)	-	(19 350)	-
Financial charges	10 829	12 685	10 829	12 685
Closing balance on December 31	387 506	324 111	387 506	324 111

The Hydrological Correction Account is a mechanism that was legally instituted (Decree-Law 338/91) to compensate variable electricity generation 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 changed according to 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 generation and the reference economic cost, which is suported 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 against a hydrological correction account; (ii) financial costs or income associated with the accumulated balance of this account constitutes 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 binding 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. Short term, medium and long term debt

This balance is analysed as follows:

	Group		Individual	
	2003 Euro'000	2002 Euro'000	2003 Euro'000	2002 Euro'000
Short-term loans - Current				
Overdrafts:				
- EDP, SA	-	44 243	-	44 243
- ONI Group	592 298	571 519	-	-
- Other	3 614	15 160	-	-
	595 912	630 922	-	44 243
Bank loans:				
- EDP, SA	315 711	271 110	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	-	-
	757 497	695 850	315 711	271 110
Bond loans - non-convertible				
- EDP, SA	10 221	12 261	10 221	12 261
- EDP Finance BV	45 500	-	-	-
	55 721	12 261	10 221	12 261
Commercial paper				
- EDP, SA	170 000	548 000	1 851 000	2 209 578
	170 000	548 000	1 851 000	2 209 578
	1 579 130	1 887 033	2 176 932	2 537 192
Medium-/long-term loans - Non-current:				
Bank loans:				
- EDP, SA	631 021	946 593	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	-	-
	2 289 247	2 614 931	631 021	946 593
Bond loans - non-convertible				
- EDP, SA	2 476 551	2 341 958	2 476 551	2 341 958
- EDP Finance BV	963 694	1 009 194	-	-
- Brazil Group	84 087	40 959	-	-
	3 524 332	3 392 111	2 476 551	2 341 958
Commercial paper				
- EDP, SA	100 000	100 000	100 000	100 000
	100 000	100 000	100 000	100 000
	5 913 579	6 107 042	3 207 572	3 388 551
	7 492 709	7 994 075	5 384 504	5 925 743

At EDP, SA, level, the Group has short-term credit facilities in the amount of €746 million, indexed to the Euribor rate for the agreed period of use, with margin conditions agreed in advance, of which €726 million have a firm underwriting commitment. There is also a €350 million commercial paper programme with guaranteed placement. As far as medium-term credit facilities are concerned, €700 million is available to EDP, SA, with a firm underwriting commitment, also indexed to Euribor under previously agreed conditions. As as December 31, 2003, €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 **Bond loan issues** as at December 31, 2003 are analysed as follows:

Issuer	Issue date	Interest rate	Repayment/ conditions	Group Euro'000	Individual Euro'000
EDP, SA issues					
EDP, SA 22º Emissão	30/May/1996	Euribor 6-months - 0.10%	(i)	20 636	20 636
EDP, SA 23º Emissão	20/Dec/1996	Euribor 6-months - 0.125%	(ii)	10 332	10 332
EDP, SA 24º Emissão	22/Dec/1997	Euribor 6-months + 0.10%	(iii)	6 525	6 525
EDP, SA 25º Emissão	23/Nov/1998	Euribor 6-months + 0.225%	(iv)	299 279	299 279
EDP, SA 26º Emissão	26/Mar/2003	Euribor 6-months + 0.5%	On 26-Mar-2013	150 000	150 000
				486 772	486 772
EDP issues under the Euro Medium Term Notes Programme					
EDP, SA 1º Emissão	29/Oct/1999	Fixed rate EUR 6.40%	On 29-Oct-2009	1 000 000	1 000 000
EDP, SA 2º Emissão	28/Mar/2001	Fixed rate EUR 5.875%	On 28-Mar-2011	1 000 000	1 000 000
EDP Finance BV3º Emissão (*)	29/Oct/2001	JPY Libor three-months + 0.20%	On 29-Oct-2004	45 500	-
EDP Finance BV4º Emissão	26/Nov/2001	Zero Coupon	On 27-Nov-2009	22 455	-
EDP Finance BV5º Emissão (*)	28/Nov/2001	Fixed rate JPY 0.70%	On 28-Nov-2006	27 882	-
EDP Finance BV6º Emissão (*)	9/Aug/2002	Fixed rate GBP 6.625%	On 09-Aug-2017	320 000	-
EDP Finance BV7º Emissão	16/Dec/2002	Fixed rate EUR 5.00%	On 20-Mar-2008	500 000	-
EDP Finance BV8º Emissão	23/Dec/2002	Fixed rate EUR 2.661%	On 23-Dec-2022	93 357	-
				3 009 194	2 000 000
Escelsa (Brazil) issues on the international market					
Escelsa USD 430 Milhões (**)	28/Jul/1997	Fixed rate USD 10.0%	On 15-Jul-2007	58 042	-
Investco (Brazil) issues on the Brazilian domestic market					
Investco 1st Issue	1/Nov/2001	IGPM + 12.80%	On 1-Nov-2011	19 721	-
Investco (FINAM)	14/Nov/2003	TJLP + 4%	On 14-Nov-2011	6 325	-
				26 045	-
				3 580 053	2 486 772

(i): 4 annual payments as from June 2, 2003. It may be repaid early at the request of bondholders.
(ii): 4 annual payments as from December 20, 2008. As from December 20, 2006 it may be repaid in part or in full at the request of EDP all the bondholders.
(iii): 4 annual payments as from January 5, 2002.
(iv): 6 semi-annually payments as from 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		Individual	
	2003 Euro'000	2002 Euro'000	2003 Euro'000	2002 Euro'000
Bank loans and overdrafts:				
Up to 1 year	1 523 409	1 874 772	2 166 711	2 524 931
1 to 5 years	2 312 265	2 544 263	667 142	904 950
Over 5 years	92 174	170 668	63 879	141 643
	3 927 848	4 589 703	2 897 732	3 571 524
Bond loans:				
Up to 1 year	55 721	12 261	10 221	12 261
1 to 5 years	877 830	232 266	318 802	232 266
Over 5 years	2 631 310	3 159 845	2 157 749	2 109 692
	3 564 861	3 404 372	2 486 772	2 354 219
	7 492 709	7 994 075	5 384 504	5 925 743

The **fair value of the EDP Group's debt**, amounting to the market value of the debt, is analysed as follows:

	2003		2002	
	Book value Euro'000	Market Value Euro'000	Book Value Euro'000	Market Value Euro'000
Short-term loans - Current	1 579 130	1 579 130	1 887 033	1 887 033
Medium-/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.

21. Provisions for liabilities and charges

This balance is analysed as follows:

	Group		Individual	
	2003 Euro'000	2002 Euro'000	2003 Euro'000	2002 Euro'000
Provisions for social liabilities and benefits	153 170	255 006	76 912	181 649
Provisions for healthcare liabilities	427 501	396 713	21 050	20 485
Provision for financial assets	92 696	-	285 646	388 364
Provisions for other liabilities and charges	146 207	154 563	-	-
	819 574	806 282	383 608	590 498

The movement occurred in **Provisions for social liabilities and benefits** is analysed as follows:

	Group		Individual	
	2003 Euro'000	2002 Euro'000	2003 Euro'000	2002 Euro'000
Balance as at January 1	255 006	368 879	181 649	344 702
Charge for the year	17 008	14 687	301	1 670
Write-back of provisions	(119 004)	(131 995)	(93 393)	(153 751)
Transfers and reclassifications	160	3 435	(11 645)	(10 972)
Balance as at December 31	153 170	255 006	76 912	181 649

The movement occurred in **Provisions for healthcare liabilities** is analysed as follows:

	Group		Individual	
	2003 Euro'000	2002 Euro'000	2003 Euro'000	2002 Euro'000
Balance as at January 1	396 713	377 939	20 485	-
Charge for the year	40 014	57 614	572	9 513
Write-back of provisions	(9 226)	(38 840)	-	-
Transfers and reclassifications	-	-	(7)	10 972
Balance as at December 31	427 501	396 713	21 050	20 485

The movement occurred in **Provisions for Financial assets** is analysed follows:

	Group		Individual	
	2003 Euro'000	2002 Euro'000	2003 Euro'000	2002 Euro'000
Balance as at January 1	-	-	388 364	23 066
Charge for the year	114 695	-	48 454	-
Write-back of provisions	(21 774)	-	-	-
Negative equity method movements	(225)	-	(151 172)	365 298
Balance as at December 31	92 696	-	285 646	388 364

Movement occurred in **Provisions for other liabilities and charges** is analysed as follows:

	Group		Individual	
	2003 Euro'000	2002 Euro'000	2003 Euro'000	2002 Euro'000
Balance as at January 1	154 563	84 675	-	-
Changes in the consolidation perimeter	-	59 077	-	-
Charge for the year	21 570	22 269	-	-
Write-back of provisions	(29 926)	(11 458)	-	-
Balance as at December 31	146 207	154 563	-	-

22. Creditors and other liabilities

This balance is analysed as follows:

	Group		Individual	
	2003 Euro'000	2002 Euro'000	2003 Euro'000	2002 Euro'000
Short-term creditors - Current				
Suppliers	678 741	787 361	40 924	31 438
Supplies of fixed assets	103 885	230 393	839	1 726
State and other public entities:				
- Income tax	173 924	9 081	59 543	173
- Withholding tax	11 686	8 415	268	-
- Social security contributions	11 359	10 542	33	10
- Value added tax	12 197	18 665	-	-
- Other taxes	59 937	3 049	-	11
Other shareholders	10 541	10 443	-	-
Advances to customers	1 204	518	89	10 611
Other creditors:				
- Employees	20 625	350	76	
- 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	-	9 667
Acquisition of financial holdings				
- Corporate income tax (IRC) - payments on account of the holding company	123	-	156 245	196 975
- Other creditors and sundry operations	65 159	59 693	8 174	21 673
	1 238 991	1 242 000	266 465	272 360
Medium-/long-term creditors - current:				
Regularisation account - (Reg. DL 344-B/82)	9 079	16 650	-	-
State holdings in Multipurpose hydroelectric power stations	14 996	19 740	-	4 744
Deposits received from customers and other debtors	39 843	41 306	-	-
Recognition of liabilities on the sale of OPTEP in 2002	315 000	-	315 000	-
Supplies of fixed assets	74 618	-	-	-
Electricity tariff compensations in Brazil	35 013	-	-	-
Other creditors and sundry operations	54 393	49 084	646	-
	542 942	126 780	315 646	4 744
	1 781 933	1 368 780	582 111	277 104

As an immediate consequence of the full application by the EDP Group for the first time of International Accounting Standard 39: Measurement and Recognition of financial instruments, the **Creditors – Medium/long-term** for the **Group** and on an **Individual basis**, includes 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 International Accounting Standards, does not meet the criteria to be considered as a sale/firm commitment. In accordance with the international standard, the asset sold in 2002 is fully recorded under assets as well as the respective liability under liabilities, while price fluctuations are recognised as 'investments available for sale' for as long as the said clause is in force up to March 22, 2005.

23. Accrued cost and deferred income

This balance is analysed as follows:

	Group		Individual	
	2003 Euro'000	2002 Euro'000	2003 Euro'000	2002 Euro'000
Accrued costs:				
- Holiday pay, bonus and other charges	68 393	60 032	546	449
- Interest payable	121 874	169 371	91 004	96 248
- Other accrued costs	46 267	65 096	8 654	5 243
	236 534	294 499	100 204	101 940
Deferred income:				
- Subsidies for investment in fixed assets	1 546 101	1 339 085	8 536	9 756
- Unrealised gains on sales	-	70 072	-	-
- Equal Instalment Account EDP Distribuição	101 096	-	-	-
- Other deferred income	134 668	24 783	132	(22 130)
	1 781 865	1 433 940	8 668	(12 374)
	2 018 399	1 728 439	108 872	89 566

The balance Investment Subsidies represents the accumulated net balance of amounts received less annual amortisation. During the year subsidies were received in the amount of €133,651,000 (2002: €84,498,000).

24. Turnover

This balance is analysed, by sector of activity, as follows:

	Group		Individual	
	2003 Euro'000	2002 Euro'000	2003 Euro'000	2002 Euro'000
Sales by sector of activity:				
Electricity	6 296 103	5 876 158	-	-
Steam and ashes	22 061	18 651	-	-
Gas	105 311			
Information systems and technologies	16 277	50 861	-	-
Telecommunications	3 889	23 701	-	-
Other Businesses	12 720	18 769	-	-
	6 456 361	5 988 140	-	-
Services rendered by sector of activity:				
With electricity sales	80 122	18 996	-	-
Thermo/Hydro electricity engineering services	6 457	5 311	-	-
Information systems and technologies	69 999	65 174	1 332	2 753
Telecommunications	312 334	273 780	-	-
Consultancy and services	11 476	4 536	22 214	12 921
Other	40 771	30 620	706	568
	521 159	398 417	24 252	16 242
Total Turnover:				
Electricity	6 376 225	5 895 154	-	-
Steam and ashes	22 061	18 651	-	-
Gas	105 311	-	-	-
Thermo/Hydro electricity engineering services	6 457	23 962	-	-
Information systems and technologies	86 276	116 035	1 332	2 753
Telecommunications	316 223	297 481	-	-
Other	64 967	53 925	22 920	13 489
	6 977 520	6 386 557	24 252	16 242

The balance **Sales** is analysed as follows:

	2003			2002		
	Iberian Market	**Brazilian market**	**Total**	**Iberian Market**	**Brazilian market**	**Total**
Electricity:						
To the National Transport network	1 339 411	-	1 339 411	1 323 894	-	1 323 894
To end customers:						
- Very high voltage	9 509	-	9 509	37 936	5 629	43 565
- High voltage	332 841	277 889	610 730	167 222	126 130	293 352
- Medium voltage	738 301	289 421	1 027 722	812 018	172 582	984 600
- Low voltage (>39,6 KVA)	313 193	313 193	313 193	271 247	-	271 247
- Low voltage	2 423 742	389 254	2 812 996	2 380 945	398 188	2 779 133
- Low voltage (Public Lighting)	95 731	-	95 731	86 614	14 977	101 591
Embedded Production	37 062	-	37 062	38 285	-	38 285
Discounts and tariff difference	49 749	-	49 749	45 304	(4 813)	40 491
	5 339 539	956 564	6 296 103	5 163 465	712 693	5 876 158
Other Sales:						
- Steam and ashes	22 061	-	22 061	18 651	-	18 651
- Gas	105 311	-	105 311	-	-	-
- Printed forms	10 492	-	10 492	10 942	-	10 942
- Telecommunications equipment	3 662	-	3 662	23 774	-	23 774
- Data network equipment	-	-	-	23 236	-	23 236
- PC equipment	13 469	-	13 469	24 470	-	24 470
- Other	5 263	-	5 263	10 909	-	10 909
	160 258	-	160 258	111 982	-	111 982
	5 499 797	956 564	6 456 361	5 275 447	712 693	5 988 140

The balance **Gross Margin on sales** is analysed as follows:

	Group		Individual	
	2003 Euro'000	**2002 Euro'000**	**2003 Euro'000**	**2002 Euro'000**
Sales:				
Electricity	6 296 103	5 876 158	-	-
Steam and ashes	22 061	18 651	-	-
Gas	105 311	-	-	-
Information systems and technologies	16 277	50 861	-	-
Telecommunications	3 889	23 701	-	-
Other Businesses	12 720	18 769	-	-
	6 456 361	5 988 140	-	-
Cost of sales:				
Electricity	3 360 268	3 005 526	-	-
Fuel, steam and ashes	398 034	465 527	-	-
Information technologies	19 143	36 207	-	-
Telecommunications	6 571	53 378	-	-
Other activities	137 030	126 459	-	-
	3 921 046	3 687 097	-	-
	2 535 315	2 301 043	-	-

The balance **Services rendered** is analysed, by sector of activity, as follows:

	Group		Individual	
	2003	2002	2003	2002
	Euro'000	Euro'000	Euro'000	Euro'000
Related with electricity sales	80 122	18 996	-	-
Engineering studies and designs	6 457	6 452	-	-
IT services	70 714	65 174	1 332	2 753
Voice services - urban calls	208 403	191 437	-	-
Other telecommunications services	101 705	70 277	-	-
Collection services	11 004	8 787	-	-
Consultancy, management and co-ordination	1 279	4 536	12 017	9 746
Other services provided	41 475	32 758	10 903	3 743
	521 159	398 417	24 252	16 242

The balance **Turnover** by geographic market is analysed as follows:

	Group		Individual	
	2003	2002	2003	2002
	Euro'000	Euro'000	Euro'000	Euro'000
Portugal	5 342 756	5 202 203	24 252	16 242
Spain	662 545	321 351	-	-
Brazil	972 219	863 003	-	-
	6 977 520	6 386 557	24 252	16 242

25. Own work capitalised

This balance is analysed as follows:

	Group		Individual	
	2003	2002	2003	2002
	Euro'000	Euro'000	Euro'000	Euro'000
Materials consumed	99 327	70 695	-	-
Direct internal and structure costs	105 401	113 220	-	-
Financial charges	24 005	16 036	-	-
Other own work capitalised	6 890	41 818	-	310
	235 623	241 769	-	310

26. Other income

This balance is analysed as follows:

	Group		Individual	
	2003	2002	2003	2002
	Euro'000	Euro'000	Euro'000	Euro'000
Supplementary income	7 768	8 067	1 733	772
Operating subsidies	685	453	-	-
Other income	9 628	22 094	1 437	110
	18 081	30 614	3 170	882

27. Supplies and services

This balance is analysed as follows:

	Group		Individual	
	2003	**2002**	**2003**	**2002**
	Euro'000	**Euro'000**	**Euro'000**	**Euro'000**
Subcontracts:				
Subcontracts	209 239	179 074	-	-
Other subcontracts	5 916	-	-	-
Supplies and services:				
Water, electricity and fuel	12 335	8 261	879	877
Utensils and office material	5 066	6 511	259	379
Leases and rents	52 010	51 186	2 995	3 149
Communications	30 967	21 246	1 232	2 218
Insurance	19 636	18 386	227	233
Transport, travel, and lodging	12 972	12 503	882	764
Commissions and fees	10 887	16 724	1 968	3 254
Maintenance and repairs	94 127	99 886	869	
Advertising and propaganda	12 545	20 970	2 506	1 626
Specialised work	130 757	187 548	31 661	39 079
Other supplies and services:	36 061	52 775	17 882	15 547
	632 518	675 070	61 360	67 126

28. Personnel costs

This balance is analysed as follows:

	Group		Individual	
	2003	**2002**	**2003**	**2002**
	Euro'000	**Euro'000**	**Euro'000**	**Euro'000**
Management remuneration	15 258	15 988	3 089	2 840
Employees' remuneration	413 552	411 630	250	189
Social charges on remuneration	192 539	156 540	1 199	374
Other Personnel costs	25 287	40 613	1 099	913
	646 636	624 771	5 637	4 316

The breakdown by management positions and professional category of the permanent staff as at December 31, 2003 and 2002 is as follows:

	Group		Individual	
	2003	**2002**	**2003**	**2002**
Board members and senior officers	462	621	11	11
Senior management	2 755	3 167	-	-
Middle management	2 484	2 252	-	-
Intermediate management	247	353	-	-
Highly skilled workers	8 612	7 630	-	-
Skilled workers	1 123	423	-	-
Semiskilled workers	927	845	-	-
Unskilled workers	778	906	-	-
	17 388	16 197	11	11

As at December 31, 2003, the number of employees in service, including those on temporary contract, arises to 17,664 (18,455 in 2002). These figures include all the employees of all the companies included in the consolidation perimeter (full and 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 Management remuneration of EDP - Electricidade de Portugal, S.A., was as follows:

	Individual	
	2003 Euro'000	2002 Euro'000
Board of Directors	3 089	2 815
External Auditor and Statutory auditor	82	76
	3 171	2 891

During 2003 the EDP Remuneration Committee, in line with the mandate attributed at the General Meeting held in May 2003, granted the members of the Board of Directors extraordinary remuneration related with the 2002 results, in the total amount of €606,000, of which €585,000 were for executive directors and €21,000 for non-executive directors.

29. Other operating costs

This balance is analysed as follows:

	Group		Individual	
	2003 Euro'000	2002 Euro'000	2003 Euro'000	2002 Euro'000
Direct taxes	398	2 811	113	2 473
Indirect taxes	19 092	13 824	1 636	139
Rents of concessions paid to local authorities	171 749	154 008	-	-
Electricity Generating Centre Rents	3 894	4 168	-	-
Other expenses and losses	8 851	8 301	350	436
	203 984	183 112	2 099	3 048

30. Provisions

This balance is analysed as follows:

	Group		Individual	
	2003 Euro'000	2002 Euro'000	2003 Euro'000	2002 Euro'000
Charge for doubtful debt	9 649	24 372	-	-
Charge for debtors	-	-	-	-
Charge for pension liabilities	17 008	14 687	301	1 670
Charge for healthcare liabilities	40 014	57 614	572	9 513
Charge for other liabilities and charges	9 035	3 972	-	-
	75 706	100 645	873	11 183

31. Depreciation and amortisation

This balance is analysed as follows:

	Group		Individual	
	2003	**2002**	**2003**	**2002**
	Euro'000	**Euro'000**	**Euro'000**	**Euro'000**
Tangible fixed assets:				
Fixed assets under the DL 344-B/82 regime	3 229	4 284	-	-
Buildings and other construction	9 703	6 442	1 525	1 487
Plant and machinery:				
Hydroelectricity generation	128 850	129 004	-	-
Thermoelectric generation	103 778	98 101	-	-
Electricity distribution	445 808	385 319	-	-
Other plant and machinery	60 928	48 906	-	-
Transport equipment	10 418	8 189	320	293
Office equipment and other	37 850	24 314	3 075	2 122
Total Depreciation	2 527	1 547	10	2
Intangible fixed assets:				
Set-up costs	15 145	14 856	1 366	1 294
Research and development costs	17 294	15 471	1 809	951
Industrial property and other rights	7 164	3 108	7	2
Key money on telecommunications business	2 898	-	-	-
Total Amortisation	42 501	33 435	3 182	2 247
	845 592	739 541	8 112	6 151

32. Financial income / (expense) and amortisation of goodwill and concession rights

This balance is analysed as follows:

	Group		Individual	
	2003	**2002**	**2003**	**2002**
	Euro'000	**Euro'000**	**Euro'000**	**Euro'000**
Income arising from financial operations				
Interest income	243 318	300 231	415 479	431 488
Income on application of the equity method	46 464	36 450	568 948	544 996
Income from other equity investments	36 740	40 042	-	-
Favourable currency exchange differences	47 559	90 260	2 864	77 658
Updating losses on rationing (Brazil)	30 358	15 731	-	-
Other financial gains	82 374	70 638	30 704	3 948
Total Financial income	486 813	553 352	1 017 995	1 058 090
Expenses arising from financial operations				
Interest expense	577 758	501 492	406 548	397 869
Banking services	28 372	57 025	7 280	-
Losses on application of the equity method	13 308	115 184	175 080	349 675
Unfavourable currency exchange differences	58 273	22 846	68 387	-
Other financial losses	75 702	14 218	6 350	38 388
	753 413	710 765	663 645	785 932
Amortisation of financial assets (goodwill):				
- Concession rights	30 439	26 849	7 745	7 745
- Goodwill	54 439	38 582	5 796	3 381
- Key money on telecommunications business	7 542	-	-	-
	92 420	65 431	13 541	11 126
Total Financial expenses	845 833	776 196	677 186	797 058
Financial income/(expense)	(359 020)	(222 844)	340 809	261 032

33. Extraordinary Gains/ (Losses)

This balance is analysed as follows:

	Group		Individual	
	2003	2002	2003	2002
	Euro'000	Euro'000	Euro'000	Euro'000
Gains arising from extraordinary operation				
Gains on fixed assets	44 147	53 264	13 010	23 882
Debt recovery	2 652	168	-	-
Write-back of provisions				
- For customer debt	1 444	-	-	-
- For financial assets	21 774	-	-	-
- For other liabilities and charges	50 736	76 371	93 393	153 751
Corrections to previous years	15 147	9 692	6 942	423
Compensation of depreciation of part-funded fixed assets	79 822	71 767	445	-
Write-off of residual value of Oniway	-	70 000	-	-
Hydrological correction	19 350	-	19 350	-
Other extraordinary gains	45 159	22 694	4 664	5 103
Total Extraordinary gains	280 231	303 956	137 804	183 159
Losses arising from extraordinary operations				
Losses on stocks	1 442	2 279	-	105
Losses on fixed assets	14 850	41 332	153	-
Bad debt	15 086	9 084	-	-
Fines and penalties	3 228	2 248	-	-
Corrections to previous years	46 755	13 934	904	687
Extraordinary depreciation				
- Intangible fixed assets	-	1 991	-	-
- Fixed assets in progress	-	278 944	-	-
Extraordinary provisions				
- Investments	114 695	-	48 454	-
- For other debtors	3 461	-	-	-
- For other liabilities and charges	12 535	18 297	-	-
Additional income tax assessment in relation to the years 1995/97/98	-	15 926	-	-
Loss on Baixa UTE Campo Grande (Enersul)	6 950	13 963	-	-
Rationalisation and reestructuring costs	47 810	-	-	-
Other extraordinary losses	27 862	44 897	6 581	8 482
Total Extraordinary losses	294 674	442 895	56 092	9 274
Extraordinary profit/(loss)	(14 443)	(138 939)	81 712	173 885

34. Charges for current and deferred income taxes

In accordance with the current 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 closed by the tax authorities.

Tax losses generated in each 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, on a consolidated basis allowed by the tax law of the respective countries.

The balance **Income tax charges** is analysed as follows:

	Group		Individual	
	2003	2002	2003	2002
	Euro'000	Euro'000	Euro'000	Euro'000
Charge for income taxes	239 255	171 168	(14 479)	(24 587)
Charge for deferred income taxes (see Note 8)	(43 721)	571	5 232	49 898
	195 534	171 739	(9 247)	25 311

The reconciliation between the standard and the effective income tax (IRC) rate for the **Group in 2003** is analysed as follows:

	2003		
	Tax Base Euro '000	**Tax Euro '000**	**Rate %**
Standard tax on profits	532 279	175 652	33.0 %
- *Main effects at taxation level:*			
Net depreciation	30 153	9 950	1.9 %
Amortisation resulting from revaluation of fixed assets	76 503	25 246	4.7 %
Net provisions	(25 338)	(8 362)	-1.6 %
Corrections to previous years	11 722	3 868	0.7 %
Losses not deductable	303 463	100 143	18.8 %
Effects of untaxed income resulting from equity method	(31 574)	(10 419)	-2.0 %
Tariff deviation in electricity business in Portugal	(73 105)	(24 125)	-4.5 %
Elimination of double 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 %
Effective rate and actual tax on profit	725 019	239 255	44.8 %

35. *Extraordinary results* presented in the profit and loss account by function

The profit and loss account by function of expense, on a consolidated and individual basis, has been prepared in accordance with Accounting Directive 20, in which the concept of extraordinary results differs from that established in the POC for the preparation of the consolidated profit and loss account by nature.

	Group			Individual		
	By nature Euro'000	**Reclassifications Euro'000**	**By function Euro'000**	**By nature Euro'000**	**Reclassifications Euro'000**	**By function Euro'000**
Operating profit	905 742	-	905 742	(50 659)	-	(50 659)
Financial charges	(266 600)	(49 127)	(315 727)	354 350	130 161	484 511
Current profit	546 722	(14 443)	532 279	290 150	81 712	371 862
Extraordinary profit/(loss)	(14 443)	14 443	-	81 712	(81 712)	-
Net profit	336 745	-	336 745	381 109	-	381 109

36. Segmental reporting

The segmental reporting presented in an appendix subsequent to these notes to the financial statements was prepared in accordance with Accounting Directive 27 and with international best practices.

To enable a proper understanding and interpretation by readers of the information presented in the segmental reporting, we would recommend that it should be consulted and read together with the section "Activity / Business of the EDP Group" included in Section I of this report, which presents the structure and form of the organisation of the various businesses of the EDP Group.

37. Commitments

As at December 31, 2003, the breakdown of financial commitments not shown in the balance sheet in respect of guarantees provided (no real guarantees have been provided) is analysed as follows:

Commitments	2003 Group Euro'000	2003 Individual Euro'000
Guarantees of a financial nature		
Guarantees provided by Group entities - Portugal		
to domestic banks	80 672	80 672
to foreign banks	154 521	123 409
to other domestic entities	68 231	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	272 312
Guarantees of an operational nature		
Guarantees provided by group entities -		
to other domestic entities	59 246	38 173
to foreign banks	16 976	15 011
to other foreign entities	32 434	8.602
Guarantees provided by group entities - Spain		
to foreign banks	63 925	-
to other foreign entities	577	-
	173 158	61 786
	584 296	334 098

Part of the guarantees with an operational nature are presented by financial institutions, as follows:

	2003 Group Euro'000	2003 Individual Euro'000
Domestic banks	16 356	2 375
Foreign banks	87 757	-
	104 113	2 375

The financial commitments related with Swap contracts outstanding at the balance sheet date are analysed 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	-

On the date of the first application of IAS 32 and IAS 39, EDP did not have all the documents required to comply with the requirements to record these financial derivatives as hedging instruments. Therefore, all financial derivatives have been considered as trading instruments, in accordance with report form – 20F registered with the US SEC relating to the year ended in December 31, 2002. Consequently, all variations in the fair value of these instruments have been recognised in the profit and loss account for the year as from the date of the adoption.

However, due to the process of transition to the IFRS, in which the EDP Group has been involved for some time, the revision of the documentation required for these financial derivatives to be considered as hedging instruments has already been started, and this change of accounting will be undertaken during 2004. Consequently, the Group has derogated the Portuguese accounting standard with regard to the accounting of derivatives provided for in Accounting Directive 17. The breakdown of the effects and impacts of this derogation is provided in Note 39.

Taking into account the fact that financial instrument assets are recorded under accrued income and deferred costs and that financial instrument liabilities are recorded under accrued cost and deferred income, the relevant information is as follows:

	Group 2003			
			Market Value	
	Nominal value Euro'000	Total Euro'000	Assets Euro'000	Liabilities Euro'000
Interest-rate contracts:				
Interest-rate swaps	3 057 371	224 362	264 175	(39 813)
Options purchased 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				
	< = 3 months Euro'000	> 3 months < = 1 year Euro'000	> 1 year < = 5 years Euro'000	> 5 years Euro'000	Total Euro'000
Interest-rate contracts:					
Interest-rate swaps	-	2 940	216	221 205	224.362
Options purchased 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

The possible effective 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%	

	Nominal value Euro'000	2003 Group		Individual	
Interest-rate contracts:					
Options purchased on interest rates (CAP purchases)	3 735 697	4.82%	2.51%	4.82%	2.51%
Options sold on interest rates (CAP sale)	1 000 000	5.30%	4.10%	5.30%	4.10%
Options sold on interest rates (Floor sale)	3 735 697	3.50%	2.27%	3.50%	2.27%

38. Social benefits extended to employees

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 plans that pay complementary 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 a social benefits plan financed through a closed Pension Fund, complemented by a specific provision.

This Pension Fund covers liabilities for retirement pension complements 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 services accumulated by the reference date, based on compliance with regulatory granting requirements. The company is totally liable to cover any actuarial insufficiencies of this Plan.

- BD Plan in force after March 31, 1998, which grants an annuity in proportion to the accumulated past services 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 work 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 coverage of the actuarial insufficiencies of this plan.

The evolution of consolidated liabilities for past services linked to these pension plans has been as follows:

	2003			2002		
	Portugal Euro'000	**Brazil Euro'000**	**Group Euro'000**	**Portugal Euro'000**	**Brazil Euro'000**	**Group Euro'000**
Evolution of Liabilities						
Liabilities at the beginning of the period	1 394 075	54 658	1 448 733	1 354 910	78 273	1 433 183
Current services	11 193	1 047	12 240	11 977	1 243	13 220
Interest Cost	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)
Liabilities at the end of the period	1 412 541	64 750	1 477 291	1 394 075	54 658	1 448 733

In calculating the liabilities inherent to 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%
Salaries growth rate	3.30%	7.12%	3.30%	7.12%
Pension growth rate	2.25%	7.12%	2.25%	7.12%
Social Security salaries 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 of service with at least 60 years of age, or 40 years of service of any age) and 90% of employees aged 55 or more. Starting 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 applicable standards (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)
Liabilities not covered	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)
Value of the provision at the end of the period	120 794	28 842	149 636	192 784	18 759	211 543

(i) The international accounting standards adopted by EDP allow 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.

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**
Cost for the period						
Service cost	11 193	1 047	12 240	11 977	1 243	13 220
Interest cost	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)
Contributions by employees	-	(552)	(552)	-	(706)	(706)
Amortisation of deferred actuarial losses (i)	25 718	-	25 718	17 045	-	17 045
Net cost for the period	71 468	701	72 169	58 082	4 272	62 354

The evolution of the consolidated 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**
Pension Funds						
Value of the assets at the beginning of the 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
Employees 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	53 889	5 800	59 689	54 063	1 968	56 031
Actuarial losses	-	(413)	(413)	(77 613)	4 846	(72 767)
Currency fluctuation	-	297	297	-	(14 383)	(14 383)
Value of the assets at the end of the period	785 147	31 355	816 502	727 258	22 687	749 945

The assets of the Pension Fund in Portugal are managed by four independent pension fund management companies of recognised merit. As at December 31, 2003 the composition and returns of the fund portfolio are as follows:

	Allocation of assets by nature of asset				
	Cash %	Bonds %	Shares %	Properties %	Total %
Allocation of assets	5.6%	45.6%	23.7%	25.1%	100.0%
Real overall return on the portfolio	0.0%	1.5%	2.4%	1.9%	5.7%

Resulting on the fact that the EDP Group adopted the accounting procedures on pension costs and associated charges as defined in the International Accounting Standard 19 earlier than required, derogating in this way and to this extent the provisions of Accounting Directive 19 – which transposed to the Portuguese accounting standards the earlier version of that international standard – we present hereunder the effects and impacts on that derogation.

In analysing the differences in this particular case, the EDP Group uses the “corridor” method to recognise actuarial gains and losses, allowing deferral of its impact on results. This criteria is one of the options provided in IAS 19 in paragraphs 92 and 93.

Accounting Directive 19, on the contrary, imposes the 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 the deferral of actuarial gains and losses in excess of the “corridor”. It therefore imposes a systematic method of immediate recognition in results.

In the light of these differences, the effects of the derogation of Accounting Directive 19 are as follows:

	2003		2002	
	Net profit Euro’000	Provisions Euro’000	Net profit Euro’000	Provisions Euro’000
Net profit and provisions reported	381 109	153 170	335 216	255 006
Actuarial deviations of the year	(23 908)	23 908	(191 884)	191 884
Surplus / (insufficiency) of provisions	(101 836)	101 836	254 336	(254 336)
Actuarial deviations of the previous year	-	232 239	-	294 691
Deferred taxes	34 580	-	(20 609)	-
Amortisation and provisions reported - Pro forma DC 19	289 945	511 153	377 059	487 245

II. Pension Plans - *Defined-Contribution Type*

Hidrocantábrico in Spain and Bandeirante and Escelsa in Brazil have Defined-contribution benefits plans that complement those 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 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 of the EDP Group medical care plan is analysed as follows:

	Group - Portugal	
	2003 Euro’000	2002 Euro’000
Evolution of Liabilities		
Liabilities at the beginning of the period	496 201	474 371
Current service cost	5 942	6 540
Interest cost	29 049	30 096
Benefits paid	(24 099)	(22 735)
Actuarial losses	153 162	7 929
Liabilities at the end of the period	660 255	496 201

The following financial and actuarial assumptions were used in calculating the liabilities associated with this medical care plan:

	Group - Portugal	
	2003 Euro'000	2002 Euro'000
Assumptions		
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

As mentioned above, the Medical Care Plan liabilities are recognised in the Group's accounts through a provision, which is presented hereunder:

	Group - Portugal	
	2003 Euro'000	2002 Euro'000
Provision for Medical Care Plans		
Liabilities at the end of the period	660 255	496 200
Fund's assets at the end of the period	-	-
Deferred actuarial losses (i)	(247 628)	(99 488)
Value of the provision at the end of the period	412 627	396 712

(i) The international accounting standards adopted by EDP allow deferred actuarial gains/losses to be recognised systematically in the profit and loss account through the 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 Euro'000	2002 Euro'000
Cost for the period		
Current service cost	5 942	6 540
Interest cost	29 049	30 096
Amortisation of the deferred transitional obligation (i)	5 022	4 873
Net cost for the period	40 013	41 509

39. Impacts and effects of the derogations of the POC as a result of implementation of international accounting standards IAS 32, IAS 36 and IAS 39, particularly on investments (Note 7) and on derivatives (Note 37)

Up to December 31, 2002, the EDP Group, in accordance with the principles established in the Portuguese Official Plan of Accounts (POC), did not recognise in its consolidated financial statements the financial derivatives instruments in accordance with the accounting procedures of IAS 39 for the measurement and recognition of investments and liabilities, the derecognition of investments and liabilities and, if applicable, the accounting of hedging instruments.

Nevertheless, the Board of Directors of the EDP Group considered that, due to the Group's advanced stage of its transition process to the IFRS and since it is of the opinion that the derogation of the POC and supplementary Accounting Directive 18 by the early application of the international accounting standards in its financial report in respect of the financial instruments will lead to a more adequate presentation of the financial situation of the EDP Group as of December 31, 2003.

The application and implementation of IAS 39 had significant effects in two accounting areas, namely investments (see Note 7) and financial derivatives instruments (see Note 37).

Investments excluded from the consolidation, as referred in Note 7, are accounted at historical cost, in accordance with the applicable Portuguese accounting standards being adjusted, through a provision charge, at the lower of book value and market price at the balance sheet date. Consequently, provisions are charged to cover potential losses, whilst potential gains are not recorded.

Financial derivatives instruments of the EDP Group were classified as "hedging" in accordance with the Portuguese accounting standards as defined in the Accounting Directive 17.

The disclosure of the effect of this derogation to the Portuguese accounting standard for the year 2003 is analysed as follows:

	Group - 2003 with IAS 39 Impact on Shareholders' Equity			Group - 2003 POC Pro forma Impact on Shareholders' Equity		
	Net profit Euro'000	**Fair value reserves Euro'000**	**Retained earnings Euro'000**	**Net profit Euro'000**	**Fair value reserves Euro'000**	**Retained earnings Euro'000**
CERJ - Comp Eléctrica do Estado Rio Janeiro	-	(9 050)	-	(9 050)	-	-
Galp, SGPS	-	5 645	-	-	-	-
BCP - Banco Comercial Português	-	(27 890)	-	(27 890)	-	-
Reclassification of impoirment BCP (i)	-	247 750	(247 750)	-	-	-
OPTET (Optimus)	-	42 053	-	(251)	-	-
Financial Instruments	(3 317)	-	131 181	-	-	-
Impact in retained earnings and other reserves	(3 317)	258 508	(116 569)	(37 191)	-	-
Financial Instruments - Deferred taxes	3 014	-	(34 637)	-	-	-

(i) The reclassification shown in the table is caused by implementation of IAS 39, resulting from the application of the concept of impairment of a financial asset that requires the recording of an impairment loss in the event of conditions with a long-term nature. It was therefore considered that the depreciation of the financial investment in BCP has these characteristics and, consequently, that the impairment loss has to be recorded against retained earnings, from fair value reserves recognised in 2002, which will consequently originate the reclassification of that impairment in the amount of €247 750 000 in shareholders' equity, namely from "fair value reserves" to "Retained Earnings" (see Note 17).

40. Employee Stock Option

The EDP Group began a stock option programme under the terms approved by the General Meeting, applicable to senior management and directors, in order to stimulate the creation of value, in line with the market practice of similar companies.

The programme, approved in 1999, aims to grant over a five years period 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 with a nominal 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 a change in the EDP share capital, this limit and the number of options already granted may be adjusted so that the size or position of the plan of the beneficiaries of the option remain substantially the same as the size 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, justify identical treatment.

The price for the acquisition of the shares granted under the stock options (exercise price) is the weighted average of the closing prices of the 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 adjusted in the event of: a) change in the share capital; b) distribution of dividends and other reserves to shareholders with a significant effect on the price of the EDP shares: and c) the occurrence of other facts of a similar nature that, according with the EDP Board of Directors, justify such corrections.

The liabilities assumed within the scope of the EDP incentives plans in respect of directors and certain senior staff of the Group companies are recognised as a cost in each period, considering the time to maturity of the option exercise right or of the attribution of the shares. The related provision is charged considering the rights granted and the inherent costs, over the life of the plan. These costs correspond to the difference between the estimated acquisition cost of the shares by the Company and their selling price to the employees. The corresponding costs are recorded under " Personnel costs", and the costs refering to related hedging operations are recorded under "Financial costs and losses".

41. Relevant and subsequent events

EDP and Hidrocantábrico constitute an 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 an European Economic Interest Group (EEIG) in order to develop 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 parts.

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. This European Economic Interest Group, which will be headquartered in Oviedo, is a type of company association created under an EEC regulation dated 1985 and is also governed in Spain by a law dating from 1991. This type of association, with its own legal personality, was designed to simplify inter-company co-operation 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 to opt for the Spanish law.

The joint installed power of the contracting and adjudication process amounts to approximately 2 166 MW and – in an average year – the three power stations in question burn about 7.5 million tonnes of coal. In accordance with the European Directive the new equipment is expected to be operational during the last quarter of 2007, leading to sulphur dioxide emissions for the respective groups of these three power stations according with the figures established by the directive (400 mg/Nm^3).

EDP concludes Framework Agreement for the 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, refering to the restructuring of the Portuguese energy sector, EDP concluded a framework agreement with Eni, S.p.A. (Eni), establishing the basis of an agreement in order to join the gas and electricity industries, and also refering 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 a transition period, REN – Rede Eléctrica Nacional may maintain a minority holding in GDP up to the conclusion of the 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 €1.2 billion for the total gas assets (including such regulated assets 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 supported by the economic value resulting from the 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 begin talks concerning the contracts for the structure of the operation and to define the corporate governance of GDP, to be concluded by March 31 this year. The conclusion of the transaction will in any case depend on approval by the respective 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 definition process for the compensation value (CMEC – Contractual Balance Maintenance Costs) linked to the possible transition of the energy acquisition contracts (CAEs) to the market system in MIBEL was not concluded.

On March 8, 2004, in response to several requests for clarification following 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 is ensured, certified by independent entities, and that it believed that this could come before April 20 of the current year.

ANNEX - EDP Group Business by Business Segment

Information by business segment - 2003

(Amounts expressed in thousands of euros)

	Energy generation			Energy Distribution and Supply									
	Electricity			Electricity			Gas	Telecommunications		Information	Services	Consolidation	EDP
	Portugal	Spain	Brazil	Portugal	Spain	Brazil	Spain	Portugal	Spain	Technology	and other	Adjustments	Group
External turnover	1 318 001	257 891	3 004	3 615 563	322 566	919 601	82 088	147 835	170 127	102 340	74 067	(35 564)	6 977 520
Internal turnover	47 229	2 007	38 260	57 250	6 393	225	3 886	13 148	-	84 007	77 327	(329 732)	-
Turnover	1 365 230	259 898	41 264	3 672 813	328 960	919 826	85 975	160 983	170 127	186 347	151 394	(365 296)	6 977 520
Cost of sales	381 143	133 413	7 891	2 523 870	279 497	616 189	48 206	3 029	3 542	24 453	54 680	(154 866)	3 921 046
Gross Margin	984 087	126 485	33 373	1 148 943	49 463	303 637	37 769	157 954	166 585	161 894	96 714	(210 430)	3 056 474
Other operational income/ (costs)													
Supplies and services	(74 960)	(15 554)	(16 677)	(210 632)	(14 614)	(44 477)	(5 352)	(127 149)	(138 158)	(70 053)	143 455	(58 347)	(632 518)
Personnel costs	(120 339)	(16 964)	(517)	(397 060)	(14 902)	(62 630)	(4 227)	(30 737)	(20 236)	(66 431)	(47 933)	135 341	(646 636)
Own work capitalised	38 232	2 508	-	184 816	1 266	-	222	8	-	8 397	203	(29)	235 623
Other operating income/ (costs)	(10 046)	(1 709)	(777)	(172 527)	147	(17 773)	(1 205)	1 193	(307)	294	(688)	17 494	(185 904)
	(167 113)	(31 720)	(17 971)	(595 403)	(28 104)	(124 880)	(10 562)	(156 685)	(158 701)	(127 793)	95 037	94 459	(1 229 435)
Gross Operating Margin (EBITDA)	816 974	94 765	15 402	553 540	21 359	178 757	27 208	1 269	7 884	34 101	191 751	(115 971)	1 827 039
Depreciation and amortisation	234 351	46 034	4 311	348 926	25 156	53 937	7 529	53 820	18 924	24 301	12 971	15 332	845 592
Provisions	12 742	1 080	-	42 793	-	11 039	-	3 603	1 473	508	2 475	(7)	75 706
Operating profit (EBIT)	569 881	47 652	11 091	161 821	(3 797)	113 781	19 678	(56 154)	(12 513)	9 292	176 305	(131 296)	905 741
Financial income/ (expense)	(76 188)	(18 785)	(15 363)	(37 468)	(9 964)	(13 954)	(5 586)	(36 277)	(2 581)	(7 135)	(201 902)	158 614	(266 588)
(Amortisation of goodwill and concession rights)	-	(1 752)	(71)	(11)	(12)	(1)	(7 600)	(11 919)	(7 542)	(5 360)	(39 751)	(18 414)	(92 432)
Current Results	493 693	27 114	(4 343)	124 342	(13 772)	99 826	6 493	(104 350)	(22 636)	(3 203)	(65 348)	8 904	546 721
Extraordinary gains/ (losses)	(4 075)	(1 116)	(26 414)	80 226	1 345	14 214	437	(13 539)	(8 206)	(4 069)	(30 661)	(22 584)	(14 443)
Profit before tax	489 618	25 998	(30 757)	204 568	(12 428)	114 040	6 930	(117 889)	(30 842)	(7 272)	(96 009)	(13 680)	532 278
Income tax	164 130	4 820	1 190	51 065	(4 350)	36 607	2 426	(7 500)	(10 158)	2 967	(45 663)	-	195 534
Minority interests	(164)	181	(1 641)	-	-	11 194	5 034	(48 515)	(8 221)	(4 041)	1 808	(0)	(44 365)
Net profit	325 652	20 996	(30 306)	153 503	(8 078)	66 239	(530)	(61 874)	(12 463)	(6 198)	(52 154)	(13 680)	381 109
Other information:													
Tangible fixed assets	4 367 736	711 682	259 135	4 477 925	219 064	665 050	157 618	180 701	52 922	95 401	7 162	457 203	11 651 599
Intangible fixed assets	6 663	139 837	978	756	199 870	29 366	14 567	109 598	72 216	8 878	496	366 958	950 183
Current assets	1 108 217	76 661	38 933	1 072 971	81 144	770 769	43 894	130 887	40 009	110 993	38 489	(448 151)	3 064 816
Shareholders' equity	4 101 294	368 534	108 043	1 658 780	194 150	423 236	113 526	(51 789)	(152 229)	53 835	8 864	(1 528 237)	5 298 007
Current liabilities	3 423 871	105 685	127 582	3 502 151	80 416	612 158	33 229	727 298	126 791	207 351	127 582	(4 251 703)	4 822 411
CAPEX	275 803	38 145	55 393	271 930	20 887	70 456	12 005	32 271	13 911	55 464	14 107	-	860 371

IV – ACCOUNTING INFORMATION REQUIRED BY THE OFFICIAL PLAN OF ACCOUNTS (POC)

Contents

EDP – Electricidade de Portugal, S.A.

Consolidated Balance Sheet as at December 31, 2003 and 2002

(Amounts expressed in thousands of euros)

	2003			2002		
	Gross assets	**Depreciation and provisions**	**Net assets**	**Gross assets**	**Depreciation and provisions**	**Net assets**
ASSETS						
FIXED ASSESTS						
Intangible fixed assets						
Set-up costs	85 157	64 855	20 302	93 056	50 471	42 585
Research and development costs	103 302	44 606	58 696	140 434	35 502	104 932
Industrial property and other rights	158 057	32 377	125 680	145 355	41 884	103 471
Intangible fixed assets in progress	21 944	-	21 944	13 229	-	13 229
Key money	40 209	14 570	25 639	-	-	-
Concession rights	835 366	137 445	697 921	946 974	107 027	839 947
Goodwill	1 005 363	105 849	899 514	788 232	49 277	738 955
	2 249 398	**399 702**	**1 849 696**	**2 127 280**	**284 161**	**1 843 119**
Tangible fixed assets						
Tangible fixed assets (DL 344-B/82)	240 607	231 528	9 079	259 916	243 265	16 651
Land and natural resources	128 169	-	128 169	122 259	-	122 259
Buildings and other constructions	410 982	166 403	244 579	336 746	143 317	193 429
Plant and machinery	23 790 703	13 911 573	9 879 130	22 493 019	12 839 248	9 653 771
Transport equipment	75 761	54 532	21 229	73 900	46 622	27 278
Tools and utensils	5 554	4 418	1 136	76 922	5 443	71 479
Office equipment	338 696	175 692	163 004	248 634	164 011	84 623
Other tangible fixed assets	22 393	4 422	17 971	17 487	4 806	12 681
Fixed assets in progress	1 187 302	-	1 187 302	1 022 066	-	1 022 066
	26 200 167	**14 548 568**	**11 651 599**	**24 650 949**	**13 446 712**	**11 204 237**
Investments						
Shareholdings in Group companies	1 305	-	1 305	202 518	-	202 518
Shareholdings in associate companies	441 449	4	441 445	483 295	9 151	474 144
Shareholdings in other related companies	1 351 958	285 786	1 066 172	1 434 578	307 054	1 127 524
Securities and other financial assets	75 608	1 746	73 862	92 140	344	91 796
Fixed assets in progress	-	-	-	2	-	2
	1 870 320	**287 536**	**1 582 784**	**2 212 533**	**316 549**	**1 895 984**
CURRENT						
Inventories						
Raw and subsidiary materials consumables	134 945	-	134 945	135 896	-	135 896
Products and work in progress	6 206	-	6 206	5 446	-	5 446
Merchandise	18 085	-	18 085	10 143	1 180	8 963
	159 236	**-**	**159 236**	**151 485**	**1 180**	**150 305**
Medium/long-term debtors						
Customers - Local gov. - Debt as at 31/12/88	187 119	101 322	85 797	185 343	101 322	84 021
Other debtors	350 045	-	350 045	188 984	12 421	176 563
	537 164	**101 322**	**435 842**	**374 327**	**113 743**	**260 584**
Short-term debtors						
Trade accounts receivable	1 015 751	-	1 015 751	855 971	-	855 971
Trade accounts - bills receivable	46	-	46	14	-	14
Doubtful debt	188 689	181 615	7 074	159 511	150 863	8 648
State and other public entities	179 775	-	179 775	120 419	-	120 419
Other debtors	258 950	9 335	249 615	466 693	13 901	452 792
	1 643 211	**190 950**	**1 452 261**	**1 602 608**	**164 764**	**1 437 844**
Trading securities						
Trading securities	56 291	-	56 291	92 691	-	92 691
Other treasury assets	87 668	6	87 662	82 573	6	82 567
	143 959	**6**	**143 953**	**175 264**	**6**	**175 258**
Bank deposits and cash						
Bank deposits and cash	123 168	-	123 168	37 288		37 288
Cash in hand	20 375	-	20 375	1 427		1 427
	143 543		**38 715**	**38 715**		**38 715**
Accruals and deferrals						
Accrued income and deferred costs	347 313	-	347 313	343 559		343 559
Deferred costs	275 104	-	275 104	229 606		229 606
Deferred taxes	609 338	-	609 338	545 979		545 979
	1 231 755		**1 231 755**	**1 119 144**		**1 119 144**
Total depreciation		**14 948 270**			**13 730 873**	
Total provisions		**579 814**			**596 242**	
TOTAL	**34 178 753**	**15 528 084**	**18 650 669**	**32 452 305**	**14 327 115**	**18 125 190**

See accompanying notes to the Financial Statements in Chapter III

EDP – Electricidade de Portugal, S.A.

Consolidated Balance Sheet as at December 31, 2003 and 2002

(Amounts expressed in thousands of euros)

	2003	2002
SHAREHOLDERS' EQUITY		
Share capital	3 000 000	3.000.000
Treasury stock	(21 431)	(17 429)
Share premium of treasury stock	(27 589)	(26 065)
Adjustments arising on consolidation	-	22 121
Reserves:		
- Legal reserves	326 391	243 727
- Free reserves	12 830	12 830
- Other reserves	(1 078 371)	1 238 632
Exchange differences arising on consolidation	(572 500)	(379 468)
Fair value of investments available for sale	10 756	(268 974)
Retained earnings	3 266 812	1 333 592
	4 916 898	**5 158 966**
Net Profit for the year	381 109	335 216
Total Shareholders's Equity	**5 298 007**	**5 494 182**
Minority interests in net profit	(44 364)	(220 034)
Minority interests in reserves	280 849	285 233
Total Minority Interests	**236 485**	**65 199**
Hydrological correction account	387 506	324 111
LIABILITIES		
Provisions for liabilities and charges	819 574	806 282
	819 574	**806 282**
Medium/long-term creditors		
Bond loans - non-convertible	3 524 332	3 392 111
Other loans	2 389 247	2 714 931
Other creditors	542 942	126 780
	6 456 521	**6 233 822**
Short-term creditors		
Bond loans - non-convertible	55 721	12 261
Other loans	1 523 409	1 874 772
Trade accounts payable	678 741	787 361
Fixed assets suppliers	103 885	230 393
Other shareholders	10 541	10 443
State and other public entities	269 103	49 752
Other creditors	176 721	164 051
	2 818 121	**3 129 033**
Accruals and deferrals		
Accrued cost and deferred income	236 534	294 499
Deferred income	1 781 865	1 433 940
Deferred taxes	616 056	344 122
	2 634 455	**2 072 561**
Total Liabilities	**12 728 671**	**12 241 698**
Total Shareholders' Equity and Minority Interests	**5 921 998**	**5 883 492**
TOTAL	**18 650 669**	**18 125 190**

THE OFFICIAL ACCOUNTANT N.º 17,713

THE PLANNING, CONTROL AND CONSOLIDATION MANAGER

THE BOARD OF DIRECTORS

See accompanying notes to the Financial Statements in Chapter III

EDP – Electricidade de Portugal, S.A.

Consolidated Profit and Loss Account
for the years ended December 31, 2003 and 2002

(Amounts expressed in thousands of euros)

		2003		2002	
COSTS AND LOSSES					
Cost of goods sold and Materials consumed			3 921 046		3 687 097
Supplies and services			632 518		675 070
Personnel costs:					
Remuneration		428 810		427 618	
Social Security charges		192 539		156 540	
Other		25 287	646 636	40 613	624 771
			5 200 200		**4 986 938**
Depreciation and amortisation		845 592		739 541	
Provisions		75 706	921 298	100 645	840 186
			6 121 498		**5 827 124**
Taxes		19 490		16 635	
Other expenses and losses		184 494	203 984	166 477	183 112
(A)			**6 325 482**		**6 010 236**
Financial expenses and losses		753 413		710.765	
Amortisation of goodwill and concession rights		92 420	845 833	65 431	776 196
(C)			**7 171 315**		**6 786 432**
Extraordinary costs and losses			294 674		442 895
(E)			**7 465 989**		**7 229 327**
Income tax for the year			195 534		171 739
(G)			**7 661 523**		**7 401 066**
Minority interests			(44 364)		(220 034)
Consolidated net profit for the year			381 109		335 216
			7 998 268		**7 516 248**
INCOME AND GAINS					
Sales		6 456 361		5 988 140	
Services rendered		521 159	6 977 520	398 417	6 386 557
Own work capitalised		235 623		241 769	
Supplementary income		7 768		8 067	
Other income and operational gains		10 313	253 704	22 547	272 383
(B)			**7 231 224**		**6 658 940**
Financial income and gains			486 813		553 352
(D)			**7 718 037**		**7 212 292**
Extraordinary income and gains			280 231		303 956
(F)			**7 998 268**		**7 516 248**
Operating profit/(loss)	**(B) - (A)**		**905 742**		**648 704**
Financial income/(expense)	**(D - B) - (C - A)**		**(359 020)**		**(222 844)**
Current Results	**(D) - (C)**		**546 722**		**425 860**
Profit before tax	**(F) - (E)**		**532 279**		**286 921**
Consolidated net profit and minority interests	**(F) - (G)**		**381 109**		**335 216**

See accompanying notes to the Financial Statements in Chapter III

EDP – Electricidade de Portugal, S.A.

Individual Balance Sheet as at December 31, 2003 and 2002

(Amounts expressed in thousands of euros)

	2003			2002		
	Gross assets	Depreciation and provisions	Net assets	Gross assets	Depreciation and provisions	Net assets
ASSETS						
FIXED ASSESTS						
Intangible fixed assets						
Set-up costs	7 085	5 228	1 857	6 469	3 862	2 607
Research and development costs	15 193	6 714	8 479	6 343	4 906	1 437
Industrial property and other rights	50	11	39	50	2	48
Intangible fixed assets in progress	3 277	-	3 277	10 433	-	10 433
	25 605	**11 953**	**13 652**	**23 295**	**8 770**	**14 525**
Tangible fixed assets						
Land and natural resources	55 838	-	55 838	55 747	-	55 747
Buildings and other constructions	81 413	31 929	49 484	68 770	36 652	32 118
Transport equipment	2 032	884	1 148	1 856	741	1 115
Tools and utensils	74	52	22	68	45	23
Office equipment	59 437	52 826	6 611	58 536	49 767	8 769
Other tangible fixed assets	23	6	17	20	4	16
Fixed assets in progress	4 427	-	4 427	44 260	-	44 260
	203 244	**85 697**	**117 547**	**229 257**	**87 209**	**142 048**
Investments						
Holdings in Group companies	5 598 313	948	5 597 365	3 770 192	698	3 769 494
Holdings in associate companies	998 617	-	998 617	971 044	-	971 044
Securities and other financial assets	599 284	-	599 284	382 056	-	382 056
	7 196 214	**948**	**7 195 266**	**5 123 292**	**698**	**5 122 594**
Concession rights	242 831	49 127	193 704	242 750	7 745	235 005
Goodwill	115 915	9 177	106 738	115 915	37 018	78 897
	358 746	**58 304**	**300 442**	**358 665**	**44 763**	**313 902**
	7 554 960	**59 252**	**7 495 708**	**5 481 957**	**45 461**	**5 436 496**
CURRENT						
Medium-/long-term debtors						
Group companies	2 431 644	-	2 431 644	4 692 717	-	4 692 717
Related companies	90	-	90	90	-	90
Other companies	2	-	2	-	-	-
	2 431 736	**-**	**2 431 736**	**4 692 807**	**-**	**4 692 807**
Short-term debtors						
Trade accounts receivable	4 171	-	4 171	2 056	-	2 056
Doubtful debt	9 119	9 119	-	9 119	9 119	-
Group companies	842 244	-	842 244	995 904	-	995 904
Related companies	-	-	-	8 693	-	8 693
State and other public entities	206 597	-	206 597	232 415	-	232 415
Other debtors	644 054	-	644 054	820 149	-	820 149
	1 706 185	**9 119**	**1 697 066**	**2 068 336**	**9 119**	**2 059 217**
Trading securities						
Trading securities	-	-	-	91 591	-	91 591
Other treasury assets	85 641	-	85 641	-	-	-
	85 641	**-**	**85 641**	**91 591**	**-**	**91 591**
Bank deposits and cash						
Bank deposits and cash	8 332		8 332	490		490
Cash in hand	-		-	-		-
	8 332		**8 332**	**490**		**490**
Accruals and deferrals						
Accrued income and deferred costs	296 988		296 988	151 280		151 280
Deferred costs	135 853		135 853	98 294		98 294
Deferred taxes	336.924		336 924	300 245		300 245
	769 765		**769 765**	**549 819**		**549 819**
Total depreciation		**97 650**			**95 979**	
Total provisions		**10 067**			**9 817**	
TOTAL	**12 785 468**	**166 021**	**12 619 447**	**13 137 552**	**150 559**	**12 986 993**

See accompanying notes to the Financial Statements in Chapter III

EDP – Electricidade de Portugal, S.A.

Individual Balance Sheet as at December 31, 2003 and 2002

(Amounts expressed in thousands of euros)

	2003	2002
SHAREHOLDERS' EQUITY		
Share capital	3 000 000	3 000 000
Treasury stock	(21 431)	(17 429)
Share premium of treasury stock	(27 589)	(26 065)
Reserves:		
- Legal reserves	326 391	309 631
- Free reserves	12 830	-
- Other reserves	(1 067 615)	1 063 836
Exchange differences	(572 500)	(379 468)
Retained earnings	3 266 812	1 208 461
	4 916 898	**5 158 966**
Net profit for the year	381 109	335 216
Total Shareholders's Equity	**5 298 007**	**5 494 182**
Hydrological correction account	387.506	324 111
LIABILITIES		
Provisions for liabilities and charges	383 608	590 498
	383 608	**590 498**
Medium/long-term creditors		
Bond loans - non-convertible	2 476 551	2 341 958
Other loans	731 021	946 593
Other creditors	315 646	4 744
	3 523 218	**3 293 295**
Short-term creditors		
Bond loans - non-convertible	10 221	12 261
Other loans	2 166 711	2 624 931
Trade accounts payable	40 924	31 438
Fixed assets suppliers	839	1 726
State and other public entities	59 844	194
Other creditors	164 858	239 002
	2 443 397	**2 909 552**
Accruals and deferrals		
Accrued cost and deferred income	100 204	101 940
Deferred income	8 668	(12 374)
Deferred taxes	474 839	285 789
	583 711	**375 355**
Total Liabilities	**6 933 934**	**7 168 700**
Total Shareholders' Equity and Liabilities	**12 619 447**	**12 986 993**

THE OFFICIAL ACCOUNTANT N.º 17,713

THE PLANNING, CONTROL AND CONSOLIDATION MANAGER

THE BOARD OF DIRECTORS

See accompanying notes to the Financial Statements in Chapter III

EDP – Electricidade de Portugal, S.A.

Individual Profit and Loss Account
for the years ended December 31, 2003 and 2002

(Amounts expressed in thousands of euros)

		2003		2002	
COSTS AND LOSSES					
Cost of goods sold and Materials consumed			-		-
Supplies and services			61 360		67 126
Personnel costs:					
Remuneration		3 339		3 029	
Social Security charges		1 199		374	
Other		1 099	5 637	913	4 316
			66 997		**71 442**
Depreciation and amortisation		8 112		6 151	
Provisions		873	8 985	11 183	17 334
			75 982		**88 776**
Taxes		1 749		2 612	
Other expenses and losses		350	2 099	436	3 048
(A)			**78 081**		**91 824**
Financial expenses and losses		663 645		785 932	
Amortisation of goodwill and concession rights		13 541	677 186	11 126	797 058
(C)			**755 267**		**888 882**
Extraordinary costs and losses			56 092		9 274
(E)			**811 359**		**898 156**
Income tax for the year			(9 247)		25 311
(G)			**802 112**		**923 467**
Net profit for the year			381 109		335 216
			1 183 221		**1 258 683**
INCOME AND GAINS					
Sales		-		-	
Services rendered		24 252	24 252	16 242	16 242
Own work capitalised		-		310	
Supplementary income		1 733		772	
Other income and operational gains		1 437	3 170	110	1 192
(B)			**27 422**		**17 434**
Financial income and gains			1 017 995		1 058 090
(D)			**1 045 417**		**1 075 524**
Extraordinary income and gains			137 804		183 159
(F)			**1 183 221**		**1 258 683**
Operating profit/(loss)	**(B) - (A)**		**(50 659)**		**(74 390)**
Financial income/(expense)	**(D - B) - (C - A)**		**340 809**		**261 032**
Current Results	**(D) - (C)**		**290 150**		**186 642**
Profit before tax	**(F) - (E)**		**371 862**		**360 527**
Net profit for the year	**(F) - (G)**		**381 109**		**335 216**

See accompanying notes to the Financial Statements in Chapter III

EDP – Electricidade de Portugal, S.A.

Annex to the Consolidated Balance Sheet and Profit and Loss Account as at December 31, 2003 and 2002

The following indents follow the sequential numbering established in the Portuguese Official Plan of Accounts (POC) for consolidated financial statements.

1) Information on the companies included in the consolidation, concerning their name, registered office, percentage of share capital held and the conditions referred in article 1 of Decree-Law 238/91 of July 2, determining the consolidation, are set out in Notes 1, 6 and 7 to the Financial Statements.

2) Information on subsidiaries excluded from the consolidation is provided in Note 7 to the Financial Statements.

3) Information on the associated companies consolidated using the equity method concerning their name, head office and percentage of share capital held, are presented in Note 7 to the Financial Statements.

4) Information on Associated companies excluded from the consolidation is provided in Note 7 to the Financial Statements.

5) Information on companies consolidated under the proportional method concerning the name, registered office, and percentage of capital held as well as the facts on which the joint management is based, is provided in Note 7 to the Financial Statements.

6) Companies at least 10% of which are held by companies referred to in Notes 1 or 2 hereabove are listed, showing their name, head office and percentage of share capital held, in Note 7 to the Financial Statements.

7) The breakdown by categories of the average number of employees at the service of the companies included in the consolidation, using either the purchase or the proportional method of consolidation, is provided in Note 28 to the Financial Statements.

8) There were no cases in which application of the consolidation rules established by Decree-Law 238/91 of July 2 has been insufficient to provide a true and fair view of the financial situation and results of the companies as a whole included in the consolidation.

9) The consolidation rules established by Decree-Law 238/91 of July 2 have been fully applied.

10) In Note 6 to the Financial Statements there is a breakdown for the "Goodwill" and an explanation of the calculation methods used and of the changes since the previous year.

11) Methods and procedures used in the consolidation this year have been applied consistently with those of last year.

12) The consolidated financial statements present the assets, liabilities, shareholders' equity and results of the companies included in the consolidation as though they were a single company.

13) The consolidated financial statements are presented for the same reference date as those of all the companies included in the consolidation.

14) The changes in the consolidation perimeter are presented in Note 7 of the Financial Statements.

15) The consolidated financial statements and the financial statements of the companies included in the consolidation use the valuation criteria presented in Note 2 to the Financial Statements - Accounting Policies.

16) No exceptional adjustments were made to the value of assets solely for tax purposes that have not been eliminated from the consolidation.

17) Goodwill is amortised using a straight-line method over a period of 20 years, which is the estimated time required to recover the investment.

18) Criteria used by the companies included in the consolidation regarding the accounting of holdings in associate companies are presented in Note 2 to the Financial Statements.

19) Holdings in associated companies accounted at their purchase cost are presented in Note 7 of the Financial Statements.

20) There have been no derogations to the harmonisation of the valuation criteria used by the associated companies, with the exception of those referred to in Notes 2, 3, 7, 17, 37, 38 and 39 to the Financial Statements.

21) Financial commitments assumed by the Group that are not shown in the consolidated balance sheet refer to bank guarantees provided to third parties (see Note 37 to the Financial Statements).

22) Note 37 of the Financial Statements provides a breakdown, by nature, of the liabilities of the companies included in the consolidation for guarantees provided, and the real guarantees are disclosed.

23) The valuation criteria applied to the various balances of the consolidated financial statements, as well as the methods used in calculating the adjustments of value, particularly depreciation and provisions, are presented in Note 2 to the Financial Statements.

24) The items included in the consolidated financial statements originally expressed in foreign currencies have been converted to euros in accordance with the accounting policies presented in Note 1 to the Financial Statements.

See accompanying notes to the Financial Statements in Chapter III

Annex to the Consolidated Balance Sheet and Profit and Loss Account as at December 31, 2003 and 2002

25) Set-up costs and research and development costs are detailed in Note 5 to the Financial Statements.

26) 'Key money' on businesses, when applicable, are amortised over a period of between 5 and 20 years.

27) Notes 4 and 5 to the Financial Statements present the changes in fixed assets for the consolidated balance sheet, and the respective depreciation and provisions.

28) Capitalisation, during the year, of costs relating to loans obtained to finance fixed assets is presented in Note 4 of the Financial Statements.

29) There were no adjustments to the value of the assets included in the consolidation subject to extraordinary depreciation or provisions solely for tax purposes.

30) There are no current assets with material differences between the net book value and the market value.

31) No item of current assets has been assigned a value lower than the lesser of cost or market value.

32) No items of current assets have been found for which a stable decrease of the value is predicted.

33) Amounts owed to third parties with a maturity of more than five years are presented in Note 20 to the Financial Statements.

34) There are no amounts owed to third parties covered by real guarantees provided by companies included in the consolidation.

35) There were no differences between the debts payable and the respective sums collected.

36) The breakdown of the net consolidated value of sales and of Services rendered, by categories and by geographic markets, is presented in Note 24 to the Financial Statements.

37) In the determination of the Consolidated Net Profit, there are no effects determined by the use of valuation criteria not provided for in the POC or by the charge of extraordinary depreciation or provisions solely for tax purposes.

38) The difference between taxes allocated to the consolidated statement of income for the year and for previous years, and taxes already paid and payable in respect of those years is presented in Note 34 to the Financial Statements.

39) The compensation of members of management and supervisory boards of EDP, S.A., is presented in Note 28 to the Financial Statements.

40) No loans or advances were granted to members of the management or supervisory boards of EDP, S.A.

41) During the year there were no revaluations of tangible fixed assets or investments in any of the companies included in the consolidation, and for this reason no use was made of the respective legislation.

42) Revaluations of fixed assets during previous periods are detailed in Note 17 to the Financial Statements.

43) All the accounts of the consolidated balance sheet and the consolidated profit and loss account are comparable with those of the previous year.

44) The consolidated financial profit and loss account is presented in Note 32 to the Financial Statements.

45) The consolidated extraordinary results are presented in Note 33 to the Financial Statements.

46) The movement of the various accumulated provisions accounts is presented in Notes 7, 9, 10, 11 and 21 to the Financial Statements.

47) The EDP Group has no materially relevant finance lease arrangements.

48) There are no secured debts other than those shown in the consolidated balance sheet.

49) No other information is required by legislation.

50) Other information relevant to an understanding of the financial situation and the results of the companies included in the consolidation is presented in the notes to the Financial Statements.

See accompanying notes to the Financial Statements in Chapter III

EDP – Electricidade de Portugal, S.A.

Annex to the Individual Balance Sheet and Profit and Loss Account as at December 31, 2003 and 2002

The following indents follow the sequential numbering established in the Portuguese Official Plan of Accounts (POC) for individual financial statements.

1) The financial statements for the year have been prepared, in all material aspects, in accordance with the Official Plan of Accounts (POC).

2) The financial statements for the year are comparable in all materially relevant aspects with those of the previous year, and they have been no changes to the accounting policies with the exception of those mentioned in Notes 2 and 3.

3) The accounting policies and valuation criteria are described in Note 2 to the Financial Statements.

4) The exchange rates used to update debt assets and liabilities expressed in foreign currency are in accordance with the accounting principles presented in Note 1 to the Financial Statements.

5) The net profit for the year was not affected in order to obtaining fiscal advantages.

6) Situations with a significant impact on future taxes are presented in Note 34 to the Financial Statements.

7) The average number of workers in the service of EDP, S.A., is presented in Note 28 to the Financial Statements.

8) Set-up costs and research and development costs are presented in Note 5 to the Financial Statements.

9) Goodwill is amortised over a period of 20 years, which is the estimated period of return on the investment.

10) Movements of fixed assets are presented in Notes 4 and 5 to the Financial Statements.

11) No costs have been capitalised relating to loans obtained to finance fixed assets.

12) There has been no revaluation of fixed assets, and therefore no use was made of the respective legislation.

13) Revaluations of fixed assets during previous periods are presented in Note 17 to the Financial Statements.

14) Classification of tangible fixed assets and fixed assets in progress, by allocation, and the disclosure of the financial charges capitalised therein are presented in Notes 4 and 5 to the Financial Statements.

15) EDP, S.A., has no materially relevant finance lease arrangements.

16) Information on Group companies, associates and subsidiaries concerning the name, registered office, percentage of share capital held, the value of shareholders' equity and of results are set out in Note 7 to the Financial Statements.

17) The "Trading Securities" account contains no shares in companies whose book value represents more than 5% of the current assets of this company.

18) EDP, S.A., owns no fund.

19) There are no items of current assets showing materially relevant differences between the net bock value and the market value.

20) No item of current assets has been assigned a value lower than the lesser of cost or market value.

21) Since no stable decrease on the value of any item of current assets is foreseen, no extraordinary provisions have been charged.

22) No stocks are located outside the company.

23) The value of doubtful debt equals the figures shown in the balance sheet.

24) No loans or advances were granted to members of the management or supervisory boards of EDP, S.A.

25) The value of debt assets and liabilities in respect of the company's staff is summarised in Note 11 to the Financial Statements.

26) The value of debt securities is shown in the balance sheet.

27) No convertible bonds, participation units or similar rights have been issued.

28) EDP, S.A., has no overdue debt to the State or to other public entities.

29) Amounts owed to third parties with a maturity of more than five years are presented in Note to the Financial Statements.

See accompanying notes to the Financial Statements in Chapter III

EDP – Electricidade de Portugal, S.A.

Annex to the Individual Balance Sheet and Statement of Income as at December 31, 2003 and 2002

30) Amounts owed to third parties covered by real guarantees provided by the company are presented nature, form and balance sheet balances in Note 37 to the Financial Statements.

31) Information concerning the value of financial commitments not shown in the balance sheet is presented in Note 37 to the Financial Statements.

32) EDP, S.A., liabilities for guarantees provided are disclosed in accordance with the nature of the real guarantees in Note 37 to the Financial Statements.

33) There were no cases in which any difference has been found between the debts payable and the respective sums collected.

34) Movements for the various accumulated provisions accounts is presented in Notes 7, 9, 10, 11 and 21 to the Financial Statements.

35) During the year EDP, S.A., was not submitted to any increase or reduction of share capital. Additionally, the whole of the share capital subscribed by the end of the year has been fully paid-up.

36) The breakdown, by categories, of the shares representing the company's share capital, by number and nominal value, is presented in Note 14 to the Financial Statements.

37) No company has a holding of more than 20% of the subscribed share capital.

38) No shares were subscribed during the present year.

39) There were no variations to the revaluation reserves during the year, with the exception of the reclassification referred to in Note 17.

40) The movement for each of shareholders' equity items is presented on the page before Note 1 to the Financial Statements.

41) During the year there were no movements of stocks.

42) There was no production change at EDP, S.A.

43) The compensation of the members of management and supervisory boards of EDP, S.A., is presented in Note 28 to the Financial Statements.

44) The breakdown of the net value of sales and of Services rendered by categories and by geographic markets, is presented in Note 24 to the Financial Statements.

45) The breakdown of financial results is presented in Note 32 to the Financial Statements.

46) The breakdown of extraordinary results is presented in Note 33 to the Financial Statements.

47) According to the terms of article 21 of Decree-Law 411/91 of October 17, EDP, S.A., has no overdue social security contributions.

48) Other information relevant to an understanding of the financial situation and of results is presented in the notes to the Financial Statements.

See accompanying notes to the Financial Statements in Chapter III

EDP – Electricidade de Portugal, S.A.

Annex to the Consolidated and Individual Cash-flow Statement as at December 31, 2003 and 2002

The following indents follow the sequential numbering established in Portuguese Accounting Directive 14 and apply both to the individual and to the consolidated cash-flow statements.

1) Information concerning the acquisition or sale of subsidiaries and other corporate activities are presented in Note 7 to the Financial Statements.

2) The disclosure of cash and cash equivalents is presented in Note 13 to the Financial Statements.

3) There are no non-monetary financial activities.

4) Segmentation of the Group's activities with regard to cash flow is not applicable since there is no segmentation of the individual or consolidated financial statements.

5) No other information is considered relevant to an understanding of the cash-flow statements.

See accompanying notes to the Financial Statements in Chapter III

V – DOCUMENTS OF THE STATUTORY AUDITOR, OF THE CMVM-REGISTERED AUDITOR AND OF THE EXTERNAL AUDITORS

Contents

Documents covering with Chapters III and IV related with the Financial Statements prepared in accordance with accounting principles generally accepted in Portugal.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Avenida da Liberdade, 245 - 8º A
1269 - 034 Lisboa
Portugal
Tel +351 21319 70 00
Fax +351 21316 11 14

To the shareholders of
EDP – Electricidade de Portugal, S.A.

Auditor's Report

1 We have audited the accompanying balance sheet of **EDP – Electricidade de Portugal, S.A.** as of December 31, 2003, the related profit and loss account, by nature and by functions, the cash flows statement and the related notes to the financial statement for the year then ended. These financial statements are the responsibility of the Company's management. The financial statements of certain subsidiaries in Brazil, included in these financial statements by applying the equity method of accounting, which contribution to the assets of these financial statements is of 559.827 thousand of euros, were examined by other auditors. Under this context, our responsibility is to express an opinion on these financial statements based on our audit and the opinions expressed by other auditors.

2 We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit and the opinions expressed by the other auditors provide a reasonable basis for our opinion.

3 In our opinion, based on our audit and the opinions expressed by those auditors, the financial statements present fairly, in all material respects, the financial position of **EDP – Electricidade de Portugal, S.A.** as of December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with the generally accepted accounting principles in Portugal, derogated by the application of the international accounting standards referred in the notes.

PricewaterhouseCoopers

Lisbon, March 15, 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

BERNARDES SISMEIRO & ASSOCIADOS
Sociedade de Revisores Oficiais de Contas

STATUTORY AUDIT REPORT

INTRODUCTION

1 As required by law, we present our Statutory Audit Report, in respect of the financial information included in the Consolidated Directors` Report included in the Institutional and Financial Reports and the accompanying consolidated financial statements included in the Financial Report of ***EDP – Electricidade de Portugal, S.A.***, comprising the consolidated balance sheet as of December 31, 2003, (which shows total assets of 18.650.669 thousand of euros, a total of minority interests of 236.485 thousand of euros and a total of shareholder's equity of 5.298.007 thousand of euros, including a net income of 381.109 thousand of euros), the consolidated profit and loss account, by nature and by functions, the consolidated cash flow statement for the year then ended, and the corresponding notes to the financial statements.

RESPONSIBILITIES

2 It is the responsibility of the Company's Board of Directors

(i) to prepare the Annual Report of the Board of Directors and consolidated financial statements which present fairly, in all material respects, the financial position of the companies included in the consolidation, the consolidated results of its operations and consolidated cash flows;

(ii) to prepare historic financial information in accordance with generally accepted accounting principles in Portugal that is complete, true, timeliness, clear, objective and licit, as required by the Securities Market Code ("Código dos Valores Mobiliários");

(iii) to adopt adequate accounting policies and criteria;

(iv) to maintain appropriate systems of internal control; and

(v) to disclose any relevant matters which have influenced the operations, financial position or results of the companies included in the consolidation.

3 The financial statements of certain subsidiaries in Brazil, which contribution to these consolidated financial statements is, as at December 31, 2003, in the assets, liabilities and minority interest of 1.673.844 thousand of euros, 1.100.313 thousand of euros and 13.704 thousand of euros respectively, were examined by other auditors.

4 Our responsibility is to verify the financial information included in the documents referred to above, namely if, it is complete, true, timeliness, clear, objective and licit, as required by the Securities Market Code ("Código dos Valores Mobiliários"), and to issue a professional and independent report based on our audit and the opinions expressed by other auditors.

SCOPE

5 We conducted our examination in accordance with the Standards and Technical Recommendations approved by the Institute of Statutory Auditors, which require that we plan and perform the examination to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. Accordingly, our examination included:

(i) verification that the subsidiary's financial statements have been properly examined and for the cases where such an examination was not carried out, verification, on a test basis, of the evidence supporting the amounts and disclosures in the consolidated financial statements, and assessing the reasonableness of the estimates, based on judgments and criteria made by Management in the preparation of these financial statements;

(ii) verification of the consolidation operations and, when applicable, the utilization of the equity method;

(iii) assessing the appropriateness and consistency of the accounting principles used and their disclosure, as applicable;

(iv) assessing the applicability of the going concern basis of accounting;

(v) evaluating the overall presentation of the consolidated financial statements; and

(vi) assessing whether the consolidated financial information is complete, true, timeliness, clear, objective and licit

6 Our work also covered the verification of the consistency of the consolidated financial information included in the Consolidated Directors` Report with the remaining documents referred to above.

7 We believe that our examination and the opinions expressed by other auditors provide a reasonable basis for our opinion.

OPINION

8 In our opinion, based on our examination and opinions expressed by those auditors, the consolidated financial statements referred to above, present fairly in all material respects, the consolidated financial position of ***EDP – Electricidade de Portugal, S.A.*** as of December 31, 2003, the consolidated results of its operations and its consolidated cash flows for the year then ended, in conformity with the generally accepted accounting principles in Portugal, derogated by the application of the international accounting standards referred in the notes, and the information included is complete, true, timeliness, clear, objective and licit.

Lisbon, March 15, 2004

Bernardes, Sismeiro & Associados, S.R.O.C., Lda.
represented by:
Carlos Marques Bernardes, R.O.C.

(Extracted from the original Statutory Audit Repot, duly signed and emitted in letterhead paper of the Society)

BERNARDES SISMEIRO & ASSOCIADOS
Sociedade de Revisores Oficiais de Contas

STATUTORY AUDIT REPORT

INTRODUCTION

1 As required by law, we present our Statutory Audit Report, in respect of the financial information of the Directors` Report, included in the Institutional and Financial Reports, and the financial statements included in the Financial Report of ***EDP – Electricidade de Portugal, S.A.***, comprising the balance sheet as of December 31, 2003, (which shows total assets of 12.619.447 thousand of euros and a total of shareholder's equity of 5.298.007 thousand of euros, including a net income of 381.109 thousand of euros), the profit and loss account, by nature and by functions, the cash flow statement for the year then ended, and the corresponding notes to the financial statements.

RESPONSIBILITIES

2 It is the responsibility of the Company's Board of Directors

(i) to prepare the Annual Report of the Board of Directors and financial statements which present fairly, in all material respects, the financial position of the company, the result of its operations and cash flows;

(ii) to prepare historical financial information in accordance with generally accepted accounting principles in Portugal that is complete, true, timeliness, clear, objective and licit, as required by the Securities Market Code ("Código dos Valores Mobiliários");

(iii) to adopt adequate accounting policies and criteria;

(iv) to maintain appropriate systems of internal control; and

(v) to disclose any relevant matters which have influenced the operations, financial position or results of the company.

3 The financial statements of certain subsidiaries in Brazil, included in these financial statements by applying the equity method of accounting, which contribution to the assets of these financial statements is of 559.827 thousand of euros, were examined by other auditors.

4 Our responsibility is to verify the financial information included in the documents referred to above, namely if, it is complete, true, timeliness, clear, objective and licit, as required by the Securities Market Code ("Código dos Valores Mobiliários"), and to issue a professional and independent report based on our audit and opinions expressed by other auditors.

SCOPE

5 We conducted our examination in accordance with the Standards and Technical Recommendations approved by the Portuguese Institute of Statutory Auditors, which require that we plan and perform the examination to obtain reasonable assurance about whether the financial statements are free of material misstatement. Accordingly, our examination included:

(i) verification, on a test basis, of the evidence supporting the amounts and disclosures in the financial statements, and assessing the reasonableness of the estimates, based on judgments and criteria made by management in the preparation of these financial statements;

(ii) assessing the appropriateness and consistency of the accounting principles used and their disclosure, as applicable;

(iii) assessing the applicability of the going concern basis of accounting;

(iv) evaluating the overall presentation of the financial statements; and

(v) assessing whether the financial information is complete, true, timeliness, clear, objective and licit

6 Our work also covered the verification of the consistency of the financial information included in the Directors` Report with the remaining documents referred to above.

7 We believe that our examination and opinions expressed by other auditors provides a reasonable basis for our opinion.

OPINION

8 In our opinion, based on our examination and the opinions expressed by those auditors, the financial statements referred to above, present fairly in all material respects, the financial position of ***EDP – Electricidade de Portugal, S.A.*** as of December 31, 2003, the results of its operations and its cash flows for the year then ended, in conformity with the generally accepted accounting principles in Portugal, derogated by the application of the international accounting standards referred in the notes, and the information included is complete, true, timeliness, clear, objective and licit.

Lisbon, March 15, 2004

Bernardes, Sismeiro & Associados, S.R.O.C., Lda.
represented by:
Carlos Marques Bernardes, R.O.C.

(Extracted from the original Statutory Audit Repot, duly signed and emitted in letterhead paper of the Society)

BERNARDES SISMEIRO & ASSOCIADOS
Sociedade de Revisores Oficiais de Contas

REPORT AND OPINION OF THE STATUTORY AUDITORS

CONSOLIDATED ACCOUNTS

To the Shareholders

1 In accordance with the law and our mandate, we herewith present the report on our supervisory activity and our opinion on the Consolidated Directors' Report, included in the Institutional and Financial Reports, and the corresponding consolidated financial statements included in the Financial Report of ***EDP – Electricidade de Portugal, S.A.*** with respect to the year ended December 31, 2003.

2 During the course of the year, we have accompanied the evolution of the company's activities, as and when deemed necessary, and have verified the timeliness and adequacy of the accounting records and supporting documentation. We have also ensured that the law and the company's statutes have been complied with.

3 As a consequence of the statutory work carried out, we have issued the attached Statutory Audit Report as well as the Report of the supervisory activity sent to the Board of Directors in which the audit procedures undertaken are described, as required by Article 451º of the Commercial Companies Code.

4 Within the scope of our mandate, we have verified that:

i) the consolidated balance sheet, the consolidated profit and loss account, by nature and by functions, the cash flows statement and the related notes to the financial statements present adequately the financial position and the results of the company and its subsidiaries;

ii) the accounting policies and valuation criteria used are appropriate;

iii) the Consolidated Directors' Report is sufficiently clear to present the evolution of the business and the position of the company and its subsidiaries and highlights the more significant aspects;

5 On this basis, and taking into account the information obtained from Board of Directors and the company's employees, together with the conclusions in the Statutory Audit Report on the accounts, we are of the opinion that:

i) the Consolidated Directors' Report be approved;

ii) the financial statements be approved.

Lisbon, March 15, 2004

Bernardes, Sismeiro & Associados, S.R.O.C., Lda.
represented by:
Carlos Marques Bernardes, R.O.C.

INSTITUTIONAL ACCOUNTS

To the Shareholders

1 In accordance with the law and our mandate, we herewith present the report on our supervisory activity and our opinion on the Directors' Report, included in the Institutional and Financial Reports, and the corresponding financial statements included in the Financial Report of ***EDP – Electricidade de Portugal, S.A.*** with respect to the year ended December 31, 2003.

2 During the course of the year, we have accompanied the evolution of the company's activities, as and when deemed necessary, and have verified the timeliness and adequacy of the accounting records and supporting documentation. We have also ensured that the law and the company's statutes have been complied with.

3 As a consequence of the statutory work carried out, we have issued the attached Statutory Audit Report as well as the Report of the Supervisory activity sent to the Board of Directors in which the audit procedures undertaken are described, as required by Article 451º of the Commercial Companies Code.

4 Within the scope of our mandate, we have verified that:

i) the balance sheet, the profit and loss account, by nature and by functions, the cash flow statement and the related notes to the financial statement present adequately the financial position and the results of the company;

ii) the accounting policies and valuation criteria used are appropriate;

iii) the Directors' Report is sufficiently clear to present the evolution of the business and the position of the company and highlights the more significant aspects;

iv) the proposed appropriation of profits is adequately supported.

5 On this basis, and taking into account the information obtained from Board of Directors and the company's employees, together with the conclusions in the Statutory Audit Report on the accounts, we are of the opinion that:

i) the Directors' Report be approved;

ii) the financial statements be approved;

iii) the proposed appropriation of profits be approved.

Lisbon, March 15, 2004

Bernardes, Sismeiro & Associados, S.R.O.C., Lda.
represented by:
Carlos Marques Bernardes, R.O.C.

(Extracted from the original Report and Opinion of the Statutory Auditors, duly signed and emitted in letterhead paper of the Society)

2003

Annual Report