

2003

Annual Report

» *Institutional Report*



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>> ORGANISATION OF THE INFORMATION

The present report, with an unprecedented scope within the EDP Group, was prepared to comply with multiple needs and requirements in terms of the organisation of information, and in terms of benchmark being at all times the best international practices.

With a view for allowing faster, simpler and more convenient consultation, this report is divided into three separate reports.

The report is available in digital format and in the EDP Internet site, www.edp.pt, for the purpose of extending its reach and maximising its use.



The first, the **Institutional Report**, is intended to be a prime source of knowledge of the EDP Group. The document begins with the Vision, Mission and Values of the EDP Group and ends with the Outlook for 2004 and Acknowledgements. We draw your attention to the chapter on Corporate Governance, providing greater detail than in previous years and complying with the provisions of Portuguese CMVM (Securities Market Commission) Regulation 11/2003.



The second, the **Financial Report**, provides full, clear information and financial analysis, directed particularly at a more specialised public. It endeavours not only to comply with legal requirements but also to improve the analysis of the fundamental variables of the business of the EDP Group. The presentation of all of the financial information, both at the level of financial analysis and at the level of the financial statements, is undertaken using the IFRS - International Financial Reporting Standards format established by the IASB - International Accounting Standards Board, instead of the POC-Portuguese Official Plan of Accounts. The Financial Report includes five chapters, namely Financial Analysis, Transition to International Accounting Standards, Financial Statements, Accounting Information required by the POC and the Financial Statements Auditing and Certification Documents.



The third consists of EDP's first **Sustainability Report**. This report constitutes an evolution from the Environmental Report published in recent years and bears witness to EDP's commitment to the principles of Sustainable Development defined at the beginning of 2004. The Sustainability Report has been drawn up on the basis of the guidelines established by the Global Reporting Initiative.

The image features three overlapping circles arranged vertically. The top circle is green and labeled 'VISION'. The middle circle is red and labeled 'MISSION'. The bottom circle is blue and labeled 'VALUES'. The background is a dark blue gradient with light rays emanating from behind the circles, creating a sense of depth and focus. The circles have a slight 3D effect with shadows and highlights.

VISION

MISSION

VALUES

VISION

To be the most competitive, efficient producer and supplier of electricity and gas services on the Iberian Peninsula.

MISSION

EDP's Mission is based on three fundamental pillars:

- To provide our shareholders with an attractive rate of return so that they will continue to invest in EDP.
- To guarantee high quality service exceeding our customers' expectations and ensuring their loyalty.
- To provide the employees of the EDP Group with prospects of career and professional growth and allowing their self-motivation as members of a winning team.

VALUES

- **Customer** – To consider the customer as the central entity to EDP's business.
- **Ambition** – To be the most competitive company of our sector on the basis of excellence.
- **Efficiency** – To bring Value to our customers, employees and shareholders, working efficiently, generating and implementing innovative, quality solutions.
- **Transparency** – To make transparency in our relations with customers, employees, shareholders and the regulatory entity an embedded value of the Group's culture
- **Rigour** – To adopt rigour as the general rule of activity and of decision-taking. To accept mistakes, provided they are not deliberate, fraudulent, destructive or recurrent, as part of a process of human and professional improvement.
- **Environment** – To have due regard for the environment, developing the Group through sustainable solutions and through active support for the communities that we serve.
- **Ethics** – To meet the highest standards of ethics in each and every one of our activities.



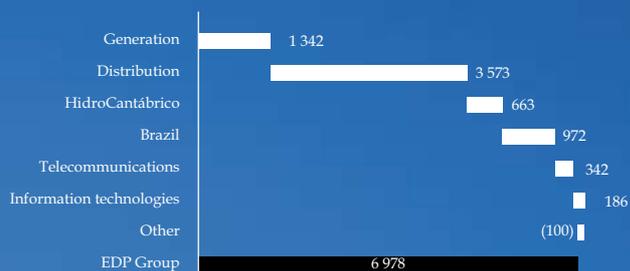
>> ECONOMIC AND FINANCIAL HIGHLIGHTS

	thousand euros		
	2003	2002	Var. %
EDP Group Consolidated			
Turnover	6 977 520	6 386 558	9.3%
EBITDA	1 827 040	1 488 873	22.7%
Operating profit	905 742	648 704	39.6%
Net profit	381 109	335 216	13.7%
Cash-Flow	1 302 407	1 175 402	10.8%
Operational investment	1 067 951	1 308 817	(18.4%)
Financial investment	181 760	966 434	(81.2%)
Net assets	18 650 669	18 125 190	2.9%
Shareholders' equity	5 298 007	5 494 182	(3.6%)
Financial liabilities	7 492 709	7 994 076	(6.3%)
Return on equity	7.2%	6.1%	1.1%
Return on assets	2.0%	1.8%	0.2%
Financial liabilities / Shareholders' equity	141.4%	145.5%	(4.1%)
Net assets / Liabilities	139.7%	143.5%	(3.8%)
Earnings per share (euros)	0.127	0.112	13.7%
Payout ratio	70.8%	80.5%	(9.7%)
Market capitalisation	6 270 000	4 770 000	31.4%
Electricity Generation - Portugal			
Turnover	1 342 097	1 451 999	(7.6%)
EBITDA	813 218	780 872	4.1%
Operating profit	570 020	536 270	6.3%
Net profit	328 488	289 571	13.4%
Operational investment	236 083	239 366	(1.4%)
Electricity Distribution - Portugal			
Turnover	3 573 054	3 479 696	2.7%
EBITDA	523 158	489 249	6.9%
Operating profit	135 008	93 916	43.8%
Net profit	134 366	92 821	44.8%
Operational investment	343 618	371 187	(7.4%)
Electricity Supply - Portugal			
Turnover	99 759	58 512	70.5%
EBITDA	26 981	9 656	179.4%
Operating profit	23 412	6 039	287.7%
Net profit	15 737	3 699	325.5%
Operational investment	6 354	8 504	(25.3%)
Electricity & Gas in Spain (100%)			
Turnover	1 656 364	1 436 215	15.3%
EBITDA	358 514	336 660	6.5%
Operating profit	205 562	201 813	1.9%
Net profit	30 973	14 565	112.7%
Operational investment	192 504	211 938	(9.2%)
Electricity in Brazil (1)			
Turnover	972 219	989 834	(1.8%)
EBITDA	186 720	162 206	15.1%
Operating profit	117 300	83 352	40.7%
Net profit	(16 814)	(103 882)	83.8%
Operational investment	140 275	202 758	(30.8%)
Telecommunications			
Turnover	341 572	297 538	14.8%
EBITDA	8 939	(45 126)	-
Operating profit	(63 969)	(116 504)	45.1%
Net profit	(119 258)	(177 425)	32.8%
Operational investment	46 182	140 803	(67.2%)
Information Technologies			
Turnover	186 347	224 004	(16.8%)
EBITDA	34 101	55 268	(38.3%)
Operating profit	9 291	35 563	(73.9%)
Net profit	(6 174)	7 721	-
Operational investment	55 464	41 833	32.6%

Note: 100% of the values presented for Operational Investment are considered.

(1) Pro forma figures for 2002: include the purchase method consolidation of Escelsa and Enersul.

Turnover million euros



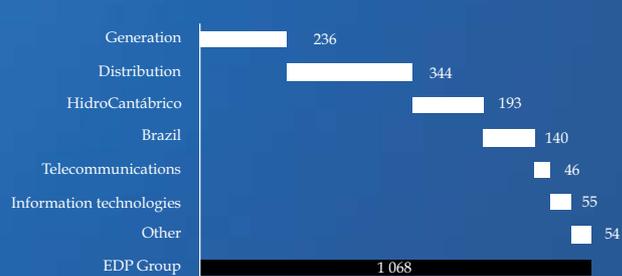
EBITDA million euros



Net Profit million euros



Operational Investment million euros

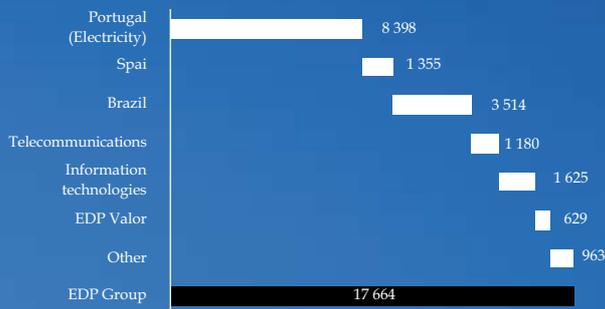


>> OPERATING HIGHLIGHTS

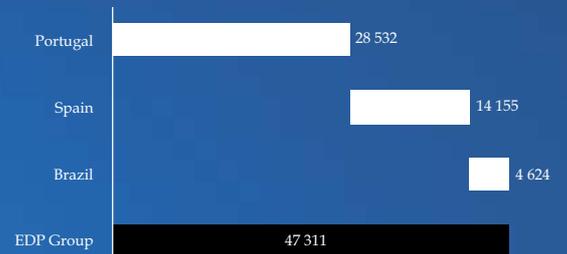
	thousand euros		
	2003	2002	Var. %
Number of Employees	17 664	18 455	(4.3%)
Portugal - Electricity	8 398	9 150	(8.2%)
Generation	1 988	2 099	(5.3%)
Renewables	12	16	(25.0%)
Distribution	6 335	6 979	(9.2%)
Supply	63	56	12.5%
HidroCantábrico	1 355	1 178	15.0%
Electricity	1 078	1 116	(3.4%)
Gas	277	62	346.8%
Brazil - Electricity	3 514	3 626	(3.1%)
Telecommunications	1 180	1 617	(27.0%)
Information (distribution) technologies	1 625	1 713	(5.1%)
EDP Valor	629	531	18.5%
Other	963	640	50.5%
Portugal - Electricity			
Maximum Power (MW)	7 939	7 654	3.7%
Hydraulicity Coefficient	1.33	0.76	0.57
Electricity Sales (GWh)			
Generation	28 532	25 513	11.8%
Distribution	38 869	36 905	5.3%
Supply	2 724	644	323.2%
Number of Customers			
Public Service Electricity System	5 765 996	5 664 655	1.8%
Non Binding Electricity System	1 404	350	301.1%
SEP Costumers / Employees in Distribution	910.2	811.7	12.1%
Distribution Sales / Employees in Distribution (euros)	559.8	495.3	13.0%
Spain			
Electricity			
Maximum Power (MW)	2 554	2 554	-
Electricity Sales (GWh)			
Generation	14 155	13 308	6.4%
Distribution	8 659	8 447	2.5%
Supply	4 712	3 955	19.1%
Number of Customers			
Distribution	561 208	549 091	2.2%
Supply	3 376	2 247	50.2%
Gas			
Gas Sales (GWh)			
Distribution	9 627	1 824	427.8%
Supply	5 711	1 908	199.3%
Number of Customers			
Distribution	542 794	157 051	245.6%
Supply	474	84	464.3%
Brazil - Electricity			
Maximum Power (MW)	957	903	6.0%
Electricity Sales (GWh)			
Generation	4 624	2 790	65.7%
Distribution	18 260	19 284	(5.3%)
Supply	2 737	1 348	103.0%
Number of Customers	2 902 208	2 848 235	1.9%
Telecommunications			
N° Registered CLLs (thousand)	649	506	28.1%
Portugal	406	399	1.9%
Spain	242	108	125.0%
Voice Traffic (million minutes)	2 639	1 651	59.8%
Portugal	938	733	28.1%
Spain	1 700	919	85.1%

Note: 100% of the values presented for all the companies are considered, regardless of the holding of the EDP Group.

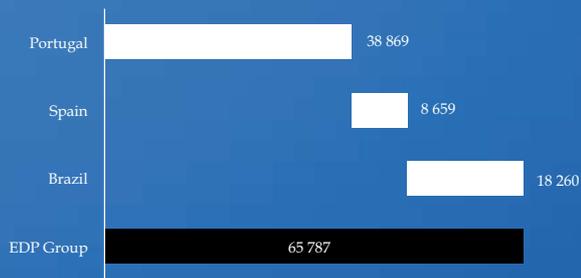
Number of Employees



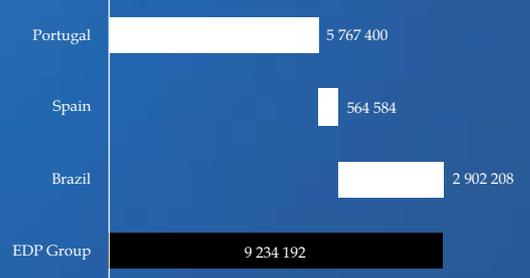
Electricity Generated (GWh)



Electricity Distributed (GWh)



Number of Electricity Customers



>> COMPANY HIGHLIGHTS

>> 2003

- **HidroCantábrico becomes the second largest operator in the Spanish gas market**

March 24 - Following a privatisation process, Hidroeléctrica del Cantábrico, S.A., (HidroCantábrico), in which the EDP Group has a 40% holding, acquired a 62% stake in NaturCorp, a natural gas distribution company operating in the Basque country.

As a result, HidroCantábrico has become the second largest gas operator in the Spanish market, with a total of more than 500,000 customers and a share of approximately 10% of the Spanish gas market.

- **Bond issue in the amount of €150 million**

March 26 - Bond issue by private subscription, in the amount of €150 million, maturing on March 26, 2013, with a variable interest rate equal to the 6-month Euribor rate plus 0.50% per annum. The purpose of the issue is to refinance EDP's short-term debt.

- **Council of Ministers' Resolution on the Restructuring of Energy Sector**

April 3 - Following the approval of the Council of Ministers' Resolution establishing the political, competitive and regulatory framework of the energy sector, the EDP Board of Directors considered that the above mentioned resolution establishes an adequate development framework for the Portuguese energy sector and that the general guidelines publicly disclosed are entirely compatible with the strategy already defined by EDP.

- **Election of new Corporate Officers**

May 22 - The General Meeting elected the new EDP corporate officers. The Board of Directors elected the same day by the General Meeting, which also appointed the respective chairman, Francisco de la Fuente Sánchez, deliberated the delegation of the Company's day-to-day management powers on an Executive Committee chaired by João Ramalho Talone, and further deliberated the appointment of an Audit Committee.

- **General Meeting approves payment of a gross dividend of €0.09 per share**

May 22 - Approval by the General Meeting of the proposal submitted by the Board of Directors for the appropriation of profits in respect of 2002, leading to the payment of a gross dividend of €0.09 per share.

- **ERSE accepts proposal by EDP Distribuição concerning the Human Resources Rationalisation Plan for 2003 and 2004**

August 11 - In a press release dated August 8, 2003, the Energy Services Regulatory Entity (ERSE), deliberated in the wake of the proposal presented by EDP Distribuição Energia, S.A., to accept as an investment to be amortised over a period of 20 years, starting in 2005, costs associated with the Human Resources Rationalisation Plan for 2003 and 2004, to be incurred by the company up to a maximum of €485.7 million, though it did not agree to accept similar treatment for costs of a similar nature related to the Human Resources Rationalisation Plan already implemented (1998-2002).

This plan constitutes a fundamental management tool for the mobilisation of the entire Group for the start-up of a new modernisation cycle.

- **EDP Group sells its 1.11% stake in Iberdrola, S.A.**

September 26 - EDP Participações, SGPS, S.A., a wholly-owned subsidiary of EDP, sold to Banco Bilbao Vizcaya Argentaria, S.A., a block of 10 million shares representing 1.11% of the share capital of the Spanish electricity company Iberdrola, S.A., for the amount of €153,900,000.

- **EDP Group no longer has a holding in Iberdrola, S.A.**

October 1 - EDP Participações, SGPS, S.A., sold 17,050,000 shares representing 1.89% of the share capital of Spanish electricity company Iberdrola, S.A., for €246,202,000 to BANCAJA, Caja de Ahorros de Valencia, Castellón y Alicante. Following this transaction EDP no longer has any investment in Iberdrola, S.A..

- **EDP restarts the reconstruction of the Peixe Angical hydroelectric plant following acquisition by Eletrobrás of a an investment in the company that owns the undertaking**

October 14 - Following the negotiations between EDP, Furnas Centrais Elétricas, S.A. (Furnas) a subsidiary of Eletrobrás - Centrais Elétricas Brasileiras S.A., REDE - Empresas de Energia Elétrica, S.A. (Rede Group) and Banco Nacional de Desenvolvimento do Brasil, an agreement was reached in which it was considered that the conditions were met to make a new start to the construction of the Peixe Angical hydroelectric power plant.

With the conclusion of these negotiations, Furnas now holds 40% of the share capital of Peixe Angical, EDP 59% and the Rede Group 1%. Construction work restarted with a view to bringing the plant into operation during 2006.



- **EDP closes agreements covering the acquisition of holdings in natural gas regional distribution concessionaires**

November 27 - EDP has contracted with Galp Energia, SGPS, S.A., GDP, SGPS, S.A., and GDP Distribuição, SGPS, S.A., a purchase option on a holding corresponding to 46.265% of the share capital of Portgás - Sociedade de Distribuição de Gás, S.A. (Portgás) and of the respective supplementary, capital contributions for a maximum period of 18 months and for a reference price of €86,400,000.

At the same time EDP contracted a purchase option with CGD, granting the latter a sale option (enforceable between June 15 and September 15, 2004), on the whole of the share capital of NQF - Projectos de Telecomunicações e Energia, S.A. (NQF) and of the respective supplementary capital contributions for an amount of €64,942,880.57, including the premium linked to the potential acquisition of control of Portgás. NQF has indirect investments of 12.9% and 10.1% of the share capital of Portgás and Setgás - Sociedade de Produção e Distribuição de Gás, S.A., respectively.

- **ERSE establishes electricity tariff and price increases for 2004**

December 16 - ERSE published the electricity and other services tariffs and prices for 2004, providing a 2.1% nominal variation of electricity selling prices to end customers .

>> 2004

- **EDP concludes framework agreement aimed at gaining control of the Natural Gas industry in Portugal**

February 6 - Within the context of Council of Ministers' Resolution 68/2003, of May 10, EDP concluded a framework agreement with ENI, S.p.A. (ENI), establishing the basis of an agreement between the parties with regard to bringing together the natural gas and electricity industries, and also in respect of the final structure of the share capital of GDP, SGPS, S.A., 51% of which is expected to be held by EDP and 49% by ENI.

Implementation of the transaction assumes that the move by EDP into the natural gas business will be underpinned by the economic value generated by its departure from Galp Energia, in which it has a 14.27% holding. For this reason the transaction is not expected to require any additional investment by EDP.



>> MESSAGE TO THE SHAREHOLDERS

Francisco de la Fuente Sánchez, Chairman of the Board of Directors

To the Shareholders,

2003 has brought significant changes to the EDP Group.

Concluding the previous term of office, the General Meeting held on May 22, 2003, elected the present corporate officers for a new term of office.

Bearing in mind concerns and reflections regarding corporate governance, the General Meeting enlarged the Board of Directors to 13 members, with a composition balanced between independent directors and others to some extent related with our major shareholders.

In the wake of this, in addition to the customary delegation of the day-to-day management of the EDP Group on an Executive Committee and considering its new composition, the Board of Directors instituted, in an innovative way in Portugal, an Audit Committee comprising three directors, with due regard for the concept of independence deferred in advance on similar terms to the best international practices so as to strengthen the control and supervision of financial information provided to the market.

In keeping with the change of its governing structure, EDP has drawn up new regulations for the Board of Directors and Executive Committee, and has also drawn up regulations for the Audit Committee. These documents are available to the public via the EDP Group's Internet site and intranet.

With these decisions, I believe that the Board has endeavoured to act in accordance with the concerns of the shareholders and of the market, designed to make management stronger and more effective, setting up a team prepared to face the demands of the management of the business undertaken by the EDP Group and the growing rules of transparency in corporate governance, and strengthening of the rules of internal control in the preparation of information.

In addition to scrupulous compliance with the rules applicable to those markets in which we operate, our concern has been directed at building up a company of excellence based on the best standards of governance.

The evolution that has been seen is justified both for its own merits and for the goal of increasing the quality of the relationship between our company and its shareholders.

In this connection I would draw particular attention to the prompt adaptation of the various levels of management of the business of EDP, as a listed company on international stock markets, namely New York, to the new requirements on supervision and certification of information provided to the market.

It is also fair to say that the capacity to face change has been developed throughout previous mandates of the corporate boards to whose members I would like to express, here, my recognition of their ongoing commitment and positive contribution to the successive stages of restructuring that EDP undertook.

In the pursuit of its activity, 2003 was also a year of change for the EDP Group. Through our subsidiary HidroCantábrico we acquired NaturCorp, a Spanish gas distribution company, within the scope of a privatisation process undertaken by the authorities of the Basque Country. This transaction meant the entry of EDP into joint gas and electricity operations. This could well be a factor of prime importance within the scope of the offer of energy solutions to customers in the liberalised market of the Iberian Peninsula.

Significantly, on April 3, 2003, the Council of Ministers approved a resolution establishing a new political and regulatory framework for the Portuguese Energy Sector, with a considerable impact on the organisation of the activities of the EDP Group. The Board of Directors welcomed this overhaul of the sector, viewing the challenge as yet another opportunity to create value for EDP Shareholders.

Indeed, once the necessary adaptations have been made, the combination of the gas and electricity businesses will provide increasing flexibility and rationalisation to the performance of the Group companies. This is a reorganisation of a sector of strategic importance to the country, which could lead to the satisfaction of the legitimate interests of consumers, operators, shareholders, managers, employees and the community in general, requiring of all their indispensable contribution. EDP can be proud of the fact that it has worked actively and constructively to achieve these objectives.

The country will very shortly be integrated into the Iberian Electricity Market, yet another step towards the creation of the Internal Market under way within the European Union.

The Iberian Electricity Market constitutes a new form of concept and organisation of the business that will transform the Peninsula into the domestic market of all the Iberian companies in the sector, meaning significant change for which EDP has also been preparing itself.

With regard to the domestic electricity business, the EDP Group continued to make considerable efforts to optimise and restructure its generation and distribution activities. With respect to this, the Board of Directors has established a policy of cost containment and rigour in making the necessary investments, as well as of preparation of the human, organisational, technical and commercial structures ahead of the conclusion of the full liberalisation of electricity supply in Portugal.

We have clearly invested in improving the quality of the service in various technical fields, infrastructures and commercial systems in the energy distribution and sales area, as well as in increasing our generation capacity through modernisation, meeting environmental requirements and making the best possible use of equipment, as well as in the study and design of new undertakings.

We have built a new combined-cycle plant, the Ribatejo Thermoelectric Power plant, the first major electricity generator to operate within the non-tied system, using natural gas.

The strategic option for this cleaner fuel is part of the implementation of an environmental policy plan in which we are pioneers, pursuing best practices. Additionally, without waiting for regulatory impositions, EDP has already

assumed responsibility for preparation of the integration of its environmental principles into a new environment and sustainable development policy.

In telecommunications activities and in the business in Brazil, the Board of Directors has established a common objective: the self-financing of the companies that constitute the EDP branch in the respective sectors – ONI and EDP Brasil.

Corporate restructuring has been implemented in these areas – in Brazil the new model of corporate governance has even been implemented for the subsidiaries – designed to align the structures with the established targets in an endeavour to make more agile the cycle of allocation of resources to these activities and to bring forward their positive contribution to Group results.

We would also underscore the fact that work began again on the construction of the Peixe Angical hydroelectric plant, on the basis of a new partnership and of the renegotiation of the contractual assumptions of the undertaking.

In the human resources area attention is drawn to the implementation of the social plan within the EDP Group, extending even beyond the regulated distribution activity.

Major divestment also took place in non-core areas, the most significant being the sale of EDP's investment in Iberdrola. The amount generated by the divestment has been allocated to debt reduction.

EDP has followed a sustained policy of dividend distribution that seeks to reconcile, on one hand, strict observance of the relevant legal and statutory provisions and, on the other, the sharing with its shareholders of a major part of the value created by the Group, consistent with the specific conditions surrounding the company and the market.

The pursuit of this policy is designed to ensure that shareholders obtain an adequate return on their investment, providing the necessary balance between maintaining the company's value and prudence in the development of the Group's business. As announced at the time of the presentation of the 2004-06 Business Plan, dividend policy is to be based on profit growth, moderating the payout ratio of previous years.

In keeping with the announced dividend policy and in view of the year's results, the EDP Board of Directors will propose to the Annual General Meeting the distribution of a dividend of nine cents per share, identical to that distributed in 2003.

To sum up, 2003 was a year of consolidation of strategies but also a year full of change in the development of the business of the EDP Group.

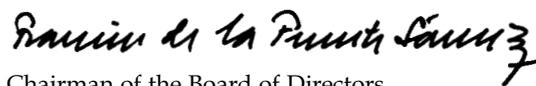
Indeed, despite what has been achieved, 2003 was a year largely devoted to preparation for change, ahead of the evolution of the regulatory framework of the various activities carried on by the EDP Group, the new environmental and sustainability paradigms, the new governance rules and, above all, the legitimate expectations of our customers, shareholders and employees.

I believe that the demanding objectives can be achieved and deserve our continuing efforts.

These objectives naturally include our commitment to rigour in management, with the objective of creating value, and its harmonisation with the social, civic, cultural, environmental and sustainability goals that the EDP Group is proud to share responsibly with the communities of which it forms part, with a view of providing at all times a public service that includes the corporate project and the profitability criteria that EDP represents for its shareholders.

Therefore, I believe that you can rely on us and on our employees to make of EDP, on the basis of the Business Plan proposed by the Executive Committee and with the commitment to implement an ambitious though feasible Strategic Agenda, a renewed company that is prepared for future progress, with responsibility and confidence, in a search for excellence in our proposal to create value for the shareholders.

Lisbon, March 1, 2004



Chairman of the Board of Directors



>> MESSAGE TO SHAREHOLDERS

João Ramalho Talone, Chief Executive Officer of the Board of Directors

To the Shareholders

I am addressing EDP Shareholders as the Company
CEO and head of the executive team of the Board,

I would like to subordinate this message to three key ideas: **Respect; Challenge; Commitment.**

Respect because EDP has its roots in the oldest electricity generating plants existing in Portugal and in the very early urban and rural electricity systems that carried it to the homes of the Portuguese and to their place of work. In this way a school of public service was built up, a service that works for the good of the public, a profession based on this sense of service; its pioneering spirit in the search for technologically advanced solutions that greatly marked various generations of professionals and blends in with the history of the construction of the Industrial Economy in Portugal. **Respect** because today's EDP, as the heir of these traditions and values brings together skills and know how that are perhaps unique within the corporate entities in Portugal. **Respect** because in this stage of pre-liberalisation about 5 million customers are "customers of EDP", in which they place the trust and of whom they expect everything, especially since they have no alternative. **Respect**, lastly, because as one of the largest listed companies in Portugal with a strong presence in the portfolios of national and international institutional investors responsible for the management of third-party savings, it is also, because of the profile and stability of its business, an obvious choice for direct placement of savings by many households and small investors for whom the value and returns on EDP shares are a source of comfort.

It is with this **Respect** that we face the **Challenge**. An enormous challenge which is a source of uncertainties but more especially of opportunities. The **Challenge** of transforming "EDP Customers" into the "EDP of the customers", which results from freedom of choice generated by the confidence, service and competitiveness that the customers see in EDP. The **Challenge** of doing so not only in Portugal but also in Spain, through our subsidiary HidroCantábrico with its image and local tradition just as strong as those of EDP itself in Portugal, causing the EDP Group to develop into a dynamic Iberian Group, a competitive one with ambitions of leadership. The **Challenge** to enlarge the service to our customers to include not only the supply of electricity but also of energy solutions - electricity and gas - which is now possible in Spain as a result of the purchase of the second biggest gas operator, **NaturCorp**, headquartered in Bilbao and will be shortly, in Portugal as a result of the implementation of Council of Ministers' Resolution 68/2003 of May 10.

A **Challenge** also in view of the opportunity stemming from operating in a central electricity generating market, which, with the creation of MIBEL (Iberian Market) in April 2004, will be 6 times bigger than our present market. This will allow aggressive, value-creating joint action by EDP/HidroCantábrico. The **Challenge** to continue to question the methods, techniques and organisation with a view to achieving new thresholds of efficiency and productivity in our core business on the Iberian Peninsula. A **Challenge** also to motivate business lying beyond our core business either for reasons of distance (electricity business in Brazil) or of differing technologies (telecommunications and information technologies on the Iberian Peninsula), to become sources of creation of value and financially autonomous. Lastly, a **Challenge** to endeavour to mobilise all those who work for the EDP Group to gain new enthusiasm that can be provided by this new professional framework generated by surroundings undergoing great change.

These attitudes of **Respect** and **Challenge** will, however, be accompanied by a feeling of **Commitment** which, being a personal matter in the first place, will only be effective if it is subscribed by all those who devote their efforts to EDP, whatever their level of responsibility. **Commitment** to the customers to permanently seek economically sustainable solutions that will provide them with better service and a transparent relationship with the company.

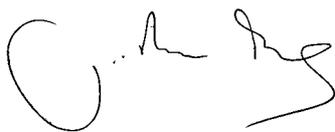
Commitment to the shareholders to defend to the utmost the present and future intrinsic value of their investment, meaning that the creation of value will always be at the basis of the management options taken. **Commitment** to all those who work for the EDP Group, directed at strengthening a professional relationship of greater transparency allowing them, at one and the same time, to be the craftsmen and beneficiaries of the transformation of the Group.

Lastly, **Commitment** to the **Society** that surrounds us because we do not forget the importance of the Public Service that EDP provides to Portugal; the importance of doing so on a sustained and sustainable basis; and the need to contribute actively to the development of this Society which, to be sustainable, is not only limited to economic aspects but also extends to social, civic, cultural and environmental ones.

In conclusion, the 2004-06 Strategic Plan presented to the market at the end of the year is designed to ensure a competitive position in the Iberian Market; to strengthen the business portfolio through the inclusion of the Gas business; to glean the value of past investments through realisation of the intrinsic value in Brazil, consolidation of the business of ONI (telecommunications) and divestment of non-core assets; to create shareholder value by strengthening the performance culture and by maintaining conservative management of the balance sheet.

All this based on the Human Resources policy designed to reward merit, satisfaction and transparency.

Lisbon, March 1, 2004

A handwritten signature in black ink, appearing to be 'C. A. S.', written in a cursive style.



>> BUSINESS PLAN FOR 2004 - 2006

EDP presented its strategic objectives for 2004-2006 to the market in London on December 2, 2003, comprising:

- Consolidation of the competitive position of the company on the Iberian Peninsula;
- Strengthening corporate assets through the integration of the Natural Gas business; and
- Maximisation of the economic value of existing investments, mainly those in Brazil and in the Telecommunications area.

With regard to the consolidation of EDP's position on the Iberian Market, management goals include:

- Ensuring that the termination of the power purchase agreements with the National Grid (Rede Eléctrica Nacional - REN), within the context of liberalisation of the national electricity market, will have an economically neutral effect on the company;
- Increasing energy production capacity by 2.7 GW by 2006 through the start-up of the Alqueva and Venda Nova II power plants, of the Carregado and Soto (Spain) combined-cycle power plants and of new renewable energy plants in Spain and Portugal; and
- Optimising the new investments and costs linked to electricity distribution business, the target being to achieve a return on assets of about 9% in 2006.

On the other hand, considering the energy sector restructuring plan presented by the government in May 2003 and the approval of this plan expressed by the majority of the shareholders at the General Shareholders' Meeting of Galp Energia held on November 28, 2003, another of EDP's strategic objective is to achieve the integration of a number of assets in the natural gas industry in a transaction not expected to have a significant impact on EDP's financial ratios. The idea behind this restructuring is to significantly increase flexibility in the management of the new generation capacity, which will mainly be determined by the addition of natural gas combined-cycle plants, and gradually taking advantage of the commercial synergies stemming from the combination of both energy businesses (estimated at between €15 million and €20 million), bringing benefits to gas and electricity consumers through the provision of more convenient services and products for the distinct customer segments.

In strategic terms, maximising the economic value of the investments in Brazil and in telecommunications is yet another management goal for 2004-06:

- The aim is to improve the performance of the investments in Brazil, leading to expectations of an increase of the EBITDA from 65 million BRL in 2003 to 1,300 million BRL in 2006. This improvement is based on the maintenance of the stability of the present regulatory and political framework, which is expected to provide an annual increase of electricity tariffs by about 7% per annum in real terms, as well as the recovery of the growth of electricity consumption levels seen prior to the implementation of the electricity rationing programme in 2001. At the same time, the intention is to implement management measures leading to a reduction of the operating costs of the companies controlled by the EDP Group in Brazil by about 3% (in real terms), and to eliminate the complexity of the organisational structure, with a consequent increase of tax efficiency;
- In the Telecommunications area, through continuation of a policy of focusing on the provision of fixed telecommunications services, the target is to increase market share in those segments of greater value (key accounts and the corporate sector) from 22% to 26% in 2006 and to develop the Small and Medium Enterprise segment and the Public Sector, to achieve market shares estimated at 7% and 20% respectively by 2006. The company's management will continue its present efforts directed at ongoing cost rationalisation, and ONI can be expected to achieve an EBITDA of approximately €150 million in 2006.

During 2004 EDP may also:

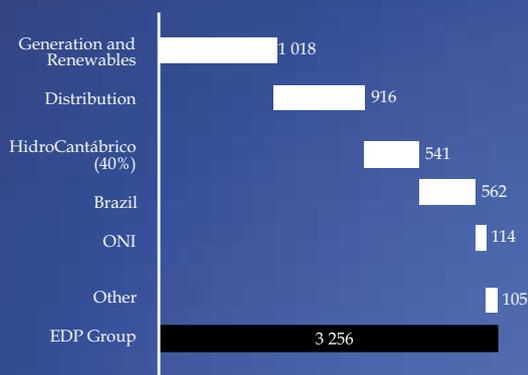
- Reduce its investment in REN from 30% to 5%, within the context of the reorganisation of the energetic sector;
- Sell property with an estimated value of €70 million; and
- Analyse partnership opportunities in the field of information technologies and consolidation in the area of Telecommunications.

The EDP Group's 2004-06 Business Plan also assumes that investments amounting to approximately €3.25 billion, will be made more than 75% of which refer to the increase in installed generation capacity in Portugal and Spain and to the enlargement and improvement of the distribution network in Portugal. The remainder involves the investment that is expected to be made in

EDP Group subsidiaries, which, in most cases does not represent no financial effort required by the Group the extent that it does not hold the whole of the share capital of these companies.

Investment during 2004-06

million euros



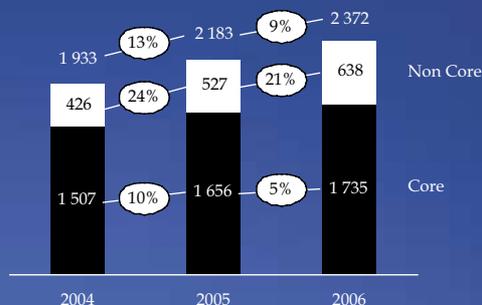
The planned investments will be fully financed by the considerable cash flows generated by the Group's operations, which will even allow a potential reduction of consolidated financial debt by about €1 billion by the end of 2006.

With the implementation of adequate measures designed to meet the established objectives, the **financial targets** for the Group that management intends to meet include:

- An annual 7% increase of the gross profit of the business;
- An EBITDA growth of about 50%;
- A 4.2 percentage increase of return on invested capital (RoIC) after taxes and goodwill between 2002 and 2006; and
- An increase of dividends to be paid out to shareholders of approximately 7-8% per annum between 2004 and 2006, to the extent that the other forecasts and goals are met.

EDP Group EBITDA

million euros



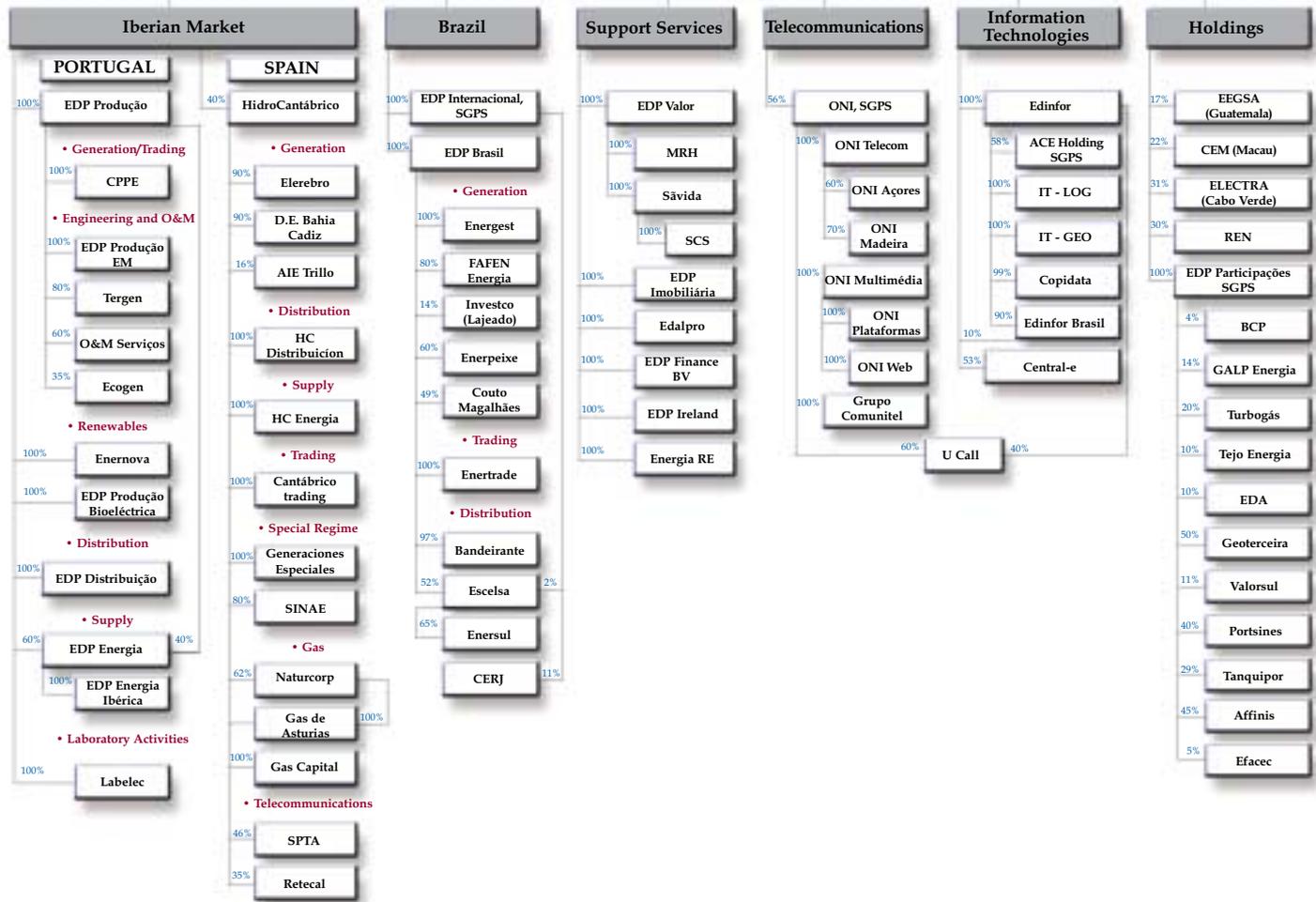
In establishing these targets the possible impact of the inclusion of the assets of the natural gas business was not taken into account, bearing in mind the lack of definition of a number of economic, financial, business and activity elements concerning this business.

>> ORGANISATION CHART

>> Within the scope for the simplification of the structure of the investments of the EDP Group, attention is drawn to the following:

- The merger and/or winding up of 9 companies of the EDP Produção Group - HidrOeM, TER, HDN, Hidrocenel, EDP Cogeração, Hidrinor, Hidrorumo, Ex-Hidrotejo (EDP Energia) and Enerpro;
- The winding up of 6 companies related with the business of the EDP Group in Brazil - 135 Participações, Calibre, EDP 2000, EDP Investimentos, Enerpaulo and Enerpro;
- The winding up of 2 companies within the scope of EDP Participações (EDP Águas and Valorágua) and the sale of the investment in 3 other companies (PME Investimentos, PME Capital and Iberdrola);
- The winding up and/or merger, still in progress, of four companies owned by EDP Valor - Edipombal, EDP Serviços, MRH and SCS; and
- The winding up and/or merger of 17 companies of the EDINFOR Group - ACE BI, ACE Bnet, Ace Healthcare, Ace Plus, Ace QS, Centralbiz, Consulteam, Inovis, Integer, Netion, Onalp, Onsource, Primitiva, Psi.doc, Sigmaplano and S-Tecno.

EDP, S.A.



Note: Percentages are rounded. Some percentages represent indirect holdings.



>> EDP CORPORATE OFFICERS (2003-2005)

>> BOARD OF THE GENERAL MEETING

José Manuel Galvão Teles *Chairman*

António Campos Pires Caiado *Deputy-Chairman*

>> SUPERVISION ENTITY

Statutory Auditor: **Bernardes, Sismeiro & Associados, SROC, Lda.**, represented by **Carlos Marques Bernardes, ROC**

Alternate Statutory Auditor: **Joaquim Patrício da Silva, ROC**

>> BOARD OF DIRECTORS

Francisco de la Fuente Sánchez *Chairman*

He graduated from the Instituto Superior Técnico in Electrotechnical Engineering in 1965. In 1969 he joined *Companhias Reunidas Gás e Electricidade* and, in 1975, was appointed to the Management Commission. As from 1997 he headed the Concessions Service of the Lisbon Zone of EDP and, as from 1981, headed the Organisation Support Body of the Operational Division of *Distribuição Tejo*. In 1985 he was appointed manager of the Lisbon Distribution Centre. In 1987 he became Assistant to the Board of Management of EDP and, in 1988, was appointed Central Commercial Manager. He was General Manager of the Operational Division of *Distribuição Tejo* up to 1994 when he was appointed director of LTE. In 1997 he was elected Director of EDP and, in 2000, he was appointed chairman of the Board and of the Executive Committee. In the international area, as from 1997, he was non-executive director of CERJ, non-executive deputy-chairman of *Bandeirante* and later non-executive chairman of CERJ. He has been director of *HidroCantábrico* since 2002. Outside the electricity industry, he was non-executive director of *Galp Energia* and of *BVLP*. He is presently non-executive chairman of ONI, member of the Senior Board of BCP, non-executive director of the Portugal-Africa Foundation, member of the General Board of the AIP, member of the Consultative Board of the APDC, director of PROFORUM and of the Forum for Competitiveness. He is currently Representative for Portugal at EURÉLECTRIC. He was named 2002 Personality of the Year by the Portuguese-Brazilian Chamber of Commerce and Industry.

João Ramalho Talone *Chief Executive Officer*

He graduated from the Instituto Superior Técnico in Civil Engineering in 1974. At the same time he took the Higher Management Course at the National Institute for Industrial Research. In 1984 he took his MBA at *Universidade Nova de Lisboa* (Wharton School of Pennsylvania), obtaining a final mark of 18. During 2002 he frequented the Advanced Management Program of the Harvard Business School. Guest Lecturer at the *Universidade Nova de Lisboa* (1988-1989) in the International Business area. He was chairman of the Board of Directors of the whole of the BCP Insurance group and executive member of the Board of Directors of BCP from 1993 to 2002. In 1994 he was elected to the Supervisory Board of *Eureko*. He was a member of the Association de Genève and became a member of the board of this international insurance association as from 2000. On September 1, 1999, he was appointed CEO of *Eureko*, based in Paris. In August 2002, by deliberation of the Council of Ministers, he was appointed to head the mission to assist the Finance and Economy Ministers in winding up the IPE. In January 2003, also by deliberation of the Council of Ministers, he was charged with rethinking the corporate strategy of the National Energy sector. In April 2003 he was elected deputy-chairman of the board of directors of *Lusotur*.

António de Almeida *Chairman of the Audit Committee*

He graduated in Economy from the Faculty of Economy of Oporto University (1961). He was secretary of State for the Treasury (1978-1980 and 1983-1985). He was a specialist of the Mozambique Planning Services (1963-1965). In 1965 he was also financial manager of Companhia de Cervejas e Refrigerantes Mac-Mahon and financial manager and secretary general of Maragra. He was also director and deputy-chairman of the Mozambique Credit Institute from 1971 and member of the board of directors of the Mozambique Railways (1972-1974). In 1974 he was appointed governor of the Bank of Angola, a position that he held until 1978, when he took over the chairmanship of União de Bancos Portugueses. He was also chairman of Lusoleasing and Heller Factoring Portuguesa, director of the Commercial Bank of Malawi and of The Bank of Lisbon and South Africa. He was Bank of Portugal's consultant up to 1992 and chairman of the board of directors of EDP (1996-1998). He was also director of the EBRD (1999-2003).

António de Sousa *Non-executive Director*

He graduated from Universidade Católica Portuguesa in Administration and Management of Corporations (1977). He took his PhD in Administration and Management of Corporations, Strategic Planning area, at the Wharton School of the University of Pennsylvania (1983). Since 2000 he has been chairman of the board of directors of Caixa Geral de Depósitos. Before that, he was governor of the Bank of Portugal (1994-2000), Assistant Secretary of State and Finance (1993-1994) and Assistant Secretary of State and of Foreign Trade (1991-1993). Also highlighted are his roles as secretary of State for Industry, chairman of the executive committee of Tottagespar and of the board of directors of Sulpedip and director of Banco Totta e Açores and of IPE. He was also consultant of the Industry and Energy Ministry and of various Portuguese and North American companies. At Universidade Católica Portuguesa he held the positions of member of the Senior Board and director of the Department of Management of the Faculty of Human Sciences.

Arnaldo Navarro Machado *Member of the Executive Committee*

He graduated in Naval Engineering from the University of Strachclyde, Glasgow. He was chairman of the executive committee of Sociedade Central de Cervejas, Internel (1992-1998), CPPE (1994-1997) and MRH (1997-1998). He was member of the board of directors of HLC, CERJ (1996-1998), Investco (1998), OPTEP (1997-1998), Turbogás (1995-1998) and EDP (1991-1992). He was deputy-chairman of the Board of Directors of EDP from 1992 to 1998. He was also member of the board of management of Sociedade Central de Cervejas (1988-1991), chairman of the board of directors of Sociedade da Água de Luso (January 1990) and member of the board of directors of Setenave (1984-1988).

Jorge de Oliveira Godinho *Member of the Executive Committee*

He graduated from Instituto Superior Técnico in Electrotechnical Engineering and took his MBA at Universidade Nova de Lisboa. Up to 2003 he chaired the executive committee of EDINFOR and the board of directors of ACE. He participated in the 10th and 11th Constitutional Governments as secretary of State for Fishing (1985-1990). As chairman of the board of directors of Portucel and Portucel Industrial between 1990 and 1998, he was in charge of the restructuring of the company and made the start to its privatisation. He was also chairman of the board of directors of Docapesca, deputy-chairman of the Portuguese Industrial Association and member of the management of the Social Security Financial Management Institute, of the National Scientific and technological Research Board, of the Forum for Competitiveness, of Efacec and of the Fund for the Internationalisation of the Portuguese Economy. Representing EDP, he was deputy-chairman of the board of directors of Optimus (1998 to 2000) and director of OPTEP. He was Assistant and Senior Lecturer at IST. Between 1978 and 1982 he was Union Leader at EDP and member of the EDP Inter-Union Commission.

José Morais Cabral *Non-executive Director*

He graduated from the ISCEF in Economy. He is currently director of the following companies: Soponata, Soimper, Efacec Capital and José de Mello Participações II. He is director of José de Mello Serviços. He began his career in 1968 as Technical Secretary of the Presidency of the Council of Ministers as Auxiliary Specialist in the Regional Planning area. In 1970 he joined Metal Portuguesa as controller and financial manager and, in 1980, became director for the financial area. In 1989 he was appointed director and chairman of Air Atlantis and was director of IPE and of Celbi between 1992-1994 and 1993-1995 respectively. In 1994 he was appointed consultant to the board of directors of Banco de Fomento and president of the Forum of the Sea in 1995. At the end of 1995 he was co-opted to the board of Lisnave and held the position of chairman of the executive committee from 1997 to 1999.

José Neves Adelino *Member of the Audit Committee*

He graduated from Universidade Técnica de Lisboa in Finance in 1976. Doctor in Business Administration by Kent State University USA (1981). Aggregate Professor at the Faculty of Economy of the Universidade Nova de Lisboa since 1995. He is presently full professor of Finance at the Faculty of Economy of Universidade Nova de Lisboa. He held the position of member of the board of management of the Faculty of Economy of Universidade Nova de Lisboa from 1982 to 1986 and since 1990. He was director of the MBA Management Area and of Executive Training from 1990 to 1996, as well as director of the Faculty of Economy of Universidade Nova de Lisboa from 1999 to 2002. He is member of the Global Advisory Board of Sonae, SGPS, of the Strategy Board of Portugal Telecom, of the Consultative Committee of the Confederation of Portuguese Industry and of the National Education Board. He held non-executive positions on the board of directors of BPA and of companies of the BPI Group, and has a vast curriculum in consultancy.

Luís Azevedo Coutinho *Member of the Audit Committee*

He graduated from Universidade Católica Portuguesa in 1984. He took his MBA at the Universidade Nova de Lisboa in 1987. He is currently a company consultant and university lecturer at the Faculty of Economy of Universidade Nova de Lisboa since 1985. He began his career in 1984 with José Bento Pedroso & Filhos where he performed various duties in the financial area. His first position as consultant was with the IPE and then with the V.I./B.T.A. Group, the Abrantina Group, the secretariat of State for Finance, the Bank of Portugal, the Calouste Gulbenkian Foundation and the Lisbon City Council. From 1999 to 2002 he was director, responsible for the financial area, of Valora-Serviços de Apoio à Emissão Monetária. Since November 2003 he has had a seat on the board of management of the Music, Education and Culture Association.

Paulo Azevedo Silva, *Non-Executive Director*

Graduated in Economy at the Oporto Faculty of Economy. He attended the training course given by the Euromoney Mergers and Acquisitions Institute in Cranfield and the INSEAD Executive Education Programme. He has been general manager of Banco Comercial Português since 1998, director of LeaseFactor and of CrédiBanco, chairman of the board of directors of Luso-Atlântica and non-executive director of ONI. He was also chairman of the board of directors of BCP Leasing and BCP Factoring (2000-2003), director of CISF (1998), of Sociedade Portuguesa de Risco (1995), of Comercial Dealer (1994), of Sociedade de Capital de Risco do CISF (1994) and of Interfinança (1990) and manager of CISF (1990).

Pedro Bastos Rezende *Member of the Executive Committee*

He graduated from the ICAI, Madrid, in Industrial and Mechanical Engineering in 1985. He took his MBA at the INSEAD in Fontainebleau in 1990. His professional career began in 1985 at VALEO Clutch Division, as development engineer. He left this company in 1989 when he was head of the Test, Experiment and Prototype Department and, following a period in Detroit, Michigan, as technical-commercial engineer, he joined The Boston Consulting Group in 1990 as consultant in Madrid. In 1995 he was involved in opening the Lisbon office and, in 1997, he was elected partner, jointly in charge of the development of the business in Portugal and accumulating internal management duties in Iberia and in Europe. During this stage of his career he had the opportunity to work not only with EDP but also with some of the bigger, more prestigious multinationals operating in several sectors.

Rui Horta e Costa *Chief Financial Officer*

He graduated in Economy from Universidade Católica Portuguesa and took his MBA at the University of Minnesota. He was executive director of UBS Warburg in London from 1995 to 2000, director of the Jorge de Mello Group (1990-1995), resident vice-president of Citibank Portugal (1989-1990) and manager and assistant to the board of Banco Finantia (1987-1989). He began his professional career as assistant lecturer of the University of Minnesota MBA Programme (1986), then joining the staff of MDM-Sociedade de Investimentos (1986-87).0

Vítor Costa Martins *Non-Executive Director*

He graduated from the Instituto Superior de Economia e Gestão in 1970. He is currently senior consultant of the Citigroup (since 1997). He is a member in the Strategic Orientation Board of the Jacques Delors "Notre Europe" Association. He is a member of the management board of the Institute for International Strategic Studies, the general board of the Forum of Company Directors and the professional disciplinary board of the Association of Economists. He was senior specialist and principal adviser of the Studies and Planning Office (GEP) of the Ministry for Industry (1971-1979), director of the European Integration Office (1979-1985) and director of the GEP (1982-1985). He was a member of the European Integration Committee (1979-1985), in charge of the industrial and energy dossiers in the negotiations surrounding Portugal's membership of the European Union. He chaired the EDP Supervision Commission (1982-1985) and was chairman of the board of directors of Jazztel Portugal (1999-2001). He was secretary of State for European Affairs in the 10th, 11th and 12th Constitutional Governments (1985-1995). From 1996 to 2002 he was member of the Public Markets Consultative Committee of the European Commission.

>> REMUNERATION COMMITTEE

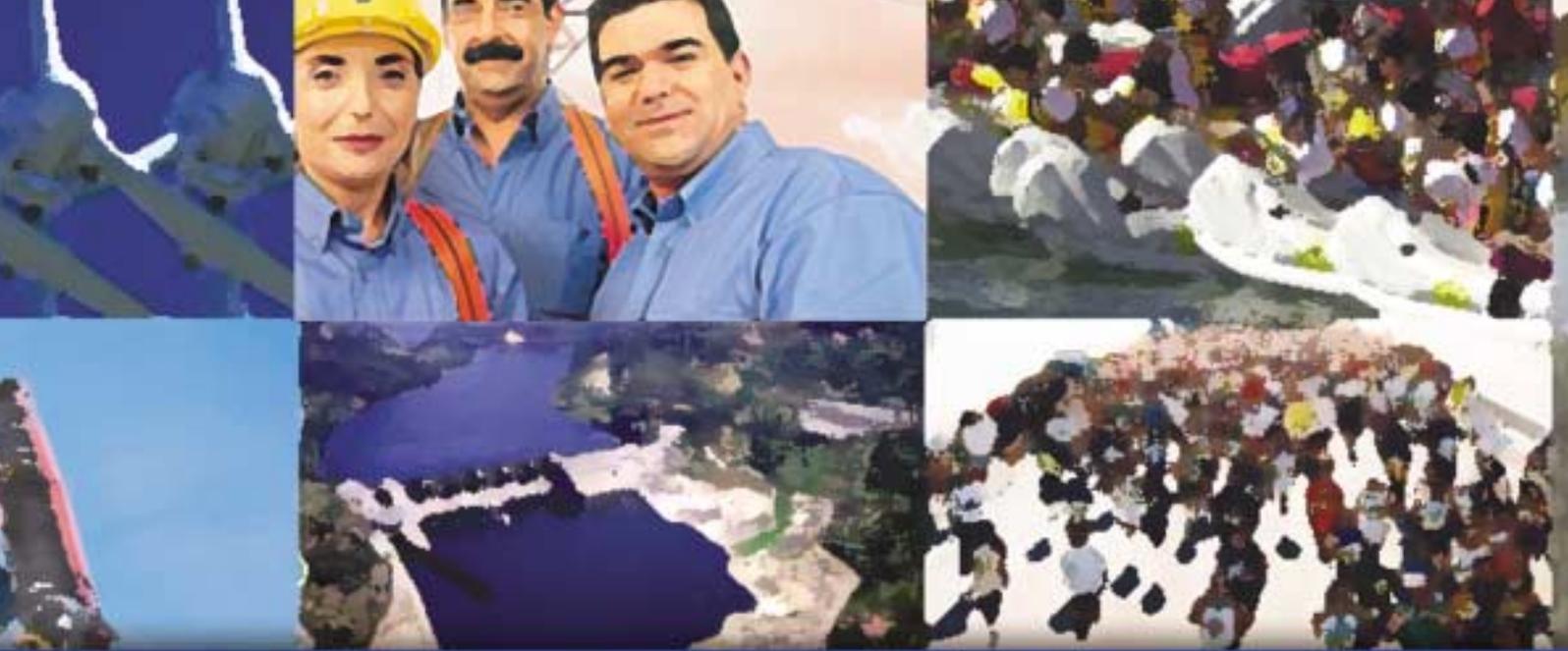
Brisa, represented by **Vasco Maria Guimarães José de Mello**

Parpública, represented by **João Plácido Pires**

Ruy Manuel Corte-Real de Albuquerque

>> COMPANY SECRETARY

Alternate: **António José Marrachinho Soares**



>> CORPORATE GOVERNANCE

EDP - Electricidade de Portugal, S.A. (EDP), as an entity that issues securities, preserves a very transparent relationship with investors and with the capital markets, and has lent special attention to monitoring the evolution of international trends and to the reflection on the best models of organisation and codes of conduct in the matter of corporate governance.

For this reason, EDP is currently one of the issuers whose securities are listed on Euronext Lisbon that most closely implements the CMVM recommendations on corporate governance. Besides this, it was a pioneer in the adoption of internal organisation and working measures designed to promote best corporate governance practices. This present report has been organised in accordance with the model called for in CMVM Regulation 11/2003 of December 2, and provides a summary of the more relevant aspects of the practices linked to the governance of EDP.



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>> 1 Disclosure of Information

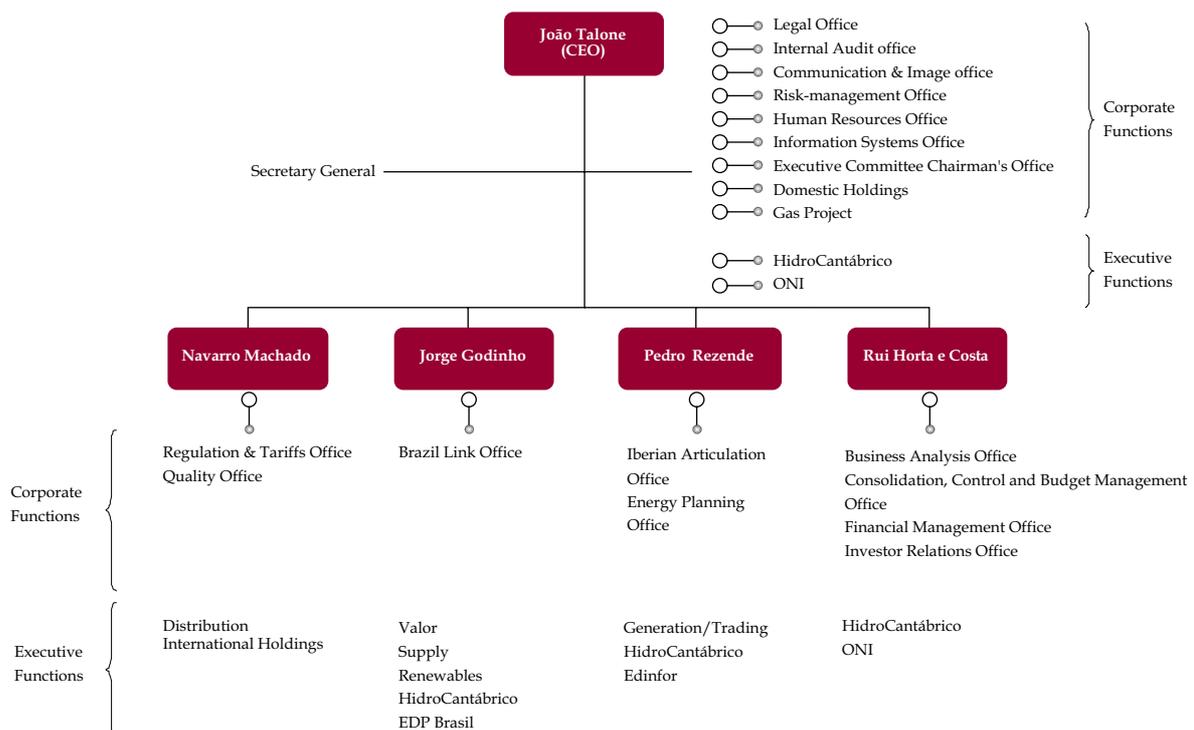
>> 1.1 The Group's Organisation Structure

The management and supervision of EDP is undertaken by the Board of Directors and by the Statutory Auditor, the latter of necessity an official auditor.

The present Board of Directors, elected in the May 2003 General Shareholders' Meeting, delegated day-to-day management of the company to an Executive Committee comprising five members, in accordance with the following diagram.

The EDP Board of Directors has also appointed an Audit Committee, consisting of three independent members, whose mission is to constantly monitor the activity of the company's external auditors and to issue an opinion on their appointment or dismissal, observing their relations with the various other corporate offices, and also to provide an opinion on internal procedures with regard to auditing or on issues raised in connection with the accounting practices employed by the company.

Board of Directors	
Chairman	Eng. Francisco de la Fuente Sánchez
Executive Committee	Eng. João Luís Ramalho de Carvalho Talone (CEO) Dr. Rui Miguel de Oliveira Horta e Costa (CFO) Eng. Arnaldo Pedro Figueirôa Navarro Machado Eng. Jorge Manuel Oliveira Godinho Eng. Pedro Manuel Bastos Mendes Rezende
Audit Committee	Dr. António de Almeida Prof. José Manuel Trindade Neves Adelino Prof. Luís Filipe Rolim de Azevedo Coutinho
Non-Executive Directors	Prof. António José Fernandes de Sousa Dr. José Manuel Gonçalves de Morais Cabral Dr. Paulo Azevedo Pereira da Silva Dr. Vítor Ângelo Mendes da Costa Martins



Note: the EDP Foundation and the Environment Office report to the chairman of the Board of Directors

>> 1.2 The Functional Structure of the EDP Group's Holding Company

EDP's activities are organised in accordance with the functions and responsibilities determined by the Executive Committee that establishes the Group's structure and the sharing of duties between the various Business Units and the Shared Services Units - EDP Valor - and the holding company of the EDP Group.

EDP has a central structure that provides support to the decision process. It has transverse responsibilities and reports to the Executive Committee.

This structure comprises a number of general managers, assistants and consultants of the Board of Directors, as well as a Corporate Centre organised into Offices and Co-ordination Areas.

During 2003, EDP implemented major changes designed to improve its efficiency and to enhance its relations with Group companies, as well as its co-ordination and control. A decision was therefore taken to set up six new structures to support the Executive Committee.

- Within the scope of direct support to the chairman of the Executive Committee a position of Office Manager of the Chairman of the Executive Committee was created;
- The Risk Management Office was created, an activity of growing importance within the Group, responsible for identifying and proposing the risk-management model for the whole Group;

- A Quality Office was set up to monitor not only the quality of the service provided to the customers of the companies of the EDP Group but also internal quality in terms of the professional satisfaction of its employees;
- The Energy Planning Office was created to study alternative scenarios for the evolution of supply and demand at Iberian level, thus contributing to better decision-taking in terms of the Group's operational production strategy; and
- Also set up were the Iberian Articulation Office and the Brazil Link Office, essentially to promote the progressive integration of common activities having a different geographic base and closer approach between the differing cultures of the various group companies.

During 2003, a project began to restructure the Corporate Centre, the aim of which is to turn the holding company into a more flexible, lighter structure. Essentially, in addition to the formation of the new offices described above, the internal structure of each office, their duties and their objectives were studied. This study concluded early in 2004 and is currently being implemented, will allow the transfer of several responsibilities between the holding company, EDP Valor and various business units to optimise their functions and procedures. In keeping with the new organisation, the holding company will have only essential and added-value services, while it will strengthen its role in defining the strategy implemented by the business units:

The central structure providing support to decision processes is now as follows:

EDP HOLDING COMPANY	Board of Directors Executive Committee	
	Office Manager of the CEO	General Managers
	<i>Eng. Stephan Godinho Lopes Morais</i>	<i>Eng. António Manuel Barreto Pita de Abreu Dr. António Manuel Vaz Pacheco de Castro Eng. António Martins da Costa Dr. João Manuel Manso Neto Eng. Joaquim Armando Ferreira Silva Filipe Eng. Jorge Manuel Ribeirinho Soares Machado Eng. Vasco Manuel de Castro Coucello</i>
	Assistants	
	<i>Eng. Emílio José Pereira Rosa Eng. Rui Matos Oliveira Sérgio</i>	
Advisers		
<i>Dr. António José Marrachinho Soares Eng. Herminio Cravo Rodrigues Moreira Eng. José Eduardo do Amaral Netto e Aguiar Dra. Maria do Pilar Gouveia Bobone</i>		
Offices and Departments		
Quality Office	<i>Dra. Paula Pinto da Fonseca</i>	
Environment Office	<i>Eng. António Manuel Neves de Carvalho</i>	
Business Analysis Office	<i>Dr. Carlos Alves Pereira</i>	
Iberian Articulation Office	<i>Dr. António Manuel Vaz Pacheco de Castro</i>	
Internal Audit Office	<i>Eng. Vitor Manuel Silva Leitão</i>	
Communication and Image Office	<i>Dr. Horácio Manuel Piriquito Casimiro</i>	
Consolidation, Control and Budget Management Office	<i>Dr. Miguel Ribeiro Ferreira</i>	
Risk-management Office	<i>Eng. António Maria Ramos da Silva Vidigal</i>	
Financial Management Office	<i>Dra. Magda Abdool Magid Vakil</i>	
Brazil Link Office	<i>Eng. Joaquim Pedro de Macedo Santos</i>	
Energy Planning Office	<i>Eng. António José Silva Coutinho</i>	
Human Resources Office	<i>Eng. Eugénio André da Purificação Carvalho</i>	
Regulation and Tariffs Office	<i>Eng^{da}. Maria Joana Mano Pinto Simões</i>	
Investor Relations Office	<i>Dr. Pedro Manuel Carreto Pires João</i>	
Information Systems Office	<i>Eng. José Avelino Abreu Aguiar</i>	
Legal Office	<i>Dr. António Pedro Balançuela Alfaia de Carvalho</i>	
Gas Project	<i>Dr. José Manuel Ferrari Bigares Careto</i>	
General-Secretary	<i>Dr. António José Marrachinho Soares</i>	



The responsibilities and functions of the various offices are as follows:

The chairman and remaining members of the Executive Committee of the Board of Directors are assisted by the **Office Manager of the Chairman of the Executive Committee**, who, in addition to acting as secretary to the weekly meetings of the Executive Committee, coordinates and monitors projects of strategic and financial importance and represents EDP before external entities.

The mission of the **Quality Office (GQL)** is to co-operate with the Group's business units to increase their profitability, competitiveness and market share as required. For their purposes, it produces information relevant to decision-taking, allowing internal improvement measures to be dealt with better, and to simplify the implementation of objectives. To achieve these objectives it (i) uses market research of external and internal customers and of Group employees as its principal support methodology, (ii) organises training course in the quality area, and (iii) acts as an internal consultant.

The principal duties of the **Environment Office (GAB)** include (i) assisting the Board of Directors in the matters of environment and sustainability, particularly in the definition of corporate action policies and strategies and in the definition and supervision of goals and objectives, and in relations with the Environment Board, (ii) reporting the company's activity in environmental matters, (iii) providing co-ordination of activities of a strategic order within the holding company and ensuring that the Group's operating activities are consistent with the guidelines of the Board of Directors, and (iv) monitoring the development of environmental issues of greater importance to the business and proposing the adoption of overall operational strategies for the company.

The mission of the **Business Analysis Office (GAN)** is to optimise the Group's business portfolio by means of critical analysis in the light of the strategic development set out by the Board of Directors. The main areas of operation are project evaluation, identification of business opportunities, analysis and execution of operations involving the purchase and sale of assets and investments, negotiation of partnership agreements and providing support to the Board of Directors in decision-taking in respect of strategic investment and divestment.

The **Iberian Articulation Office (GIB)** was set up in 2003 with a view to promote relations with HidroCantábrico and extending them to the various operating levels of the company, as well as to monitor and accompany the development of business and of the asset portfolio within the energy sector in Spain. Consequently, the GIB is the structure responsible for making full use of the potential to create value for EDP and for HidroCantábrico through

greater articulation and joint work at operating and strategic level.

The principal role of the **Internal Audit Office (GAI)** is to support management in the concept, implementation and monitoring of an internal control system adequate to the pursuit of the established effectiveness and efficiency objectives, through performing structural evaluation audits on internal control and through checking the actual efficiency and effectiveness of the established controls, providing management with reasonable assurance as to their ability to prevent, detect and correct the occurrence of operating non-conformities and materially relevant errors or omissions in the information used to measure the degree of compliance with the established objectives and to manage the organisation, working together with the external auditors and with the statutory auditors.

The operating areas of the **Communication and Image Office (GCI)** are responsible for the management of contacts with the media, brand management - as the brand guardian of the entire EDP Group - advertising sponsorship, internal and organisational communication, the corporate media (site, intranet and in-house magazines) and institutional relations. The GCI centralises all the communication of the EDP Group, including EDP Brasil.

The **Consolidation, Control and Budget Management Office (GCO)** involves three areas of operations. The first is the consolidation and control area, whose main function is accounting reporting. The second is planning and control, responsible for management control, budget control, planning, financial reporting, drawing up balanced scorecards and review of budgeting procedures and systems. The third is the Group's taxation area. The GCO started implementing in 2003 an integrated accounting and management information system across to the entire Group - Magnitude - that is set to be concluded in 2004.

The mission of the **Risk Management Office (GGR)** consists of the definition, implementation and maintenance of an Integrated Risk Management System (SGIR) for the EDP Group. Use of the SGIR provides a number of comparative advantages for EDP by allowing the inclusion of the dimension of the risk in the Group's strategic and operational decisions. Indeed, the opportunities that constantly arise for a group of the size of EDP involve uncertainties whose quantification, through determination of the risk inherent in them, makes a decisive contribution to taking the right decisions.

The **Financial Management Office (GFN)** is responsible for proposing to the executive committee the Group's financial management strategy, for observing compliance therewith and for the control of its financial liabilities.

The duties of the GFN include the management of the debt of the holding company and of EDP Finance BV, the inherent interest-rate and exchange-rate risk and centralised cash management for Group companies operating in the domestic electricity industry or those that are directly or indirectly wholly owned by EDP, and negotiating and contracting financing and credit lines. In parallel, the GFN monitors the financial areas of the subsidiaries. The GFN is also the main interlocutor with the debt markets and banks, and with the rating agencies.

The **Brazil Link Office (GLB)** was set up in 2003, taking into account the investments in the Brazilian electricity sector. During a time of major corporate transformations in Brazil a growing need has been seen for an office within EDP that could provide an overview of the more relevant and critical areas of the businesses in the country. The GLB has therefore an important role in monitoring and accompanying the evolution of operations in Brazil in the various areas, particularly the strategic, financial, operational and legal areas, while strengthening the interaction between EDP and its subsidiaries in the country.

The **Energy Planning Office (GPE)** was set up in 2003 to support the Group in the assessment of its present and future position within the Iberian market, and forecasts of energy requirements and sourcing options. The GPE is therefore an organisational platform providing the link between the Group's various gas and electricity business areas, designed to facilitate the necessary integrated vision over of the EDP Group's market and operations.

The mission of the **Human Resources Office (GRH)** is to support the development of the organisation and its people by drawing up policies and strategies in keeping with the Group's objectives and values. Its main responsibilities include (i) the concept and development of HR strategies, policies and procedures, and Prevention & Safety at Work, (ii) negotiations with social partners, (iii) control of HR policy execution, (iv) development of people management instruments, (v) implementation of social support for workers and pensioners, (vi) development of a safety culture, and (vii) adequacy of the corporate HR systems in the light of applicable legislation and regulations and of organisational development needs.

The mission of the **Regulation and Tariffs Office (GRT)** is to support the Executive Committee in taking decisions within the scope of regulation and in relations with the various entities that supervise the energy sector. The GRT has accompanied the development and implementation of the new European Electricity and Natural Gas Directives and has studied the impacts arising from the implementation of the MIBEL. Liberalisation of the energy sectors, together with regulation of the "natural monopolies" involves profound legislative, regulatory

and organisational changes, whose implications on the group's profitability have to be carefully analysed, requiring the development of economic and financial models and tariff studies.

Investors Relations Office (see 1.8)

The **Information Systems Office (GSI)** is in charge of fostering the alignment of the Group's information systems with the business objectives and with technological evolution, supporting the Board of Directors in the definition of objectives, policies and standards in the area of systems and technologies and in the overall contracting of equipment and services. The GSI is also charged with aiding the Executive Committee in drawing up the Group's information systems and technologies strategy and in establishing the Systems Masterplan, defining the architecture of the systems and technology, promoting IT security and carrying out the planning, budgeting and management control of the information systems and technologies.

The **Legal Office (GJR)** provides legal advice to the Board of Directors and Executive Committee, as well as to the other offices and various Group companies requesting legal advice. It monitors and discloses new legislation of interest to the company's businesses, with a special focus on the electricity sector. It co-operates in drawing up the EURELECTRIC studies and legal opinions. It is engaged in legal proceedings and acts as the Group's lawyers in legal proceedings of a civil, administrative or fiscal nature.

The **Gas Business Integration Project** is responsible for the integration of the natural gas business into the EDP Group. Its duties include co-ordination of the activities required by the move into the gas market and by the development of the business associated therewith, from a standpoint of maximisation of the synergies generated by the gas and electricity businesses.

>> 1.3 Specific Committees set up within EDP

As a company whose shares are listed on the New York Stock Exchange, EDP is subject not only to applicable domestic legislation but also to certain North American securities legislation including the Sarbanes-Oxley Act of July 2002, and other regulations enforced by the Securities and Exchange Commission and by the New York Stock Exchange itself.

The referred legislation has become the major guideline for the organic changes implemented at EDP last year, with a focus on the creation of the Audit Committee of the EDP Board of Directors, with significant functions in supervising the preparation of financial information and monitoring the control systems; and on the creation of an Information Disclosure Control and Procedures Committee,



whose main function is controlling the internal certification process of all publicly disclosed information.

Audit Committee

The EDP Audit Committee is a specific Board of Directors' committee comprising three independent directors, charged, by management delegation, with specific duties in the matters of supervision of the company's financial information and with monitoring the activity of the external auditors, the internal auditors and the internal control systems. The current members of the committee are directors António de Almeida (chairman), José Manuel Trindade Neves Adelino and Luís Filipe Rolim de Azevedo Coutinho.

The **Audit Committee** is charged with the following:

- Supervising compliance with and proper application of prevailing accounting principles and standards, in conjunction with the work of the supervisory body and of the external auditors, promoting and requesting the exchange of information required for the purpose;
- Analysing the quarterly, half-yearly and yearly financial information, drawing up non-binding reports on these accounts for appraisal by the Board of Directors prior to their approval and signature by the Board, which may include recommendations to the Board of Directors on the provision of information to shareholders;
- Submitting to the Board of Directors a proposal in connection with the appointment of the company's external auditor and determination of its remuneration;
- Monitoring the activity and vicissitudes of the contractual relations with the external auditors, including recommendations within the scope of the relationship between the Board of Directors, the Executive Committee or the directors and the external auditors with regard to the financial information, and appraising the objectivity and independence of the external auditors;
- Checking the consistency and adequacy of the expenditure on auditing in respect of its efficiency, providing an opinion, if appropriate, on the contracting of services, directly or indirectly, with the entity providing the external auditor services or with entities in a controlling or group relationship with it;
- Discussing with the external auditors the scope of the audit for the purpose of presentation of recommendations to the Executive Committee or to the Board of Directors;

- Proposing to the Board of Directors measures designed to improve the monitoring of the internal control and internal auditing systems;
- Discussing the contents of the internal control report with the internal auditor; and
- Defining and implementing procedures in respect of receiving and processing complaints regarding accounting matters, internal accounting and auditing controls, as well as complaints lodged by employees in respect of accounting or auditing practices.

In performing these duties the Audit Committee may hire the services of independent consultants and take such steps as may be deemed necessary with regard to the services and companies of the EDP Group.

The members of the Audit Committee are qualified as independent directors in accordance with the criteria established in Article 1 of CMVM Regulation 11/2003 of December 2. Additionally, although the committee was appointed prior to the publication of the said CMVM regulation, the definition of the independence of the members of the Audit Committee took certain criteria into account such as the lack of any employment relationship or contractual tie with EDP and its subsidiaries or with shareholders with a holding greater than 2% or with entities in a controlling or group relation with such shareholders.

The appointment of the Audit Committee was a pioneering step in corporate governance in Portugal, designed to contribute to the strengthening of internal control mechanisms through the actions of members of the Board that hold real monitoring responsibilities.

The Audit Committee met on 13 occasions during 2003.

Disclosure of Information Control & Procedures Committee (CDI)

The CDI has three prime functions:

- Identifying and analysing the information to be made available to the public periodically;
- Taking part in the review of the information periodically provided by EDP within the scope of the preparation of reports and other market press releases; and
- Evaluating on a quarterly basis the EDP information control and disclosure mechanisms.

This committee is therefore an organisational structure responsible for monitoring and evaluating of the control mechanisms in place and the information procedures, and is a part of the EDP Group Information Certification project, which involves a Project Work Group headed by

the Internal Audit Office in close co-operation with the Executive Committee and Business Area Teams in charge of the control procedures for each area of activity.

The CDI comprises the heads of Investor Relations, Internal Audit, Legal, Consolidation, Control and Budget Management, Financial Management, Regulation and Tariffs, Human Resources and Environment Offices and the Board of Directors' Assistants involved in the preparation of information, as well as the heads of the company's main business areas.

Environment Board

The Environment Board is one of the oldest of EDP's functional bodies, established by the articles of association back in 1991.

The Environment Board is charged with performing **consultative duties** for the Board of Directors in environmental issues, including issuing opinions and recommendations on the environmental impact of projects to be developed by the EDP Group.

The Environment Board consists of **five persons** of recognised competence in the field of preservation of the environment, elected by the general meeting: Eduardo Oliveira Fernandes (co-ordinator), Carlos Alberto Pimenta, Gonçalo Ribeiro Teles, Maria Teresa Andresen and Álvaro José Patrício Costa.

>> 1.4 Compliance with the Sarbanes-Oxley Act

The Sarbanes-Oxley Act published in July 2002 requires all companies listed with the Securities and Exchange Commission (SEC) to certify their annual report with regard to the fullness and exactness of the information contained therein and to public disclosure of the result of the evaluation of the internal control of the financial information disclosed to the market.

Aware of the benefits accruing from the adoption of the practices recommended by the Sarbanes-Oxley Act with regard to the transparency of the company's relations with the market, EDP launched a project designed to ensure timely creation of conditions allowing it to meet in full the requirements of the act.

Therefore, in a first stage, the project focused on establishing and implementing information disclosure procedures and controls consistent with the provisions of Section 302 of the act, directed mainly at those items that must be reported to the American market.

At present, the **project has two fronts**:

- Perfecting the market information disclosure procedures and controls established during the first stage and rendering them more agile, while extending their application to the disclosure of information to the Portuguese market; and
- Surveying, documenting, evaluating and correcting omissions and weaknesses detected in the internal control of flows of information in respect of events and transactions with a materially relevant impact on EDP's financial statements.

The conclusion of this work, planned for the end of 2004, will allow EDP:

- to monitor more effectively the monitoring of the internal controls related to the disclosure of financial information and, consequently, to act more quickly in correcting any omissions or weaknesses that could compromise the quality of the information provided internally and externally; and
- provide more objective grounds for the evaluation of the internal control of the financial information to which it will be bound under the terms of the Sarbanes-Oxley Act as from 2005.

>> 1.5 EDP on the Capital Market

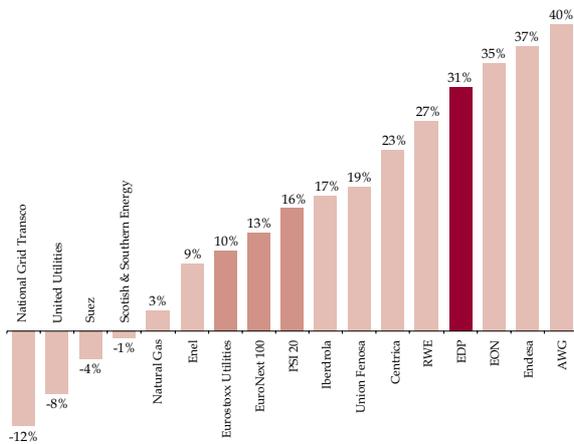
EDP shares have been admitted to listing on the official market of Euronext Lisbon and on the New York Stock Exchange in the form of American Depositary Shares (ADS) since June 1997. Additionally, the EDP shares are a common underlying asset for the the futures traded on the Euronext Lisbon.

EDP is one of the Portuguese companies of greater relative weight on the Euronext Lisbon index, the PSI 20, around 15% and one of the seven portuguese companies with greater relative weight on the Euronext 100 index, with a weighting of around 0.48%. EDP shares are also included in several European indices, such as the Dow Jones EuroStoxx Utilities, calculated on the basis of the market performance of the principal, most representative European companies in the Utilities sector.

During the period from December 31, 2002, to December 31, 2003, the EDP shares appreciated by 31.4%, up from €1.59 to €2.09, an increase of €0.60 per share. This market appreciation shows that the EDP shares outperformed the average of its European counterparts and outperformed the PSI 20 index by 16 percentage points, the Dow Jones EuroStoxx Utilities by 22 percentage points and the EuroNext100 index by 19 percentage points.



Comparative evolution of EDP shares' quote



EDP shares are currently among the most liquid of the domestic market. The market value of the EDP Group, calculated on the basis of its market capitalisation as at December 31, 2003, amounted to €6.27 billion, or 7% of the total capitalisation of Euronext Lisbon which, at the end of the year, stood at €91.365 billion. A total of 1,524 million EDP shares were traded on this official market, providing a daily average of 6 million shares and about 72% of the total number of EDP shares admitted to listing on this market. In terms of turnover, EDP accounted for 15% (€2.8 billion) of the overall volume of shares traded on the Official Lisbon market (€19.024 billion).

Factors influencing EDP Share Prices

The year under review was marked by a relative recovery of the leading global equity index. Even so, the first two months of the year suffered the negative influence of the uncertainty surrounding the recovery of the world's main economies and of the expectations of prolonged military conflict in Iraq. It was against this background that EDP shares reached an historic low of €1.38 on March 5.

Nevertheless, as from March the prospects of a speedy resolution of the Iraqi conflict and the expectations of an economic upturn allowed the losses of the beginning of the year to be recouped.

The performance described above, of the EDP shares during 2003 was influenced, on the one hand, by expectations of an upswing of the global markets and, on the other, by a number of favourable factors linked to the day-to-day business of the EDP Group. Together, these created a climate of confidence that underpinned the performance of the share price.

As far as endogenous factors are concerned, the spotlight is on the fact that HidroCantábrico was successful in the process launched by the Basque government involving the privatisation of NaturCorp, within the scope of which it acquired 62% of the second biggest Spanish gas transport and distribution company. Through this acquisition, the EDP Group strengthened its position in the Iberian energy market, which will allow it to take full advantage of the potential provided by the convergence of the gas and electricity businesses.

EDP vs PSI20 vs DJ Euro Stoxx Utilities



2003 - Annual Report - EDP

In April the Portuguese government publicly announced that EDP would handle the distribution business of both gas and electricity within the scope of the domestic energy restructuring plan.

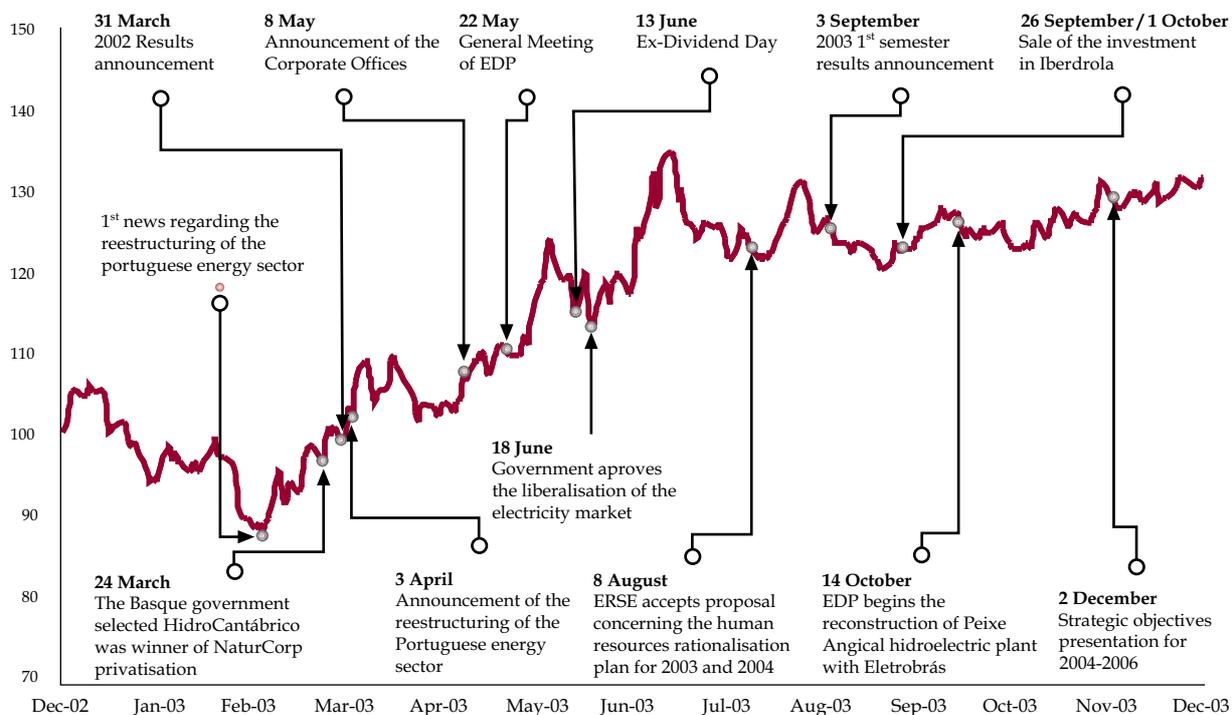
In third place, greater clarification of the electricity sector liberalisation processes, particularly the guarantee that the financial balance inherent in the present Energy Acquisition Contracts (CAEs) would be maintained after these contracts come to an end, and the creation of MIBEL drove investor expectations regarding the performance of the company.

On the other hand, in the wake of EDP's proposal that the effect of the inherent cost to the Human Resources

Rationalisation Plan (PPRH) be incorporated into the electricity tariffs, the Energy Services Regulator decided in August to agree that the costs inherent in the PPRH 2003-04 could be carried as an investment and written off over a period of 20 years.

Towards the end of September, EDP implemented the decision that it had previously announced of selling its 3% stake in Iberdrola.

Lastly, EDP's strategic objectives set out by the Executive Committee for the three-year period from 2004 to 2006 were presented to financial analysts and institutional investors in London in December.



Indicators - Capital Market

	2003	2002	2001	2000	1999	1998	1997
EDP Shares on Euronext Lisboa (euros)							
Opening price	1.58	2.43	3.52	3.50	3.79	3.49	3.49
Closing price	2.09	1.59	2.44	3.52	3.47	3.75	3.48
Maximum price	2.14	2.50	3.64	4.22	4.36	4.99	4.04
Minimum price	1.38	1.47	2.29	3.10	2.82	3.40	2.64
EDP ADSs EDP on the NYSE (US dollars)							
Opening price	16.79	22.19	33.50	34.75	45.50	38.38	25.84
Closing price	26.37	16.80	21.80	33.88	34.88	44.56	38.75
Maximum price	26.50	22.19	34.31	39.50	50.04	54.50	39.63
Minimum price	15.10	14.56	20.90	25.81	29.00	38.38	25.84
Price variation and benchmark indexes ⁽¹⁾							
EDP Shares	31.4%	(34.8%)	(30.7%)	1.6%	(7.6%)	7.9%	12.5%
EDP ADSs	57.0%	(22.9%)	(35.6%)	(2.9%)	(21.7%)	15.0%	12.3%
PSI-20	15.8%	(25.6%)	(24.7%)	(13.0%)	8.7%	24.9%	19.5%
Dow Jones Eurostoxx Utilities	10.4%	(27.1%)	(10.5%)	6.9%	(5.0%)	32.4%	18.7%
Euronext 100	12.7%	(32.5%)	(19.7%)	-	-	-	-
Total shareholders return							
Annual price change	0.50	(0.85)	(1.08)	0.05	(0.28)	0.27	(0.02)
Gross dividend per share distributed during the year	0.090	0.113	0.140	0.140	0.140	0.130	0.000
Total shareholder return	37.1%	(30.2%)	(26.7%)	5.6%	(3.8%)	11.6%	12.5%
EDP market value							
Market capitalisation at the year-end (M. euros)	6 270.0	4 770.0	7 320.0	10 560.0	10 398.0	11 250.0	10 431.0
Values per share							
Net profit	0.127	0.112	0.150	0.183	0.171	0.174	0.155
Dividend in respect of year's net income	0.090	0.090	0.113	0.140	0.140	0.140	0.130
Book value	1.766	1.831	2.032	2.068	2.020	2.042	2.059
Market indicators							
Price Earnings Ratio (year-end)	16.5 x	14.2 x	16.2 x	19.2 x	20.2 x	21.5 x	22.5 x
Price to Book Value (year-end)	1.2 x	0.9 x	1.2 x	1.7 x	1.7 x	1.8 x	1.7 x
Dividend yield	4.3%	5.7%	4.6%	4.0%	4.0%	3.7%	3.7%
Earnings yield	6.1%	7.0%	6.2%	5.2%	4.9%	4.6%	4.4%
Liquidity of EDP shares on the markets							
Volume on Euronext Lisbon (M. euros)	2 800.2	2 489.5	3 475.5	4 535.4	3 450.1	4 364.0	2 226.2
Average daily volume (M. euros)	11.0	10.1	14.1	18.4	13.9	17.6	16.4
Volume on NYSE (M. dollars)	40.8	43.1	33.2	73.2	55.4	179.4	301.5
Average daily volume (M. dollars)	0.2	0.2	0.2	0.4	0.3	0.8	2.2
Number of shares traded (million)	1 524.5	1 242.8	1 180.0	1 256.4	983.5	1 035.1	697.8
Number of ADSs traded (million)	2.0	2.3	1.3	2.5	1.5	3.9	8.5
Shares privatised the year-end (million)	2 099.1	2 099.1	2 099.1	2 099.1	1 499.1	1 499.1	899.8
% of share capital already privatised	70%	70%	70%	70%	50%	50%	30%
Rotation of capital (privatised shares)	72.6%	59.2%	56.2%	59.9%	65.6%	69.1%	77.6%
Rotation of capital (ADSs)	0.9%	1.1%	0.6%	1.2%	1.0%	2.6%	9.5%
Dividends							
Net profit (M. euros)	381.1	335.2	450.8	549.0	513.9	522.8	464.0
Net profit distributed (M. euros)	270.0	270.0	339.0	419.0	419.0	419.0	388.6
Pay out	71%	81%	75%	76%	82%	80%	84%
Dividend per share (euros) ⁽²⁾	0.090	0.090	0.113	0.140	0.140	0.140	0.130
Dividend yield	4.3%	5.7%	4.6%	4.0%	4.0%	3.7%	3.7%

⁽¹⁾ In 1997 corresponds to the change between 17 June and 31 December.⁽²⁾ After stock split in 1997, 1998 and 1999.

EDP, S.A. Shareholder Structure

Qualified Holdings

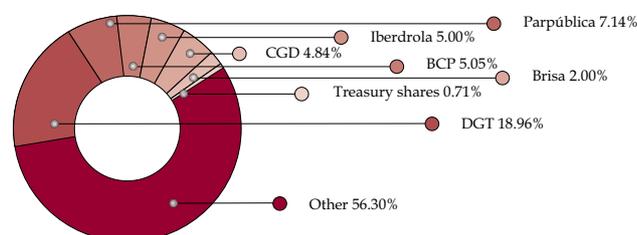
In accordance with the provisions of Article 7.1.d) of CMVM regulation 11/2000 (as amended by Regulation 24/2000 and by Regulation 13/2002), the following information is provided in respect of qualified holdings in EDP - Electricidade de Portugal, S.A., as at December 31, 2003:

EDP, S.A. Shareholder Structure

Shareholders	N° shares	% Capital	% Votes
Direcção Geral do Tesouro	568 853 506	18.96%	19.10%
Parpública - Participações Públicas	214 220 570	7.14%	7.19%
Banco Comercial Português	151 635 713	5.05%	5.00%
Iberdrola	150 000 000	5.00%	5.00%
Caixa Geral de Depósitos	145 316 948	4.84%	4.88%
Brisa	60 002 297	2.00%	2.01%
EDP (own shares)	21 430 964	0.71%	-
Restantes Accionistas Privados	1 688 540 002	56.30%	56.69%
Total	3 000 000 000	100.00%	

Note: in accordance with the provisions of article 12.3 of the EDP Articles of Association, no private shareholder may cast votes exceeding 5% of the total votes corresponding to the share capital.

EDP, S.A. Shareholder Structure



Allocation of voting rights pursuant to the terms of Article 20.1 of the Securities Code

Shareholder information of holdings

Shareholders	N° shares	% Capital	% Votes
Caixa Geral de Depósitos	145 316 948	4.84%	4.88%
Fidelidade-Mundial	2 242 633	0.07%	0.08%
Sub-Total	147 559 581	4.91%	4.96%
BRISA Participações, S.G.P.S.	60 002 297	2.00%	2.01%
Board Members of BRISA Participações, S.G.P.S.	8 085	0.00%	0.00%
Sub-Total	60 010 382	2.00%	2.01%
Banco Comercial Português	151 635 713	5.05%	5.00%
Board Members of BCP, S.A.	36 448	0.00%	-
Grupo Seguros e Pensões	9 142 106	0.30%	-
Board Members of Grupo Seguros e Pensões	27 715	0.00%	-
Fundação Banco Comercial Português	350 000	0.01%	-
Sub-Total	161 191 982	5.36%	5.00%

Note: in accordance with the provisions of article 12.3 of the EDP Articles of Association, no private shareholder may cast votes exceeding 5% of the total votes corresponding to the share capital.

Dividend Policy

Since the start of the admission to listing of EDP shares on the Lisbon Stock Exchange (now Euronext Lisbon), EDP has undertaken a carefully-planned and reasoned dividend distribution in accordance with rules of prudence and value creation for its shareholders. In keeping with these rules the dividends distributed by EDP since 1997 have been as follows:

Dividends

Year	Approval date	Payment date	Gross dividend	Net dividend	
				Residents	Non Resid.
1997 ⁽¹⁾	17/04/98	18/05/98	€ 0.648	€ 0.534	€ 0.534
1998 ⁽¹⁾	11/05/99	28/05/99	€ 0.698	€ 0.620	€ 0.620
1999 ⁽¹⁾	12/05/00	31/05/00	€ 0.698	€ 0.611	€ 0.611
2000 ⁽²⁾	10/05/01	31/05/01	€ 0.140	€ 0.119	€ 0.119
2001 ⁽²⁾	10/05/02	06/06/02	€ 0.113	€ 0.099	€ 0.093
2002 ⁽²⁾	22/05/03	18/06/03	€ 0.090	€ 0.079	€ 0.074

⁽¹⁾ Figures translated from escudos to euros rounded to the third decimal point. The gross value per share expressed in the new currency as of the date of payment of the dividend was 129\$87 in 1997, 140\$00 in 1998 and 140\$00 in 1999

⁽²⁾ After the "stock split" in which each share was replaced by five shares each of a par value equal to 1/5 of its value before the "stock split".

With regard to 2002, the EDP Board of Directors submitted to the Annual General Shareholders' Meeting held on May 22, 2003, a proposal for the appropriation of the net income in the sum



of €335.2 million, of which €270.0 million were for distribution to shareholders in the form of dividends. The proposal was approved by 99.98% of the votes cast during the meeting. A gross dividend of €0.09 per share was placed at the shareholders' disposal on June 18, 2003.

In keeping with current legislation, the company's articles of association require that the **net income for the year** be appropriated as follows:

- to cover previous years' losses;
- to set aside or to increase the legal reserve and other reserves determined by law;
- to set aside or increase other reserves as determined by the General Shareholders' Meeting;
- to distribute to shareholders as dividend; and
- to award profit sharing to directors and employees in accordance with criteria established by the General Shareholders' Meeting.

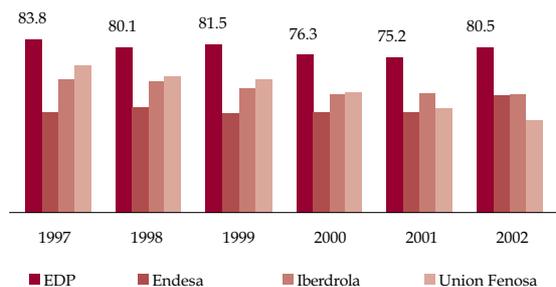
In accordance with accounting principles generally accepted in Portugal, profits distributable in the form of dividends are those remaining after deduction of losses brought forward from previous years and of 5% to increase the legal reserve up to such time as it equals one fifth of the share capital, with due consideration for other applicable legal and statutory limitations.

Dividend Payout and Dividend Yield

EDP has adopted a sustained dividend distribution policy that is designed to reconcile, on the one hand, strict observance of the relevant legal and statutory provisions and, on the other, the sharing with all its shareholders of a relevant portion of the value created by the Group in accordance with the specific conditions both of the company and of the market. The pursuit of this policy is designed to provide shareholders with adequate return on their investment, without compromising the continuity of the value of the company, as seen in the comparison with the dividend distribution undertaken by its Iberian counterparts:

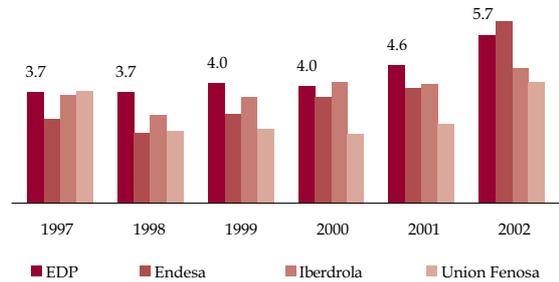
Dividend Payout

Dividend paid out/Net Income percentage



Dividend Yield

Dividend paid out per share/Year end closing price percentage



The Outlook

EDP believes that a transparent relationship with investors and with the market involves the definition of clear, reasonable and objective criteria regarding the dividend distribution policy, as emphasised by the growing demands of the investor community in view of the instability of the capital markets in recent years.

In this connection, at the meeting held on December 2, 2003, with a large group of national and international investors and analysts, the purpose of which was to present to the financial market the EDP Group's Strategic Plan for 2004-06, the dividend-policy objectives that were set out for this year call for a dividend similar to 2002 and for an annual dividend growth in the order of 7% during the period between 2004 and 2006.

>> 1.6 Stock Option Plans

Framework

Under the terms approved by the EDP Annual General Meeting held on May 11, 1999, the EDP Group implemented two EDP stock option plans, one for executive directors of the company and the other for its senior management and for the directors of the group subsidiaries.

Within the scope of these plans, options may be granted to Group directors and management to acquire EDP shares free of charge as a form of reward for past performance or as a stimulus for future contribution in achieving the group's objectives.

EDP Directors' Stock Option Plans

The aim of this plan is to award the EDP executive directors options to purchase shares representing the EDP share capital during a period of five years, the total number of options to be awarded cannot exceed 2,450,000⁽¹⁾

⁽¹⁾ Following the stock split, in which each share was replaced by five shares of a par value equal to one fifth of the value before the stock split and the deliberation by the General meeting on May 10, 2000, that approved the increase of the number of shares available to directors of the holding company so as to adjust the plan to the increase of the number of executive directors of EDP, S.A., from five to seven.

during the period. The preparation and management of this plan are the responsibility of the Remuneration Committee, which can alter, suspend or terminate it at any time.

At the end of 2003, the total number of options awarded within the scope of this plan amounted to 1 330 000, each option giving the right to purchase one share. Since the plan came into effect, 296 492 options have been cancelled because the term of office of the respective beneficiaries ended and no options had been exercised by the end of 2003. The number of shares required to cover the possible exercise of all the options granted by the end of 2003 is 1 033 508, while the number of shares required to cover the options that can be exercised in 2003 was 136 525 at the beginning of the period and 561 192 at the end of the period. In practice, at the current price of the EDP shares and at the purchase option exercise price of the options exercisable in 2003, it can be seen that the options are out-of-the-money, and it can therefore be expected that they will be exercised only when the share price rises above the exercise price, as per the information provided in the following table.

Date of Attrib.	Nr. benef.	Nr. options attributed	Exercise price	Exercise start date	Exercise end date	Nr. options conceived
29-Dec-99	5	350 000	3.43	29-Dec-01	29-Dec-04	213 475
31-Dec-01	7	490 000	2.95	31-Dec-03	31-Dec-06	65 333
31-Dec-02	9	490 000	2.00	31-Dec-04	31-Dec-07	17 684

EDP Group Senior Management Stock Option Plans

The purpose of this plan is to grant options to purchase shares representing the EDP share capital to senior managers during a period of five years, the total number of options to be awarded not to exceed 16 250 000⁽²⁾ during the period in question. The preparation and management of this plan are the responsibility of the Board of Directors, which can alter, suspend or terminate it at any time.

At the end of 2003 the total number of options awarded within the scope of this plan amounted to 1 936 250, each option giving the right to purchase one share. Since the plan came into effect, 57 500 options have been cancelled because the term of office of the respective beneficiaries ended and no options had been exercised by the end of 2003. The number of shares required to cover the possible exercise of all the options granted by the end of 2003 is 1 878 750. In practice, at the current price of the EDP shares and at the purchase option exercise price of the options exercisable in 2003, it can be seen that the options are out-of-the-money, and it can therefore be expected that they will be exercised only when the share price rises above the exercise price, as per the information provided

⁽²⁾ Following the five-for-one stock split.

in the following table.

Date of Attrib.	Nr. benef.	Nr. options attributed	Exercise price	Exercise start date	Exercise end date	Nr. options conceived
29-Dec-99	142	1 936 250	3.43	29-Dec-01	29-Dec-04	57 500

General characteristics of the EDP Stock Option Plans

During the life of the plans and in the event of alteration of the EDP share capital, the maximum limits of the planned award of options may be adjusted, as may the number of options already awarded, to ensure that the size of the plans and/or the position of the option beneficiaries remain substantially the same as prior to the occurrence of the changes.

The life or maturity of the plan is five years following the date of award of the options. The EDP share purchase options may only be exercised in full or in part during a period of three years as from the end of a two-year period following their award by the people covered by the plan. There are no special incentives for the exercise of the options.

The exercise price of the options awarded each year is the average of the daily closing prices of the EDP shares during the period of one year prior to the date defined for the award of the options, weighted by the daily volume of shares traded on Euronext Lisbon during the period. The exercise price is fixed by the Board of Directors and can in no case be lower than the par value of the EDP shares.

Additionally, the exercise price may be corrected in the event of: (a) changes of the share capital; (b) distribution of dividends or other reserves to shareholders with a significant effect on the EDP share price; and (c) other events of a similar nature that, in keeping with the free judgement of the EDP Board of Directors, warrant correction of the said price.

>> 1.7 Transactions between the company and its Corporate Officers, Qualified Shareholders and Companies in a Controlling or Group Relationship

EDP strictly observes legal rules in the matter of transactions between directors and the company or with companies with which there is control at group level.

During 2003 no transactions were undertaken between the directors and the company or its subsidiaries.

As far as provision of services, procurement or financing contracts with qualified shareholders are concerned, the Board of Directors has determined that all transactions of a value equal to or greater than one million euros for services and supplies and ten million euros for



financial operations and liabilities shall always be submitted to the Executive Committee for approval, providing also information to the Audit Committee.

>> 1.8 Investor Support Structure

EDP Communication Policy

In line with good practice in the governance of listed companies with regard to shareholder right of access to information on the Group's business, one of EDP's constant concerns is to ensure that the company's communication policy and the provision of relevant information is implemented in a way that does not discriminate between the various parties engaged in the financial market and that such information is clear and objective.

The EDP communication policy is based on the adoption of the recommendations put forward by the CMVM and on the market's best corporate governance practices in this field. The purpose is to ensure the transparency of management and the credibility of the information provided by EDP, and to encourage and strengthen the confidence of shareholders, strategic partners, workers, customers, creditors and the general public.

EDP Investor Relations Office

The EDP Investor Relations Office, set up in 1997 in the wake of the first stage of the privatisation of the company, plays an important part in the pursuit of this goal, allowing an adequate institutional and informative relationship to be maintained with the vast number of shareholders, financial analysts and potential EDP investors, as well as with the stock markets on which the EDP shares are listed and their regulatory and supervisory bodies (the Portuguese Securities Market Commission and the Securities and Exchange Commission in America).

The prime function of the Investor Relations Office is to act as interlocutor between the Executive Committee of the EDP Board of Directors and investors and the financial markets in general. In conducting its normal business, it is responsible for all the information provided by the EDP Group, with regard both to the disclosure to the market of relevant facts and other communications, and to the periodic publication of financial statements. In performing its duties, the office maintains a constant flow of information to investors and financial analysts, providing the necessary information to satisfy the requests for information addressed to it by these entities, with due regard at all times for applicable legislation and regulations.

The EDP Investor Relations Office is co-ordinated by

Pedro Pires João and its market relations representative is Rui Horta e Costa, an executive director of the company. This office is located at the company's registered office at:

Praça Marquês de Pombal, n.º 12, 4.º Piso

1250-162 Lisbon, Portugal

Telephone: +351 21 001 2834

Fax + 351 21 001 2899

Email: ir@edp.pt

Use of Information Technologies to Disclose Company Information

In addition to the Investor Relations Office and in accordance with CMVM regulatory requirements, EDP provides via its institutional site on the Internet (www.edp.pt), information of a legal nature or concerning corporate governance, updates on the Group's business and a complete set of financial and operational data concerning the company, so as to simplify access to information by shareholders, financial analysts and other interested parties.

The information provided by this means includes financial statements, internal regulations and the company's articles and memorandum of association, the Group's shareholder structure, the preparatory documentation for each General Meeting, the historic performance of the EDP share price and other information on the Group of potential interest. The EDP Internet site also allows interested parties to consult the accounting documents in respect of any year since 1997 or to request that they be sent.

EDP has increased the use of information technology in every process of disclosure of information, going far beyond its institutional page on the Internet. In fact, there is a consistent practice of investment in information technologies designed to simplify both access and the exchange of information between the various companies of the EDP Group and its various stakeholders, shareholders in particular, financial analysts and the media.

To this end, EDP has promoted and encouraged the use of electronic mail to receive and provide information in its relations with the supervisory body and with the market, as well as teleconference and videoconference facilities in its interaction with agents and institutional investors.

>> 1.9 Remuneration Committee

The remuneration of directors and other corporate officers is fixed by the Remuneration Committee,

comprising three shareholders elected by the General Meeting in accordance with the articles of association.

The current members of the Remuneration committee are:

- Brisa, represented by Vasco Maria Guimarães José de Mello;
- Parpública, represented by João Plácido Pires; and
- Ruy Manuel Corte-Real de Albuquerque.

No member of this committee holds a position on the EDP Board of Directors, nor are they spouse or direct relative to the 3rd degree of any EDP director.

The composition of the Remuneration Committee has due regard for the independence criteria established by the CMVM.

Under the terms of EDP's articles of association, the Remuneration Committee is charged with fixing the remuneration of the directors and of any benefits, such as retirement or disability pensions, as well as the remuneration of the other corporate officers.

>> 1.10 Auditors

The Audit Committee has reviewed the Group's financial information reporting process in the name of the Board of Directors. The management bodies are responsible for the production and reporting of the financial statements, and for the systems of internal control that underpin them.

The Internal Audit Office, which reports to the chairman of the Executive Committee, is responsible for checking the consistency of the internal control systems, particularly with regard to protection of assets, the scope and accuracy of the operational and financial information, and compliance with the EDP Group's guidelines.

The independent auditors - PricewaterhouseCoopers - are responsible for expressing their opinion on the conformity of the audited financial statements with international accounting standards and with Portuguese law. The Audit Committee is responsible for monitoring these activities and for drawing up recommendations within the scope of the process of preparation of the financial information.

Having discussed with the Board of Directors and with the independent auditors the relevant matters concerning the financial statements, the Audit Committee recommended to the Board of Directors, which approved the recommendation, the inclusion of the audited financial statements in this 2003 Report & Accounts.

Mandate of the Independent Auditors

PricewaterhouseCoopers has been the firm of auditors of the EDP, S.A. since 1999. Costs related to auditing services, other auditing services and tax services are, in Euros, as follows:

	Audit and legal certification of accounts	Other auditing services	Tax services
PwC	600 031	548 102	-
Other Auditors	551 260	255 000	130 732
Total	1 211 291	803 102	130 732

The auditing detailed in the foregoing table correspond to necessary audit work required to issue an opinion on individual and consolidated financial statements of the parent company and its subsidiaries on Portugal and overseas. These services do not include services to associated companies nor jointly controlled companies. PwC's other auditing services include auditing services on non-recurrent transactions, namely valuation of fair values in Spain and Brazil, on the implementation of new accounting policies, on the review of the internal control systems, consents and comfort letters, and other services within the scope of the requirements of the CMVM (Portugal) and of the Securities and Exchange Commission (United States).

Other auditing services provided by the independent auditors include work performed by Deloitte & Touche in Brazil related to the valuation of fair values of Escelsa and Enersul.

The tax services concern the tax consultancy services provided by KPMG, in Portugal, in the amount of 121 000 Euros and by Deloitte & Touche in Brazil.





>> 2 Exercise of voting rights and shareholder representation

>> 2.1 Statutory Rules

In accordance with the EDP articles of association, attending and taking part in General Meetings of Shareholders and the granting of voting rights are subject to ownership of at least 100 shares, each 100 shares corresponding to 1 vote, without prejudice to the following grouping and representation rights:

- Shareholders owning a number of shares less than 100 may group together to make up the amount necessary to exercise voting right, to be represented by one of the shareholders of the group;
- A signed proxy letter addressed to the chairman of the Board of the General Meeting is sufficient for the purpose of representation.

>> 2.2 Legitimation of the Exercise of Voting Rights

Shareholders may only take part in a General Meeting provided they have held shares since at least the fifteenth day prior to the date of the Meeting, provided always that they maintain this standing up to the date it is held.

Proof of ownership of the shares is provided by sending to the chairman of the Board of the General Meeting, at least eight days prior to the date on which the Meeting is held, a declaration issued and authenticated by the financial intermediary charged with the custody of the shares, stating that the shares in question have been registered in the account at least since the fifteenth day prior to the date on which the above mentioned Meeting is to be held and that the referred shares are blocked in the account until the date on which the above mentioned General Meeting takes place.

Methods of exercising voting rights

EDP Shareholders

Shareholders may exercise voting rights by correspondence on each item of the agenda, by means of a recorded-delivery registered letter addressed to the chairman of the Board of the General Meeting sent to the registered office, at least eight days ahead of the meeting.

EDP has endeavoured to encourage shareholder participation in the life of the company, particularly through the exercise of voting rights at General Meetings, and therefore postal voting is enshrined in its articles of association immediately after the Securities Code came into force.

To allow this method of exercise of voting rights, proposals to be submitted by the Board of Directors to the General Meeting, as well as the reports that legally accompany these proposals and other preparatory items of information are made available to all shareholders at the registered office of EDP at least fifteen days ahead of the General Meeting. At the request of shareholders, EDP will also send this information by mail, fax, or electronic mail.

Holders of American Depositary Shares (ADSs)

Holders of rights representing shares under ADS programmes that are admitted to listing on the New York Stock Exchange may instruct the respective depositary bank to exercise the voting right or to grant a proxy to the representative appointed by EDP for the purpose, in keeping with applicable legal and statutory provisions; the deposit contract should govern the deadlines and method of exercise of voting instructions, as well as any case of absence of instructions.

Holders of ADSs are granted rights identical to those of ordinary shareholders. The voting rights of ADS holders are determined on the basis that one ADS represents ten ordinary EDP shares.

Limitation of the Exercise of Voting Rights

With the exception of the State or entities equivalent under the law, no shareholder may cast votes in his/her name or on behalf of another, exceeding 5% of the whole of the votes corresponding to the share capital.

Additionally, shareholders who come to hold 5% or more of the voting rights or of the share capital must communicate the fact to the Board of Directors within five business days of the date on which the acquisition took place, and may not exercise the respective voting rights until such communication shall have been made.

>> 2.3 Model used in the Exercise of Postal Voting Rights
.....

To extend the use and simplify the exercise of postal voting by those shareholders wishing to enjoy this prerogative, EDP provides draft representation proxy

letters and voting papers on the Internet page www.edp.pt or will send them to those so requesting in writing or by telephone, in keeping with applicable legal and statutory rules.

>> 2.4 Possibility of Exercising Voting Rights using Electronic Means
.....

The EDP articles of association do not exclude the possibility of exercising voting rights by correspondence, through the use of electronic messages, provided that the legal and statutory formalities for participation in General Meetings are strictly complied with, provided always that the identity of the shareholder is confirmed by adequate means of certification.





>> 3 Company Rules

Internal Regulations

The EDP articles of association, which define the principal rules governing the working and organisation of the company's organic and administrative structure, are available for public consultation and may be provided to all those so requesting at the EDP Investor Relations Office or by accessing the EDP page on the Internet at www.edp.pt.

In addition to the EDP articles of association, the Board of Directors has approved certain internal regulations dealing with its work and with the work of the various committees, into report to the board. Thus, the Board of Directors Regulations establish a number of competence and procedure rules concerning its work. On the other hand, the principal rules governing the work of the Executive Committee, appointed by delegation of powers deliberated on May 22, 2003, are set out in the Executive Committee Regulations.

The EDP Board of Directors has also set up a specialised committee, comprising three independent directors, known as the Audit Committee, for the purpose of implementing the CMVM Recommendations on the Governance of Listed Companies and of ensuring compliance with the rules applicable to companies listed on the New York Stock Exchange stemming from the Sarbanes-Oxley Act, approved by the Senate of the United States of America in July 2002

The internal regulations of the Board of Directors and of the above mentioned committees are available to shareholders for consultation at the company's registered office or on the EDP site on the Internet at www.edp.pt and on the Group's intranet.

Indication of measures that could interfere in the success of take-over bids

Although there are no limitations to the transmissibility of EDP shares since, under the terms of the Securities Market Code, shares tradable on the market must be freely transmissible, the EDP articles of association contain rules concerning the limitation of the exercise of voting rights. The legislation that established the conditions for the fourth stage of privatisation of EDP, undertaken in October 2002, established certain special

rights accruing to the Portuguese State as a shareholder in EDP that could interfere with the success of take-over bids for EDP shares.

According to the EDP articles of association, no shareholder, with the exception of the State or legally equivalent entities, may cast votes in his/her own name or as representative of another exceeding 5% of the whole of the votes corresponding to the share capital.

Furthermore, shareholders who come to hold 5% or more of the voting rights or of the share capital must so inform the Board of Directors, within five business days of the date in question, and may not exercise the respective voting rights until such information has been provided. For this purpose, the voting rights that, under the terms of the Securities Market Code, are considered as forming part of a qualified holding are considered to be cast by the same shareholder; in this case, shareholders are bound to provide to the Board of Directors, in writing in a complete, objective, clear and truthful manner, and in a form satisfactory to the Board, such information as may be requested to them by the Board concerning facts that concern them and are related with the said qualified holding.

On the other hand, under the terms of article 13 of Decree-Law 141/2000 of July 15, in respect of the fourth stage of the EDP privatisation, for as long as the Portuguese State is an EDP shareholder, regardless of the number of shares it may hold either directly or indirectly through public entities, approval of the following deliberations is dependent on its favourable vote:

- Alteration of the articles of association, including the increase of the share capital, mergers, splits and winding up;
- Entering into parity and subordination group contracts; and
- Suppression or limitation of shareholder right of preference in share capital increases.

Likewise, for as long as the State retains its standing as an EDP shareholder, it is entitled to appoint a director should it have voted against the successful list in the election of the EDP directors. This right granted to the Portuguese State shall prevail over the rights granted to minority shareholders under the terms of article 390 of the Companies Code.

>> 4 Risk Management and Control System

Creation of the Risk Management Office

During the second half of 2003, EDP set up the Risk Management Office whose mission consists of the definition, implementation and upkeep of an Integrated Risk Management System (SGIR) for the EDP Group.

Use of the SGIR is a source of comparative advantage for EDP as it allows risk to be taken into account in the Group's strategic and operational decisions. Indeed, the opportunities with which a group of the size of EDP is constantly faced involve uncertainties whose quantification, through determination of the inherent risk, makes a decisive contribution to proper decision making.

The SGIR will be implemented in stages. The more significant groups of risks to which EDP is subject were identified during 2003. The Risk Office was also provided with an initial structure and human resources.

During 2004 the rules will be established and the methodologies drawn up that will materialise the Risk function within the EDP Group. Efforts will be directed at adopting best existing practices in these two areas and in creating a state-of-the-art infrastructure in this connection.

The first stage will see implementation of the systems that will allow Risk Limit and Analysis Management, leading progressively to Risk-Adjusted Return On Capital (RAROC) and to active management of the company's portfolio.

SGIR will require recourse to risk modelling and aggregation methodologies. At this time the necessary tools are being created to allow, quantitative analyses to be performed using in particular, Monte Carlo simulations linked to VaR analysis.

Risk Management Office has a functional relation with the company's various business areas in which the risks are sourced or are reflected, so as to achieve an aggregate overview of the risk within the EDP Group, taking into account the correlations between the several variables that cause the risk.

Business Unit Risk Control

In addition to the consolidated control and management of the Group's business risks, the processing and control of business risks at the level of the various business units is also of structural importance to EDP. At this level we must emphasise the following aspects of risk control that have been implemented by the Group:

- The Internal Audit Office monitors compliance of the internal operational procedures in accordance with the company's rules;
- The Financial Management Office manages the risk associated with the financial market, having contracted a number of financial instruments to reduce exposure to interest-rate and exchange-rate risks. This has been undertaken on a prudent basis and periodic evaluation is made of its fair value;
- EDP Valor has monitored the contracting of insurance at EDP Group level in order to achieve the most adequate means of cover of insurable risks;
- EDP Produção has a Risk Board that has monitored all risks associated with electricity generation, ranging from operation and maintenance to partnerships and outsourcing. The Risk Board performed a set of audits during 2003 on the electricity generating facilities; and
- EDP Distribuição, EDP Energia and the Trading Unit, in close co-operation with the various EDP offices, have characterised the risks and opportunities stemming from the progressive liberalisation of the energy sector.





>> 5 Management

>> 5.1 Characteristics of the Board of Directors

The EDP Board of Directors, which includes independent directors, currently consists of 13 directors elected by a majority of votes cast at the General Meeting of Shareholders. The term of office of the directors is three years and there are no restrictions on their re-election.

>> 5.2 Executive Committee

Under the terms of the deliberation of the Board of Directors on May 22, 2003, in keeping with the provisions of the articles of association, the day-to-day management of EDP is delegated to an Executive Committee comprising five directors.

As a rule, the Executive Committee meets on a weekly basis with the participation of all its members. The work of the Executive Committee is governed by the respective regulations approved by the Board of Directors, which also appointed the chairman of the Executive Committee and established the rules governing information and the monitoring of its activities by the Board.

At every meeting of the Board of Directors, the Executive Committee presents the developments of the Group's strategic agenda and the more relevant decisions that it took, as well as the minutes of the meetings of the Executive Committee.

To ensure complete knowledge of all matters dealt with by the Executive Committee, it has been determined that the provision of information to any member of the Board of Directors is made known to every member of the Board of Directors.

The **duties of the Executive Committee** were established by the Board of Directors in the deliberation concerning the delegation of the company's day-to-day management powers and consists essentially of:

- Designing and proposing the Group's strategy and policy;
- Day-to-day management of the EDP business and of the Group companies;

- Co-ordination of the business of the subsidiaries;
- Management of the holdings owned by EDP; and
- Co-operation with the Board in the definition of Group policies.

However, the **delegation of responsibilities on the Executive Committee does not include:**

- Co-opting directors;
- Requests to convene General Meetings;
- Approval of the annual report and accounts to be submitted to the General Meeting;
- Approval of half yearly and quarterly accounts to be published pursuant to the law;
- Approval of the annual and multi-annual plans and budgets and periodic monitoring of the execution;
- Changes of the registered office of EDP, under the terms provided for in the articles of association;
- Projects involving the merge, split, transformation and sale of companies of the EDP Group; and
- Provision of collateral and personal or asset backed guarantees by the company.

The Executive Committee must also inform the Board of Directors of any decisions of special importance that it takes and, when justified, submit to the Board of Directors for appraisal those deliberations which, for their importance, it considers require Board confirmation.

Notwithstanding the delegation of powers, those members of the Board of Directors that have no seat on the Executive Committee are responsible under the law for the supervision of the activity of the Executive Committee and also for losses caused by its acts or omissions provided that, having taken cognisance of such acts or omissions or of the intention of committing them, they do not cause the intervention of the Board of Directors with a view to taking adequate measures.

During 2003 the Executive Committee held 41 ordinary and 13 extraordinary meetings.

>> 5.3 Description of the work of the Board of Directors

The **EDP Board of Directors is responsible** for the management of the company's business, charged in particular, under the terms of the articles of association, with the following:

- Establishing the management of objectives and policies of EDP and of the EDP Group;
- Drawing up the annual business and financial plans;
- Managing corporate business and carrying out such acts and operations concerning the corporate object that are not entrusted to other corporate bodies;
- Representing the company in and out of court, both actively and passively, holding powers to waive, transact and confess in any proceedings and to enter into arbitration conventions;
- Acquiring, selling or in any other manner disposing of or encumbering rights or immovables;
- To incorporate companies and to subscribe, acquire, encumber and sell investments;
- Deliberating on the issue of bonds and other securities and the terms of the law and of the articles of association;
- Establishing the EDP technical and administrative organisation and the internal work rules, particularly with regard to personnel and their remuneration;
- Appointing attorneys with such powers as it may deem fit, including powers of delegation;
- Appointing the Company secretary and the alternate secretary; and
- Performing such other duties as may be attributed by law or by the General Meeting.

The **chairman of the Board of Directors is charged with special duties**, namely:

- Representing the Board of Directors in and out of court;
- Co-ordinating the activity of the Board of Directors and convening and chairing its meetings;
- Exercising the casting vote; and
- Ensuring proper execution of the deliberations of the Board of Directors.

Generally speaking, the Board Directors meets on a monthly basis with the participation of all the directors, and it cannot deliberate unless the majority of its members is present. No more than one director may be represented at each meeting. All directors have equal

voting rights, the chairman to have the casting vote. The work of the Board of Directors is governed by internal regulations.

During 2003 the Board of Directors held 12 ordinary and 11 extraordinary meetings.

>> 5.4 Remuneration of Corporate Officers

Remuneration of Corporate Officers during 2003

In keeping with the articles of association, the General Meeting elects a Remuneration Committee that fixes the remuneration of the Corporate Officers. General Meetings may also determine the award of a part of the profits to directors, by way of profit-sharing, as well as the implementation of stock option plans.

The remuneration granted to the Corporate Officers of EDP Electricidade de Portugal, S.A., during 2003 was as follows:

	euros
	Total
Board of the General Meeting	748.20
Statutory Auditor	82 250.00
Board of Directors	3 694 243.02
Total	3 777 241.22

	Fixa	Variável	Total	euros
Director members of the Executive Committee of the Board of Directors	2 558 805.09	584 900.00	3 143 705.09	
Non-executive Directors	529 537.93	21 000.00	550 537.93	
Total	3 088 343.02	605 900.00	3 694 243.02	

In respect of 2003 as a whole, the year in which several members of the previous Board of Directors stepped down on completion of their term of office, it is considered appropriate that the information structure previously adopted should be maintained.

⁽³⁾ Notes: the Board of Directors was enlarged on May 22, 2003 from 11 to 13 members; on May 22, 2003, the Executive Committee was reduced from 7 to 5 members; the chairman of the Board of Directors was chairman of the Executive Committee up to May 21, 2003. Since May 22, 2003, the chairman of the Board of Directors has had delegated powers but is not a member of the Executive Committee. Directors are not remunerated by companies in a controlling or group relationship with EDP.



Policy of rewarding the members of the management body

During the present term of office the Remuneration Committee defined a number of assumptions designed to reward performance and to encourage medium- and long-term management consistency, in keeping with the CMVM recommendations and with best international practice directed at aligning the interests of directors with those of the company.

For this purpose, a ceiling was established for the variable remuneration, for each type of function, which can be achieved in the light of qualitative and quantitative performance criteria, in accordance with predefined objectives:

- Short term - Cash bonus, taking into account the objectives of return on equity (RoE), return on invested capital (RoIC), gross operating profit (EBITDA) and variation of shareholders' equity;
- Medium-term - Shares for performance, taking into account all the engenerous companies and the evolution of the PSI 20;
- Long-term - Stock option plan, taking account of the objectives of return on equity (RoE), return on invested capital (RoIC), gross operating profit (EBITDA) and variation of shareholders' equity;

Remuneration of the Board of Directors during the present term of office

The remuneration is detailed as from May 22, 2003, the starting date of the present term of office of the Board of Directors.

Remuneration of the Board of Directors during the present term of office

From May 22 to December 31, 2003	Total
Chairman of the Board of Directors	357 995.00
Chairman of the Executive Committee of the Board of Directors	368 464.00
Directors members of the Executive Committee of the Board of Directors	1 064 839.00
Non-executive Directors	153 180.00
Total	1 944 478.00

Under the terms established by the Remuneration Committee, the variable remuneration is related to performance indicators of the previous fiscal year which has not yet been appraised in respect of 2003.

>> 5.5 EDP shares held by Corporate Officers

In accordance with article 447.5 of the Companies Code, the movement of shares held by Corporate Officers during the year ended December 31, 2003, is detailed as follows:

EDP shares held by Corporate Officers

	Moviments em 2003	N.º Shares 31-12-2003
Board of the General Meeting		
José Manuel Archer Galvão Teles	—	3 506
António Campos Pires Caiado	—	5 872
Board of Directors		
Francisco de la Fuente Sánchez	—	10 373
João Luís Ramalho de Carvalho Talone	—	1 905
António de Almeida	—	4 265
António José Fernandes de Sousa	—	1 865
Arnaldo Pedro Figueirôa Navarro Machado	—	9 680
Jorge Manuel de Oliveira Godinho	—	30 393
José Manuel Gonçalves de Morais Cabral	—	715
José Manuel Trindade Neves Adelino	—	896
Paulo Azevedo Pereira da Silva	—	5 986
Rui Miguel de Oliveira Horta e Costa	—	3 762
Vitor Ângelo Mendes da Costa Martins	—	767
Company Secretary		
António José Marrachinho Soares (Suplente)	—	6 574
Remuneration Committee		
BRISA	—	60 002 297
PARPÚBLICA	—	214 220 570
Ruy Manuel Corte-Real de Albuquerque	—	4 561

>> 5.6 Other corporate offices held by members of the Board of Directors of EDP, S.A.

Positions held by non-executive directors

António de Almeida

Member of the Board of Directors of BERD.

António José Fernandes de Sousa

Chairman of Board of Directors of Caixa Geral de Depósitos; Chairman of Board of Directors of Caixa - Banco de Investimento; Chairman of Board of Directors of Caixa Participações; Chairman of Board of Directors of Gerbanca, SGPS; Director of Brisa Auto - Estradas de Portugal.

José Manuel Trindade Neves Adelino - Member of the Board of Directors

Member of the Consultative Board of Sonae SGPS; Member of the Management Board of the Deposit Guarantee Fund; Member of the Strategic Board of Portugal Telecom; Member of the Consultative Board of the Confederation of Portuguese Industry; Member of the National Education Commission.

José Manuel Gonçalves de Morais Cabral - Member of the Board of Directors

Member of the Board of Directors of Sopenata; Member of the Board of Directors of Efacec Capital, SGPS; Member of the Board of Directors of Soimper; Member of

the Board of Directors of José de Mello Participações II, SGPS; Manager of José de Mello Serviços, Lda.

Luís Filipe Rolim de Azevedo Coutinho - Member of the Board of Directors

Auxiliary Guest Lecturer at the Faculty of Economy of Universidade Nova de Lisboa; management of the Music, Education and Culture Association; Company Consultant.

Paulo Azevedo Pereira da Silva - Member of the Board of Directors

Chairman of the Board of Directors of BCP Leasing; Member of the Board of Directors of Leasefactor, SGPS; Member of the Board of Directors of CrédiBanco - Banco de Crédito Pessoal; Member of the Board of Directors of

ONI, SGPS; Chairman of the Board of Directors of Tecnilase - Comércio e Aluguer de Equipamentos; Chairman of the Board of Directors of Luso-Atlântica - Aluguer de Viaturas; Chairman of the Board of Directors of Unilong - Aluguer de Longa Duração; Manager on Cisl Veículos - Sociedade de Aluguer, Lda.; Member of the Board of Directors of BIM-Leasing, SARL (Mozambique).

Vitor Ângelo Mendes da Costa Martins - Member of the Board of Directors

Senior Consultant of the Citigroup; Member of the Management Board of the IEEI - International Strategic Studies Institute; Member of the Strategic Board of "Notre Europe" Jacques Delors Association; Member of the Consultative Board of the Forum of Company Directors.

Positions held by the members of the Executive Committee and by the Chairman of the Board of Directors

	Eng. Francisco Sánchez	Eng. João Talone	Eng. Navarro Machado	Eng. Jorge Godinho	Eng. Pedro Rezende	Dr. Rui Horta e Costa
Central-e-Informação e Comércio Electrónico, S.A.						PCA
CPPE - Companhia Portuguesa de Produção de Electricidade, S.A.					PCA	
Edalpro Imobiliária, Lda.						G
Edipombal Imobiliária, S.A.						PCA
EDP - Electricidade de Portugal, S.A.	PCA	PCE	A	A	A	A
EDP - Gestão da Produção de Energia, S.A.		PCA	A	A	A	A
EDP - Investimentos, Gestão de Participações e Assistência Técnica, Lda.						A
EDP Brasil, S.A.				PCA		A
EDP Cogeração - Produção de Electricidade e Calor					A	
EDP Distribuição - Energia, S.A.		PCA	PCE	A	A	A
EDP Energia, S.A.				PCA	A	
EDP Estudos e Consultoria, S.A.		PCA	A	A	A	A
EDP Imobiliária, S.A.					A	
EDP Participações - S.G.P.S., S.A.		PCA				A
EDP Produção EM - Engenharia e Manutenção, S.A.					PCA	
EDP Serviner - Serviços de Energia, S.A.				PCA	A	
Electricidade de Portugal Internacional, S.G.P.S., S.A.			PCA			A
Energia RE						A
HDN - Energia do Norte, S.A.					PCA	
Hidrocenel - Energia do Centro, S.A.					PCA	
Hidroeléctrica del Cantábrico, S.A.	A	A		A	A	A
HidrOeM - Gestão, Operação e Manutenção de Centrais Eléctricas, S.A.					PCA	
Iberenergia, S.A.						A
Internel - Serviços de Consultoria Internacional, S.A.			PCA			A
Labeltec - Estudos, Desenvolvimento e Actividades Laboratoriais, S.A.			PCA			
ONI S.G.P.S., S.A.	PCA	A				A
TER - Termoeléctrica do Ribatejo, S.A.					PCA	
Tergen - Operação e Manutenção de Centrais Termoeléctricas, S.A.					PCA	

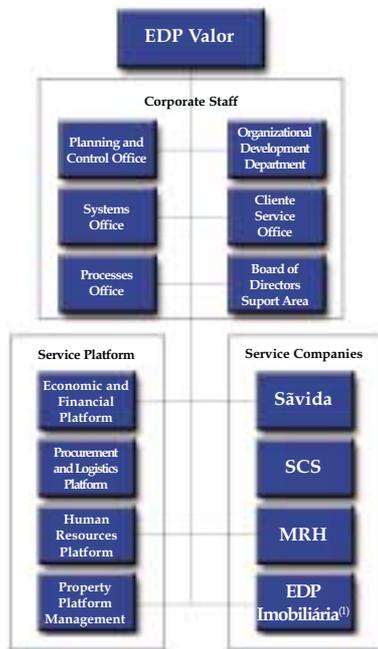
PCA: Chairman of the Board of Directors
 PCE: Chairman of the Executive Committee
 A: Member of the Board of Directors
 G: Director





>> 6 Group Management Support Services

EDP Valor is the sub-holding company of the EDP Group involved in the provision of support services. Its structure is as follows:



(1) Control under transfer to EDP, S.A.

The main **objectives** of EDP Valor are:

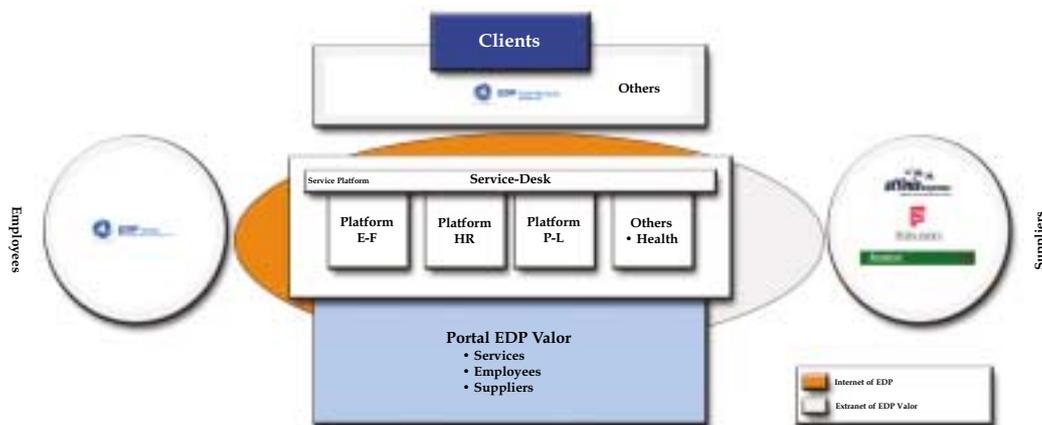
- Cost reduction;
- Process and systems optimisation; and
- Customer and employee satisfaction.

Several steps were taken during 2003 in terms of internal organisation, in particular:

- Conclusion of the extension of the PEF – Economic and Financial Platform to the companies of the production and distribution sector of the EDP Group in the areas of accounting, taxation and economic budget;
- Within the scope of the PAL – Procurement and Logistics Platform, extension of the provision of premises and fleet management services to all the Group companies;
- The creation of two new offices:

- a) the Systems Office, whose main mission is to study the integration of the information systems, the enlargement of the applicational coverage, and the definition of a co-operation space for customers, employees, suppliers and business partners, as well as the definition and monitoring of the vision of the future of the EDP Valor information systems.

To this end the ValorNet project was launched with a view to optimise information systems and technologies



in order to ensure growing satisfaction of customers, suppliers, employees and business partners, designed in accordance with the follow model:

- b) the Processes Office, with a view to strengthening and sustaining profit and customer orientation, encouraging the application of management methodologies by processes, efficient knowledge management and securing efficiency gains;
- The setting up of PGI - Property Management Platform.

Economic and Financial Platform (PEF)

The mission of the PEF is the provision of support services in the areas of budgeting, treasury, accounting, taxation, third-party accounts and insurance & risk management, in accordance with national and international standards. The introduction of this management support tool has allowed an improvement of quality and rigour, providing interesting results in terms of tax optimisation.

Procurement and Logistics Platform (PAL)

The mission of the PAL is to provide support services in the areas of negotiation, unification and control of goods and services of categories across businesses, fleet management and premises management.

Human Resources Platform (PRH)

The mission of the PRH is to provide processing and control services in respect of remuneration and pensions, providing all support activities to the Human Resources areas.

Provision of Health Care Services

The provision of health care services to employees, pensioners and their families entitled to medical assistance is provided by Sávda - Medicina Apoiada, S.A., and by SCS - Serviços Complementares de Saúde, S.A., as a complement to the National Health Services and in accordance with the contractual obligations established with the companies of the EDP Group.

During 2003 health care was provided to about 58 000 people of an average age of 48, corresponding to 424 000 appointments and treatments and to 1 238 inpatient attendances for medical and surgical treatment.

The means available for the provision of complementary health care services were as follows:

- The company's own staff of 24 physicians, 24 nurses and 36 health workers and clerks at the medical posts where Sávda provides health care;
- An external medical body comprising 226 physicians and 138 nurses contracted on a fee basis to provide

direct specialised services in the cities of Lisbon, Setúbal, Oporto, Coimbra and Braga;

- A network involving about 1 530 contracts with various physicians and preferred providers located in about 2 200 health care facilities across the country; and
- The company infrastructure of 120 medical offices located in 57 medical posts around the country.

Medication costs fell by about 5.1% compared with 2002, as a result of the efficiency programme and of the legislative alterations within the scope of the medication policy of the National Health Service.

Training and Documentation Platform (PFD)

A decision was taken in 2003 to create the PFD - Training and Documentation Platform within EDP Valor, which will take over the activities undertaken till now by MRH.

During 2003 a total of about 101 000 training hours was given by MRH.

Within the scope of the use of new technologies to support training, participation continued in the Alfabet project, the aim of which is the preparation of an adaptive e-learning platform, which is considered the prime training instrument of the future. Training was also provided in the area of Safety - Electric Risk Prevention, through e-learning.

Property Management Platform (PGI)

Within the EDP Group there are two companies engaged in the management of its property assets. Edalpro Imobiliária, Lda., owned by EDP, S.A., whose mission is to manage the company's social housing and the rustic and urban properties left over following the construction of the hydroelectric and thermal power plants, and EDP Imobiliária, wholly owned by EDP Valor, whose mission is to foster the appreciation, development and sale of the properties surplus to Group requirements.

During 2003 and in the wake of internal strategic reorientation, it was decided to transfer ownership of EDP Imobiliária to the Group's holding company and to transfer operating activities to the PGI.

The PGI was set up as an EDP Valor services platform in September, directed at five strategic areas:

- Stock-taking, regularisation and evaluation of properties;
- Alignment with the needs of the business areas;
- Reduction of property costs;
- Concentrating and modernising premises in the major urban centres; and
- Enhancement and disposal of surplus assets.





>> 7 Human Resources

This chapter addresses the main events and policies within the scope of Human Resources and is complemented by the information provided in the Sustainability Report, of a more statistical nature.

In keeping with the strategic objectives and with the theme of "Entering into Commitments with the Future", the human resources policies for 2003 were directed at making the organisation more agile and flexible and understanding the human potential and conduct within the company so that people will align their activity with the objectives of the EDP Group and feel a part of a living, sharing institution

PAR - Restructuring Support Plan

The opening up of the European energy market has altered the context of the business. Benchmark studies provide the company with knowledge of its present position and clearly indicate the guidelines to be followed to put it among the best Iberian and European companies, an attribute essential to the sustained development of the company.

Thus, and even taking into account the results already achieved in previous years, the strengthening of these optimisation efforts was seen to be imperative in 2003, involving recourse to programmes designed to identify areas of improvement, directed at gains of efficiency and at optimisation of the organisational structures.

To this end, rationalisation of the human resources was one of the first priorities. There was a need to develop and acquire skills in several areas and, on the other hand, it proved possible to rationalise others that were seen to provide a lesser creation of value within the context of a competitive market.

In this connection, a programme was launched to support the restructuring of the human resources during 2003-04 so as to put into practice an adjustment of human resources stemming from the optimisation processes underway at the various Group companies. These processes led to the identification of about 1 200 employees 626 of whom accepted the company's proposal involving termination by mutual agreement, early retirement and pre-retirement. A total of 583 left the company during the year.

The employees who left were offered the use of an outplacement programme to help them in their search for new employment, in setting up their own business and in providing support for active retirement.

PRF - Flexible Retirement Programme

A flexible retirement programme was launched to support present pre-retirees in the exercise of the right governed by Decree-Law 9/99, which allows old-age retirement to be brought forward under certain conditions.

Of the 1 414 eligible pre-retirees, 587 had signed up for this programme by the end of 2003.

Link between EDP and universities in search of new talent

The rejuvenation of the staff and the search for new talent were at the root of the EDP Group's presence at several employment fairs, particularly those organised by universities.



During 2003, the EDP Group was present at a number of the country's leading universities and at Expo-Employment Lisbon. It also attended workshops at which technical teams were presented in the area of engineering, human resources and others linked to the liberalisation of the energy market.

A total of 94 training courses were organised by EDP Group allowing students training or even the conclusion of their courses.

Recruitment and Selection

During 2003, with a view to rejuvenating the staff and to acquiring specific skills, 96 people were taken on as permanent employees of the companies, 75 were hired on fixed-term contracts and 183 vocational training courses were held, 57 of which began during the year.

A total of 7 315 new candidates registered with the database via the Internet.

Global Management 2003

A total of 10 EDP teams took part in this initiative, three comprising solely employees from the various Group companies and seven were mixed teams comprising EDP employees and students from several universities.

Management Appraisal

One of the critical success factors is the ability to develop qualified management teams, which requires greater knowledge of our managers.

For this purpose, in line with the Human Resources policy and taking into consideration the skills to be developed that have been identified within the scope of the GIP (Integrated People Management) project, an Assessment - Management Appraisal project was contracted out to a specialised company, involving 115 assistant managers and staff of a similar level.

The major objectives of this project are:

- To provide overall evaluation of the behaviour and management skills of this group of executives, particularly in view of the changes demanded by the future strategy of the organisation;
- To identify areas/skills to be improved to maximise the overall development potential and that of each business area; and
- To provide personalised feedback to each executive involved in this project in respect of professional advancement, to allow each to make use of the full potential of his/her skills.

In the wake of this programme a mentoring measure was implemented to support these managers in the advancement of their career and in their alignment with the strategy of the EDP Group, the mentors being the members of the Executive Committee and the General Managers

Training

Employee development is one of the Group's critical success factors in facing change. In this connection, special importance was given to training courses in the

areas of technical specialisation (e.g. Engineering, Economics and Management, Languages and Information Systems) and in behavioural areas (e.g. Leadership and Internal Communication).

The use of e-learning platforms opens up the way to implementation of courses covering a vast, geographically dispersed population, with a particular focus on the Maestro Programme - Academy of Leadership and Prevention of Electric Risk.

Some courses were directed at specific populations, particularly electricians at EDP Distribuição and power plant operators and foremen.

Advanced training of senior EDP Group staff was another aspect of development that involved 22 employees in advanced programmes in company management (see Part III for more detailed information).

Overall, more than 700 training courses were organised, involving 8 500 participants, requiring a financial effort of €3.1 million in terms of direct costs.

1st EDP Meeting

As a means of strengthening ties between employees, the company and its senior officers, a three-day meeting was organised, involving about 9 000 employees of the Group's electricity business.

"More Market. More Competition. More EDP." was the theme of the 1st EDP meeting, during which the Executive Committee spoke about the economic and financial situation of the company, the changes to the negotiation system within the energy-generating market, the liberalisation of the market and the impact on energy marketing, cost control, efficiency and competitiveness, and the Strategic Agenda for 2004.



For the first time, a meeting of this kind constituted a challenge to build a new attitude of relationship with the market and with customers, based on the provision of an efficient, quality service. The message of the Executive Committee was understood and accepted. EDP's people accept the challenge of change, moving towards a culture of competitiveness and excellence of customer relations: the customers' EDP rather than the EDP customers.

Salary Study for Top Managers

To ensure the company's competitiveness in retaining and recruiting senior managers, a salary study was undertaken with a view to strengthening their commitment to the company, in line with best market practices.

Profit Sharing

As in previous years, it was decided that a part of 2002 profit be distributed to employees in 2003.

The total sum provided for the purpose took into account the Group's economic performance during 2002 and, regarding its distribution, consideration was given to the response given by the various companies to the evolution of the framework with which they were confronted during the year and the weighting of the individual contribution of their employees.

It was also decided that, for those employees occupying macro-structure positions, 30% of the incentive would be paid in the form of EDP shares, as a means of strengthening the commitment between senior staff and the company.

Distribution of Employees

Number of Employees

	2003	2002	2001	Var. %
Electricity	12 990	13 892	14 346	(6.5%)
Portugal	8 398	9 150	9 382	(8.2%)
Generation	1 988	2 099	2 157	(5.3%)
Renewables	12	16	15	(25.0%)
Distribution	6 335	6 979	7 172	(9.2%)
Supply ⁽¹⁾	63	56	38	12.5%
Spain	1 078	1 116	1 104	(3.4%)
Generation	569	620	618	(8.2%)
Distribution	395	388	396	1.8%
Supply	114	108	90	5.6%
Brazil	3 514	3 626	3 860	(3.1%)
Bandeirante	1 261	1 345	1 471	(6.2%)
Escelsa	1 309	1 353	1 411	(3.3%)
Enersul	944	928	978	1.7%
Gas - Spain	277	62	58	346.8%
Telecommunications ⁽²⁾	1 180	1 617	1 719	(27.0%)
Information Technologies	1 625	1 713	1 551	(5.1%)
EDP Valor	629	531	219	18.5%
Other ⁽³⁾	963	640	635	50.5%
TOTAL	17 664	18 455	18 528	(4.3%)

Note: These figures correspond to the total number of employees, regardless of the holding of the EDP Group, for comparison purposes.

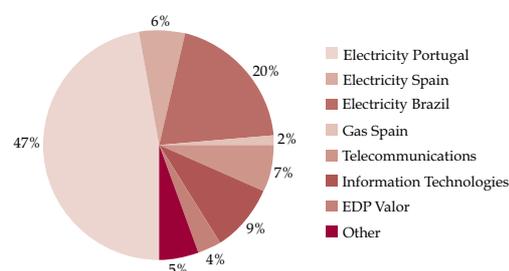
⁽¹⁾ Includes EDP Serviner

⁽²⁾ Includes ONI Way in 2001 and 2002

⁽³⁾ Includes *holdings* and other subsidiaries

The total number of EDP Group employees stood at 17 664 as at December 31, 2003, 4.3% less than the figure at the end of 2002.

Breakdown of Employees by Business



The indicators in respect of the age pyramid and academic qualifications of the employees are provided in the Sustainability Report.

Prevention and Safety Activities

Prevention and safety at work activities at EDP reflect the results of a long and strong tradition of efforts directed at achieving increasingly better safety-at-work conditions. The Group’s target is “ Zero Accidents” and its understanding is that good practice in the matters of safety, hygiene and health at work also leads to good corporate results.

During 2002 Group renewed its Safety Policy, restating and emphasising the importance of including safety in every aspect of company life. To this end, prevention and safety activities in 2003 were largely directed at operational procedures and methodologies with a view to the consolidation of a safety, hygiene and health at work (SHST) system based on the OSHAS 18001 standard.

In this connection, the objective was achieved of obtaining SHST certification by Lloyd’s Register Quality Assurance in respect of six thermal and hydroelectric power stations. Audits are ongoing in respect of the remaining power stations with a view to obtaining this certification.

Efforts continued to implement the “Safety Certificate” and the “Safety Passport”, the target being to ensure its full application in respect of all EDP service providers by the end of 2005.

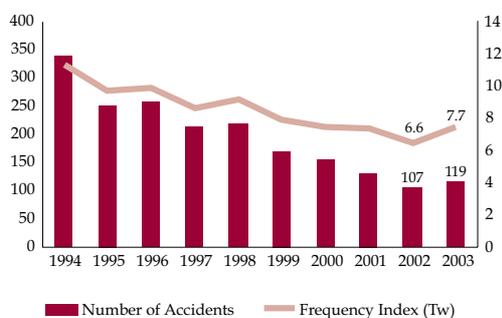
Within the scope of the crisis management plan, accident-response exercises were carried out at various

industrial and administrative facilities with a view of testing the effectiveness of the respective internal emergency plans.

The fact should also be underscored that EDP was awarded first place in the “2003 Henrique Salgado Prevention and Risk Management Prize”. This is an initiative organised by Companhia de Seguros Tranquilidade designed to distinguish those companies that, during 2002, implemented prevention and protection measures able to limit or reduce the effects of any accidents.

With regard to the number of accidents in the field, there was a slight reversal of the trend seen in recent years. The weather conditions early in the year and the complicated forest-fire season in the summer, both very unfavourable to the electricity grid, contributed to this situation.

Number of Accidents and Frequency Index





>> 8 Pension Fund

The Group companies that have subscribed to the "Acordo Colectivo de Trabalho" complement their workers' deferred benefits granted by the official welfare institutions in accordance with the current pension benefit plan.

Present value of future liabilities for these benefits is financed by a closed pension fund and by specific provisions.

The performance of the fund was positive in 2003, reversing the trend seen in recent years as a result of the performance of the markets in general and also of the investment policy defined in the sequence of a study and of the respective strategic allocation.

The flexible retirement programme implemented during 2003 involving conversion of the pre-retirements of previous years into Social Security pensions, pursuant to Decree-Law 9/99, allowed a reduction of the fund's liabilities.

Having as its main objective the strengthening of the management of the Pension Fund, the stability and security of its assets and the optimisation of the returns on its assets taking into account a level of return and risk profile, EDP will undertake the studies required to implement new models covering the following areas:

• Balance sheet management

A strategic benchmark will be defined for the Pension Fund. The strategic benchmark represents the long-term structure of the asset portfolio, which, taking into account the profile of the liabilities assumed by the fund, allows the pursuit under optimised conditions of the objectives that will be defined for its management, particularly contributions, level of financing and investment restrictions.

Implementation of a strategic benchmark should help to bring about the main objective implicit in the management of the fund – the guarantee of meeting the commitments assumed with the beneficiaries and participants at the lowest financial cost – taking into account the criteria that EDP defines in respect of establishing the level of risk that it wants to assume.

The strategic benchmark will preferably be established through an Asset Liability Modelling (ALM) study. This instrument will allow the optimum structure of the fund's asset portfolio to be determined, taking into account the assumed liability curve and established objectives.

Three major objectives have been identified for the use of an Asset Liability Model:

- 1) to help in establishing a long-term investment strategy using a benchmark for the fund, taking into account the present and future liabilities structure;
- 2) to provide an explicit understanding of the implications of the different investment strategies and different scenarios of evolution of the liabilities; and
- 3) to construct a management tool allowing EDP and the management entities to participate in the definition of a financing plan for the fund.

• **Interest-rate risk management**

The adoption of a strategic benchmark will lead to changes in the methodologies and financial management instruments, particularly with regard to interest-rate risk and management methodologies in an asset/liability environment. Methodologies will be studied and implemented that, in this field in particular, will provide progress in immunising the Pension Fund balance sheet from the interest-rate risk.

• **Management structure**

Internationalisation of the business and the need to optimise risk diversification, in addition to the changes that the strategic benchmark will recommend in these two areas, will require reflection concerning the present and future management structure.

• **Governance structure**

A charter of good governance principles will be adopted, which will reflect acceptance of a management concept in areas considered structural, including the internal control system, the monitoring of the investment strategy, performance measurement, custody, auditing and consultancy. Within the framework of these principles a governance structure will be defined and implemented taking into account the nature of the pension plans.

• **Disclosure principles**

A new framework of disclosure of information on pension liabilities and on the Pension Fund will be adopted, taking into account the interests of the addressees, namely shareholders, the Board of Directors, employees, pensioners and investors.





>> 9 Information Systems

The information systems, as the support and lever of the Group's business, developed particularly well during 2003. The customer management system was finalised and came on stream, the new telemetering centre and meter-reading management system was implemented, the commercial energy selling system within the non-binding system was developed, a series of new systems for the Trading and Dispatch of Generation activities was implemented and launched, and the GeoEDP project was continued, supporting distribution network management systems on a geo-referenced basis.

New activities were also launched in the areas of IT security, user access control, activation of legated systems and distributed systems management.

>> 9.1 Systems

Commercial Distribution System - ClienteMais

Anticipating the needs and demands of the liberalised energy market, a commercial system was developed and implemented, characterised by a number of functions relevant to the optimisation of the customer management processes for the whole of EDP Distribuição: management of meter-reading and management of routes and commercial visits. It is interesting to see that the system has response capacity in the management of the operations of utilities other than electricity.



Integration of information has made the relationship with suppliers of technical and commercial services more effective and has allowed interaction with the customer via the Web: Online Agent, Virtual Shop and Online Service orders.

Today, the synergies generated in terms of control of the commercial cycle are clear to see, not only for EDP Distribuição but also for LisboaGás GDL and EDA - Electricidade dos Açores, which share the same system.

Telemetering - Data Collection and Processing System

To respond to a major growth in the movement of customers to the liberalised regime, in which remote metering equipment (telemetering) has to be installed, a new data collection system has been acquired sufficient to collect data from 20 000 customers.

Following the collection of consumption data, they are forwarded for billing energy to binding customers and billing network use to non-binding customers. The meter-reading management system, developed with the support of the information technologies companies of the EDP Group, also allows the provision of data to the market agents, particularly REN/offer manager, sellers and customers. Investment in the data collection and management systems amounted to about €1.4 million in 2003.

Information Systems for the Non-binding Sector (SENV)

In the area of selling energy to SENV customers, the energy sale support, contract management, pricing, consumption forecast and billing systems were consolidated and enlarged.

- Operations and Production Dispatch Programming System

During 2003 the operations programming system, which was adjudicated during 2002, was tested and came on stream on an experimental basis. It includes software modules to optimise the production of the Group's electricity generating centres in the short and long term, to evaluate energy offers on the market, to forecast short-term market prices, and to predict long-term consumptions. Short-term load forecast and

remote-regulation modules were also ordered, which are set to come into operation during 2004.

To render feasible the Despatch by the Trading area of the EDP power plants belonging to SENV, the implementation of the real-time Despatch system was adjudicated to two suppliers in February 2003, making redundant a configuration of systems and communications.

• Trading Information System (SIT)

Within the scope of the SIT, attention is drawn to the following:

- a) migration of the SIT to an autonomous platform as a result of the separation of the Trading area of EDP Energia;
- b) development of new modules for operation in new markets (e.g. France) for establishment of financial contracts and for integration of information on fuel markets, and perfecting existing modules to bring them into line with business requirements;
- c) introduction of data security and audit mechanisms;
- d) start of the process of interconnection of the SET with the risk-management model and establishment of the interface between the SIT and the Dispatch System; and
- e) development of a decision-support system (data warehouse) allowing centralisation of the Trading management information, while decentralising access thereto.

Web Communication with Generation (MCP)

A system of communication with the SENV generation was developed, based on a Web philosophy interfacing with the Trading information system. The system will be subject to a second stage of development during 2004 designed to accommodate the extension of new Generation units to the SENV.

Platform of exchange of information with HidroCantábrico

With due regard for the limits of legal autonomy of the two institutions and with a view to increasing co-operation between the Trading areas of EDP and of HidroCantábrico, a common information sharing platform was set up during October 2003 to share information on market data and indicators.

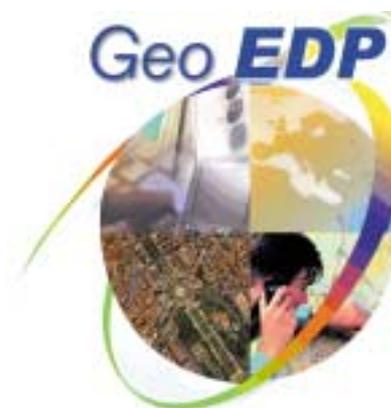
Intranet for the Trading area

The Trading area Intranet was implemented and came into operation in 2003, putting the knowledge

management strategy into practice through a simple, fast and efficient means of communication.

GeoEDP Project - Geo-referenced Information Systems

EDP Distribuição went ahead with the implementation of the GeoEDP project started in 2001, developed in close partnership with the EDINFOR Group's IT-Geo. It consists of a multi-project framework directed at spatial information management and systems integration, the aim being to provide widespread access to a range of functions and data warehouses, to support the new work cycle and the different business management processes and flows of Information.



The GeoEDP project is centred on innovative modernisation of the systems of the technical areas, with particular focus on applied development and on the link with university research - accounting for the greater part of the investment in R&D at EDP Distribuição.

Full implementation of the GeoEDP will, in terms of internal operations, cause a radical change of work methods in the technical area (increased effectiveness) and will support optimised redesign of corporate processes (increased efficiency), and its effects are already clear to see. The expected benefits will be underpinned by an improvement of the response capacity to customer needs, through speed, efficiency, and quality of service. Total investment in the programme will be in the order of €100 million over 10 years, with investment during 2003 having amounted to about €12 million. The cost/benefit analysis of the programme suggests an IRR of between 30% (a very conservative scenario) and 60% (optimistic scenario), with a positive contribution to net income for the year in 2003. The permanent monitoring indicator, based on level of use, outperformed the best expectations in 2003.

In keeping with a concerted strategy of progressive provision of information and innovative functions, the electricity grid data warehouse was considerably enlarged



during 2003 by means of field information surveys that accompanied the applied development projects, namely: RedeActiva (implementation of a new incident management system), GeoProjectar (strategic to support management information), integration with the SAP platform systems, integration with specific management (Genesys) and planning systems, and an integrated-environment planning and optimisation system (dPlan).

As an indication of the evolution it may be said that, in addition to the entire characterisation of the high voltage electricity grid, the medium voltage electricity grid information register already covers the infrastructure in respect of 80% of the customers and 60% of the country.

The swift incorporation of simplified access to information in normal job routines, leading to the sustained returns on the investment, is clearly reflected in the level of access to e-SIT (providing simple to use Intranet workstations giving widespread access to all the information of the technical information system), which, exceeding the most optimistic expectations, received 47,000 visits during 2003, four times the number seen in 2002.

Integrated Management Support System (SIAG)

The SIAG reached cruising speed during 2003, including several improvements and received a new version of the BW (Business Warehouse) platform.

New developments were introduced with a view to generate automatic reports on invoicing drivers and service level indicators. The SAP Human Resources module was adapted to new processes. The invoice scanning system was developed, which, in addition to electronic filing, provides SAP users with an image of these documents, avoiding the need for their physical circulation.

A start was also made to the development of a new accounting consolidation module.

Shared Services Platform Systems - EDP Valor

A start was made to the ValorNet - Vision of the Future project for the information systems and technologies area, centred on three lines of intervention, EDP Valor Portal, Service Management, and Reference Architecture, allowing lines of evolution to be established for the information systems in the technology and processes area better suited to the Company's strategic objectives, particularly with regard to business, efficiency and service quality goals.

During the third quarter of 2003, EDP Valor developed and implemented the GI System, an information system designed to support installations management with a Web interface allowing customers to provide information of events and consultation of their current status on a self-serve basis.

EDP Valor made a start to the development of an information system for the property management area with a view of providing the Company with a data warehouse on the Group's properties, and an integrated

set of support tools for property management, space management, construction and repair works, and premises management activities.

Shutdown of Inherited Systems

Continuity was given during 2003 to the preparatory work for safeguarding of historic information and to the shutting down of the systems replaced by the SAP platforms. During 2003 nine applications were shut down.

>> 9.2 Control and Security

In the control and security area the focus is on:

- The development and rolling out of an access management application, the aim of which is tight control of internal and external employee access, particularly for active employees and contributing to the minimisation of the number of software licenses;
- Introduction of controls of the frequency of use of systems, blocking access by employees with a low use-frequency index;
- Preparation and publication on the Group Intranet of new rules governing the use of electronic mail and the Internet; and
- Performance of security audits on the server rooms and on the WAN network nodes, leading to various recommendations now being implemented.

>> 9.3 Distributed Systems (LAN and Desktop)

The whole of the management of the distributed systems and of the server rooms was transferred to the IT-Log, marking the first steps to the outsourcing of the management of assets of this class.

Centralised procurement was introduced for this class of assets and a start was made to the project designed to reduce and consolidate the server rooms with a view to greater security and to better local network management capacity.

>> 9.4 Information Technology Reorganisation

A project was launched to redefine the information system sourcing strategy with the co-operation of an international consultant, to provide the EDP with contracting conditions in keeping with best market practices. At the same time, EDINFOR was reorganised to supply EDP under Brand Services Company conditions, and a new EDP/EDINFOR relationship matrix was established.

This work led to a new contracting model based on the establishment of measurable IT units allowing the evaluation and payment of resources actually consumed by EDP, compatible with the market through the planned benchmarking activities.



>> 10 Research & Development (R&D)

R&D Activities and Projects

In keeping with the R&D and Technological Innovation guidelines, efforts continued to be directed in 2003 at fostering new projects in the fields of electricity networks, renewable energies, distributed production and environment.

Labelec, an EDP Group company engaged in laboratory studies and activities, provided co-ordination and consolidation of activities in this area, in close co-operation with Group companies in the production and distribution area.

During 2003 EDP took part in more than 20 R&D projects in the areas of electricity generation and distribution, 4 of which with funding from European Union.

In the priority R&D areas, the emphasis is on the launch or continuation of the following projects:

- Micro-turbine Project: setting up and demonstrating a gas micro-turbine at the Sacavém plant;
- SITEM Project: Integrated Engineering and Maintenance Management System;
- Micro-Grids Project: Impact and Management of Distributed Micro-generation on the Grid; and
- DPL Project - Digital Power Line: Broadband transmission of information (voice and image) across the distribution network lines.

An IT system was also implemented, integrated with the SAP structure (Leonardo System) supporting the management of technical and accounting information in respect of the R&D projects and activities, designed to standardise administrative and accounting procedures, to provide more efficient management information and rigour in the provision of this information to entities internal and external to EDP, with a special focus on the SIFIDE - Company R&D Tax Incentive System.

Labelec also represented EDP in international forums involved in the R&D and innovation areas (EURELECTRIC, Enersearch and AIE), and in the recently-created Wave Energy Centre directed at making use of wave energy to generate electricity.

Laboratory Studies and Activities

The laboratory work undertaken by Labelec is based on specialised laboratories accredited in the fields of physical and high voltage tests, electricity metering, characterisation of insulating oils and environment, providing advanced technological services to the entire electricity sector and beyond.



These activities increased significantly, up by about 6% in 2003 as a result of greater demand for these specialised services and the introduction of new types of studies and tests.

The following were of particular importance during the year:

- Monitoring the quality of the service of the electricity transport (REN) and distribution (EDP) networks, providing information essential to the improvement of quality of the service provided by these networks;
- Launch of the medium voltage telemetering plan, which reached cruising speed and is designed to install meters with telemetering capability at all medium voltage customers. In the field of energy metering, several international connection meters, SIME project meters and various other types of meters and metering equipment were calibrated. Metering cupboards were also installed at special-regime producers and audits were performed on metering and telemetering systems;



- The larger number of environment tests ranging from characterisation of the water of the majority of the country's reservoirs to the mobile laboratory used to monitor air conditions, which required investment in laboratory equipment;
- The annual campaign to determine the state of transformers by means of analysis of their oils and the introduction of new laboratory techniques, particularly the analysis of oil by infrared spectrophotometry and by high-pressure, high-resolution chromatography, as well as characterisation of the state of the sulphur hexafluoride in circuit breakers;
- At the level of the high voltage laboratory, the performance of several tests to determine the state of electric equipment, particularly circuit breakers, transformer crossbars, chains of insulators protected by silicone rubber, among others. Electrical and mechanical parameters were also monitored to determine the interaction between wind farms and the Electric Grid, and several measurement transformers were also overhauled;
- Taking advantage of the infrared tomography equipment, aerial inspection of about 15,000 km of overhead lines, some of which in areas affected by the summer forest fires, and several measures to detect overheating of the transport and distribution networks at substations, and thermal characterisation of waters affected by the thermal power plant cooling outlets;
- Development of an area dedicated to the study of electricity networks and protection systems. For the purpose young technical staff of great potential were recruited and were given advanced training and provided with state-of-the-art calculation tools; and
- Consultants of recognised national and international merit, were hired to support the start-up of these activities, allowing the Group's internal and external customers to be provided with quality service in the areas of electricity network performance and dimensioning, with a special focus on the quality of the service.





>> MACROECONOMIC FRAMEWORK

>> 1 Global Economy

A number of events occurred in 2003, that affected the existing favourable economic forecasts, particularly the war in Iraq, the performance of the stock markets and the difficulties experienced by the leading European economies in regaining greater economic growth. The Acute Respiratory Syndrome epidemic that affected several Asian countries in particular also had negative economic consequences worldwide.

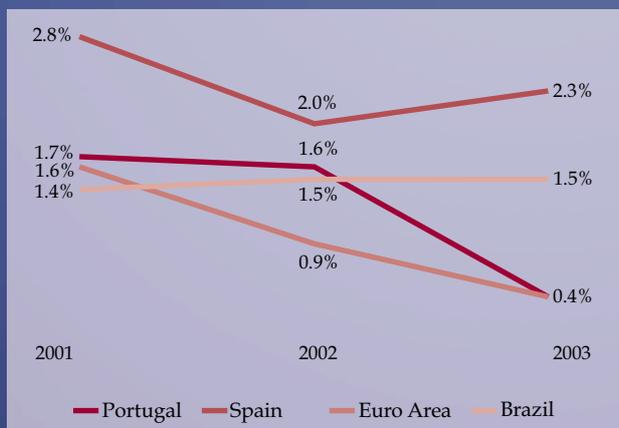
As expected, 2002 was used by the leading global economies to attempt to counteract the economic slowdown seen in particular following the September 11 attacks. According to the IMF, the global economy grew by 3.0% in 2002, underpinned particularly by the performance of the North American economy and of several Asian economies, given the still weak performance of the European Union and of the Japanese economy, and of the instability seen in several countries of Latin America.

The end of some of the factors that upset the global economy in 2003, particularly the quick end to the Middle East conflict, brought some confidence for the economy and, according to the latest IMF forecasts, the global economic growth in 2003 stood at 3.2%, slightly higher than the figure achieved in 2002.

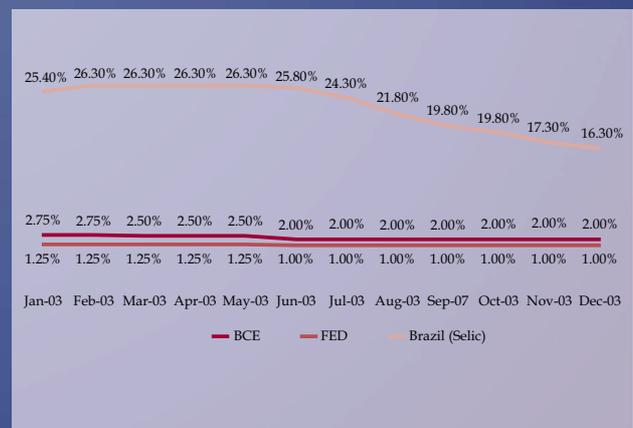
As predicted at the end of 2002, the decline of oil production in Venezuela caused by the general strike that marked the beginning of the year in that country and the initial apprehension as to the duration and consequences of the likely military conflict in Iraq led to an increase of oil prices during the early months of 2003, though the prices of this raw material fell later in the first half. Trading prices were generally between 25 and 30 dollars during the second half of the year.

To encourage the upturn of economic growth without any great inflationary pressures the downward trend of interest rates seen at the end of 2000 was heightened. The historic lows seen in 2002 fell even further, with the European Central Bank fixing its refinancing rate at 2.0%, 0.75 percentage points less than in 2002, while the North American Fed Funds rate was fixed at 1.0%, 0.25 percentage points less than the previous year.

GDP at Constant Prices



Benchmark Interest Rates



Following the sustained rise in 2002, which allowed the Euro to break through parity with the dollar, the European currency remained higher than the North American dollar throughout 2003. The performance of the euro against the dollar in 2003 was marked by a sustained increase, driven by the reduction of the Fed Funds rate in the United States. Following this appreciation of the euro, an historic exchange rate of \$1.26 was achieved on the last day of 2003.

According to the most recent forecasts, the North American economy grew by around 3.0% in 2003, strengthening the signs of recovery seen in 2002 and underpinned by the success of expansionist fiscal and monetary policies. A growth of around 4.0% can be expected for 2004, with the North American economy continuing to head the recovery of the developed economies.

The Euro Area has experienced ongoing difficulties in making a start to the upturn of economic growth and in accompanying North American dynamism. Following a growth of 0.9% in 2002, the growth rate of the Euro Area in 2003 stood at just 0.5%, with a practically zero contribution by the main economies, France and Germany. With domestic demand lower than could be desired, the appreciation of the euro did not help exports, while the budget restrictions in several countries prevented expansionist policies. Greater economic dynamism is now expected in 2004, though significantly lower than that forecast for the United States.

Japan, which has seen modest economic growth during the past two years, achieved considerably better economic performance in 2003, 2.7% according to the OECD forecasts. The Japanese economy is expected to perform well in 2004 even though at a more modest rate than in 2003, together with stabilisation of unemployment. However, the deflationary tendency that has marked the evolution of prices in recent years will continue. An improvement of economic conditions can be expected in the other Asian countries in 2004, on a par with the evolution of the North American economy and after the effects of the Acute Respiratory Syndrome epidemic have been left behind.

Following a particularly troubled year, economic growth in Latin America in 2003 was limited by the weak performance of its leading economies, Mexico and Brazil, and by the deep recession in Venezuela that was expected as a result of the political and economic troubles that marked the beginning the year. On the contrary, Argentina performed well following a period of sharp instability. The prospects for 2004 are more optimistic, suggesting greater stability of the main economies of this region.

To sum up, following a period of slowing economic growth exacerbated by the effects of the September 11 attacks, this tendency had been expected to be reversed in 2002, while 2003 was to have been a year marked by more sustained growth worldwide. Nevertheless, several factors, particularly the military intervention in Iraq, compromised these expectations to some extent, postponing them to 2004.

>> 2 Iberian Economy

>> 2.1 Portugal

Continuing the tendency of recession begun in 2002, the Portuguese economy once again diverged from the Euro Area, declining by about 1.0% in 2003, compared with a growth of 0.4% in 2002. The Portuguese economy continued to be affected by the international situation, in particular by the evolution seen in the Euro Area, with weaker domestic demand and budget restrictions preventing expansionist measures. As a result of some positive signs during the last months of the year, the most recent predictions suggest an upswing of the Portuguese economy in 2004, with an end to the recession and with economic growth, even though below the European average.

The recession of the Portuguese economy, the decline of domestic demand in particular, allied to wage moderation and to the effect of the appreciation of the euro on imports, has helped to contain price increases. The Harmonised Index of Consumer Prices (HICP), which declined to 3.3% in 2003 from 3.7% in 2002, is, however, significantly higher than the European average.

While the performance compared with 2002 was favourable as far as prices are concerned, the same cannot be said of employment. The unemployment rate in Portugal, despite the fact that it is one of Europe's lowest, stood at 5.1% in 2002, increasing in 2003 to a figure of around 6.5%. The 2004 forecasts suggest a slight deterioration of this indicator, though it will remain below the European average.

>> 2.2 Spain

Following a slight slowdown of the growth of the Spanish economy in 2002, the leading projections suggest a growth of between 2.2% and 2.3% in 2003. If this is confirmed, it will be one of the best performers of the European economies, significantly above the Euro Area average and better than seen in 2002, despite the international context and especially the European

context. A growth of very close to 3.0% is forecast for 2004, while the Euro Area is still endeavouring to reverse the trend of slow economic growth seen during the past two years.

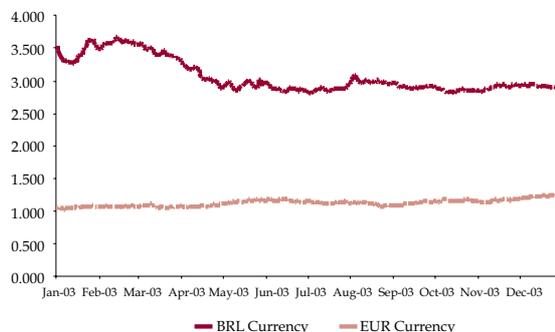
Together with the dynamism of the Spanish economy, prices have risen at a rate greater than that of the Euro Area, slightly more than 3.0%. This is not likely to change significantly in 2004, even though the downward tendency will continue. The acceleration of growth of the Spanish economy would not seem, however, to be sufficient to reduce unemployment. Despite the fact that the unemployment rate increased in the Euro Area, Spain continues to have an unemployment rate far higher than the European average, more than 11.0%. A slight decline of the unemployment rate is expected for 2004, though a figure of less than 11.0% will be difficult to achieve.

>> 3 Brazilian Economy

During 2001 and 2002 Brazil experienced a series of events that had a negative effect on its economy, particularly the international surroundings, heightened by the troubled situation in several of the major economies of Latin America. Internally, the Brazilian economy was significantly affected by energy rationing and by the uncertainty surrounding the results of the presidential elections and the consequent economic policies.

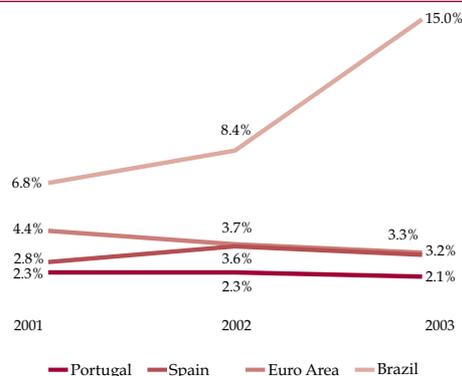
The end to most of the troublesome factors and signs of the adoption of an economic policy based on stability have led to more optimistic expectations surrounding the growth of the economy in 2004, at about 3.0%, though growth in 2003 will have been no more than 1.5%, similar to the figures seen in 2001 and 2002. Price increases in 2003 stood at about 15%, substantially higher than the figure of no more than 8.5% in 2002.

Inflation



As a result of the end to the instability seen during 2001 and 2002 and of the positive expectations for the future, the real recovered slightly in 2003 from the sharp depreciation against the dollar and the Euro in 2002. Influenced by the appreciation of the European currency, the performance of the real against the dollar was better, and this was particularly important given the greater relevance of the dollar to the Brazilian economy.

Euro Exchange Rates







>> EDP GROUP BUSINESS



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The Customer as the central entity of EDP's business

The customer is the centre of attention of the EDP Group. Both in the energy sector and in telecommunications or information technologies, the Group has increasingly centred on meeting the expectations of its customers. In the electricity business, EDP has altered its processes to reduce the bureaucracy of its interface with the customer. In 2003 the Group started an internal project to prepare for the full liberalisation of the industry, which will come about in 2004 and will essentially involve transforming EDP into a provider of energy solutions even closer to its customers. This project brings about functional, process and image alterations that are sure to make the Group even more proactive in this area.

In the telecommunications area, too, through ONI, the Group is focusing strongly on the development of lasting relations with its customers. During 2003 segmented products were launched via various channels, answering the more specific needs of its users. Generally speaking, ONI focused on and will continue to centre on serving key segments with simple, economic products designed to fill the gaps felt by customers in the telecommunications market.

In the information technologies area, the focus on customer is no less. Through EDINFOR and its associate companies, the EDP Group has reached an increasing number of customers. Traditionally a company that provided services only to the EDP Group, EDINFOR has increasingly become a technological solutions company both in Portugal and abroad, operating in a highly competitive market in which customer satisfaction is the key to success.





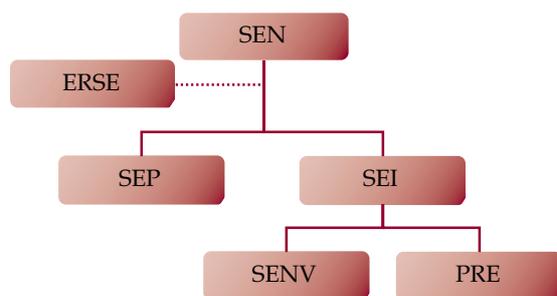
>> 1 ENERGY SECTOR

>> 1.1 Iberian Market - Portugal

>> 1.1.1 The National Electricity System

Organisation

The National Electricity System (SEN) is organised as follows:



In the **Public Electricity Service System (SEP)** generation, transport and distribution activities are undertaken under a public service regime, which is linked to the obligation of supplying electricity with adequate service quality standards and with the principle of uniformity of tariffs across the country. The principle parties involved in the SEP are:

- The Binding Producers, which are on an exclusive basis with the concessionaire of the National Transport Network through long-term Energy Acquisition Contracts (CAEs);
- Rede Eléctrica Nacional S.A. (REN), which is the concessionaire of the National Transport Network (RNT);
- The Binding Distributors who, by obtaining a binding distribution licence, are obliged:
 - a) to enter into a binding contract with REN under which they guarantee to acquire from REN the whole of the contracted energy;
 - b) to supply customers with the electricity that they contract, in accordance with tariffs and conditions established by the Energy Services Regulator; and
- Binding Customers.

There are, in turn, two subsystems in the **Independent Electricity System (SEI)**:

- On the one hand, the **Non-Binding Electricity System (SENV)**, which is directed by market logic, in which access to medium-, high-, and very high voltage generating and supply activities is unrestricted, and in which the market agents are entitled to use the SEP transport and distribution infrastructure for the physical transaction of energy against payment of the respective tariffs; and
- On the other hand, there are the **Special Regime Producers (PRE)**, engaged in production in mini-hydroelectric plants (up 10 MW) , in cogeneration and in the generation of energy using renewable sources. These producers make deliveries to the SEP network under specific legislation and are remunerated on the basis of costs avoided by the SEP, complemented by an environmental bonus that reflects the benefits stemming from the use of renewable energies.

Articulation of these System is undertaken by the **Energy Services Regulator (ERSE)**, in charge with:

- Supervising compliance with the SEP working rules and of the relations between the SEP and the SENV; and
- Regulating activities undertaken within the scope of the SEP, namely fixing tariffs and prices of electricity and other services provided by REN and by holders of binding licences distributing to other licence holders or customers.

Position of the EDP Group

The EDP Group is involved:

- At SEP, in:
 - a) generation, through CPPE, a company that is part of EDP Produção, which holds about 82% of the SEP installed generation capacity and minority investments in the share capital of producers Tejo Energia and Turbogás (10% and 20%, respectively);
 - b) transport, in which it holds 30% of REN; and
 - c) distribution, in which it holds EDP Distribuição, the company responsible for medium and high voltage binding distribution and concessionaire of low voltage distribution;

- In SENV, in which, at the end of 2003, it was responsible for the supply of 1 404 of 1 919 customers that had subscribed to the SENV. On the generation side, the emphasis is on the construction by Termoelétrica do Ribatejo (TER) of a new natural gas combined-cycle power plant designed to operate within the SENV that is planned to come on stream in stages between 2004 and 2006; and
- The PRE, in which it has sought to encourage electricity generation based on mini-hydroelectric, cogeneration and renewable energy plants.

Regulation

• **Service Quality**

During 2003, the Direcção Geral de Energia (DGE) published new Service Quality Regulations (RQS), which mainly differed from the previous ones in the provisions concerning service continuity standards, the method of calculation and payment of compensations, the establishment of complementary rules and the specification of recurrent procedures regarding the presentation of complaints;

• **Opening up of the Markets**

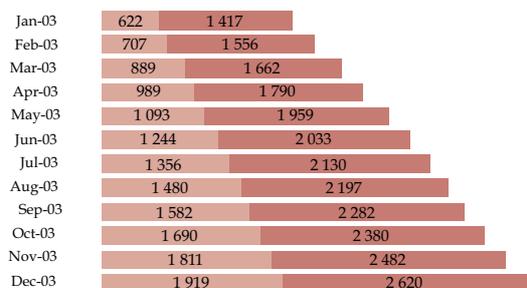
In accordance with Directive 2003/54/EC, of June 26, which establishes common rules for the Internal Electricity Market, the Member States must ensure that their markets are open in respect of at least 34.53% of national annual consumption.

The eligibility thresholds, which came into effect on January 1, 2002, extended the possibility of access to the SENV to all customers connected at medium, high and very high voltage.

This is a potential group of about 21 300 customers with the consumption of approximately 20 900 GWh, accounting for about 48.5% of electricity consumption based on to emission.

By December 31, non-binding customer (CNV) status had been granted to 2 620 customers, corresponding to 12.3% of the number of potentially eligible installations.

Customers in the SENV vs. Customers with Non-Binding Standing



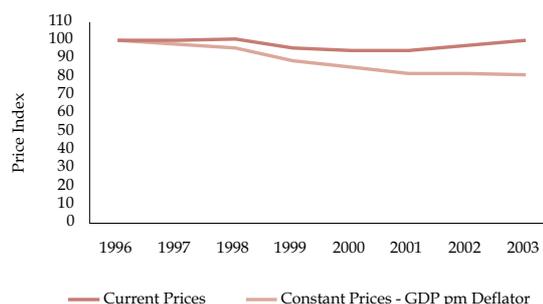
■ Customers in the SENV ■ Customers with CNV Status

Of the 2 620 customers with non-binding customer status existing in December, 1 919 left the SEP, whose consumption totalled 4 048 GWh, or about 10.4% of total supplies by EDP Distribuição.

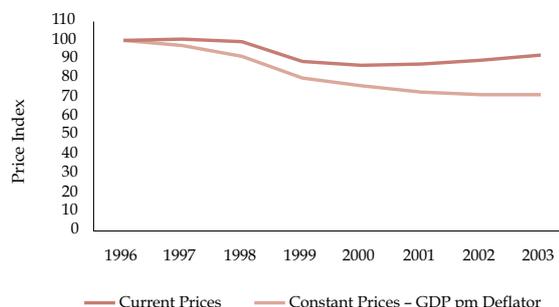
• **Evolution of Tariffs over Time**

Over the past seven years, average electricity selling prices have suffered an average annual decrease, in real terms, of about 3.0% in low voltage and 4.7% in the other voltages taken together.

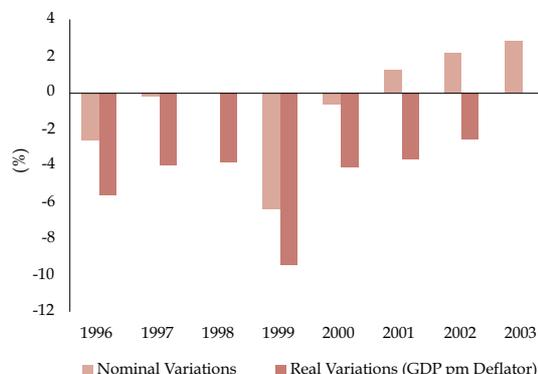
Evolution of Average Low Voltage Electricity Prices



Evolution of Average Very High, High and Medium Voltage Electricity Prices



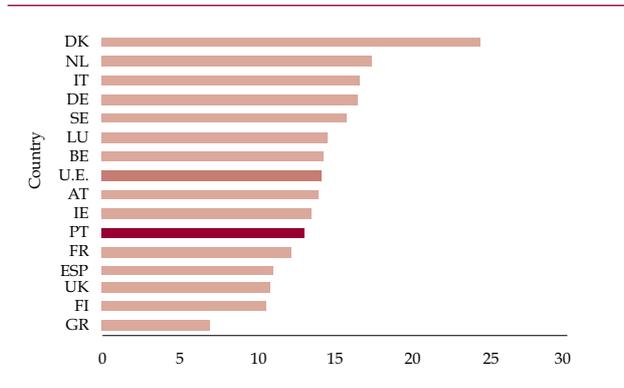
Nominal and Real Variation of Average Electricity Prices



- International Price Comparison

Electricity prices in Portugal, as of January 1, 2003, for domestic consumers were about 7.2% below the average of the European Union.

International Comparison of Average Electricity Prices (domestic consumers) Cent. Euro/KWh



Start-up of the Iberian Electricity Market (MIBEL)

During 2003, the Portuguese Government announced a new Basic Law for the sector, establishing the principles and conditions inherent to the implementation of MIBEL.

Together with the deepening of the Internal European Market, brought about by Directive 2003/54/EC of June 26, the Portuguese and Spanish Governments signed a protocol on November 14, 2001, which sets forth the main principles for the creation of an Iberian electricity market, to be developed in accordance with two complementary systems:

- Bilateral contracts freely established between the parties; and
- Contracts organised through the Iberian Market Operator, in which management of the daily and intraday markets will be in the hands of the Spanish pole and management of the forward markets will be the responsibility of the Portuguese pole;

Implementation of this market has been performed in stages, and it is expected to be fully operational in 2006 on finalisation of the projects to strengthen the links that will allow an increase of commercial capacity for cross-border transactions from the present 650 MW to 1500 MW.

At the 19th Portuguese-Spanish Summit held at Figueira da Foz on November 7 and 8, 2003, final agreement was reached by Portugal and Spain on the conditions necessary to implement MIBEL, namely:

- Implementation of all the operating mechanisms governing the work of the two poles of the market and their integration;

- The harmonised regulation of the spot and forward electricity markets in Portugal and Spain;
- Termination of the majority of the CAEs in Portugal by the start date of the integrated operation of MIBEL; and
- Institutionalisation of the Iberian Regulatory Board, including representatives of the two regulators, the purpose of which will be to solve conflicts and control the work of the markets within the scope of their common responsibilities.

The start of the integrated work of the two poles of MIBEL on April 20, 2004, was also announced at the Summit.

It was also established that within two years of the start of the integrated work of the two poles of MIBEL, the Iberian Energy Market Operator - Portuguese Pole and the Iberian Energy Market Operator - Spanish Pole will be merged with a view of setting up a single Iberian Market Operator.

The gradual development of MIBEL will take place as both electricity systems evolve in the approach of their respective operating frameworks, particularly in the matter of:

- Extending end-customer eligibility to the whole of the low tension.

The opening of the markets to all consumers started in Spain on January 1, 2003, while, for Portugal, in accordance with Council of Ministers' Resolution 63/2003 of April 28, which approved the guidelines of the Portuguese energy policy, total opening of the market is called for by July 2004;

- Extinction of the CAEs.

About 85% of electricity generation in Portugal is covered by this type of long-term contract. In a context of a competitive market in generation, at Iberian level, the CAEs constitute a market restriction that should be terminated. This will be done without prejudice to the financial compensation due to producers and without overloading consumers. In November 2003 Economy Minister Order 894/XV /2003 was published, restating the principles set out in Order 14315/2003 of July 23, particularly with regard to the guarantee of the neutrality of the net economic value of the Contractual Balance Maintenance Costs (CMEC) compared to the value net of taxes of the acquisition contracts. It further establishes that quantification and payment of the CMECs shall be undertaken so as to allow their securitisation on the international financial market. Therefore, payment of the compensations (CMEC) must safeguard the investments made and cover the commitments in the CAEs in the part not covered by the revenues expected in a market regime. To prevent any additional costs for consumers, the repercussions on the tariff will be diluted over time; and

- Co-operation between the national institutions of both countries and process harmonisation.

With the deepening of the liberalisation process and taking into account the creation of MIBEL, new legislation was published to bring the structure of the SEN and its work in line with a competitive market regime, detailed as follows:

a) Order 12596/2003, of July 1:

Approves the draft bylaws and the organisation and working model of the Iberian Energy Market operator - Portuguese Pole.

The main object of this order is to undertake the organisation and management of the two markets - forward physical products and financial derivatives - that will contribute to the concentration of the business on fewer products, without prejudice to the respective agents' freedom to contract.

The operations involving the negotiation, transaction and settlement of energy-based products and services will take place on these markets.

b) Order 14 315/2003, of July 23:

Establishes the general principles of the methodology and of the main valuation parameters to be used in the termination of the CAEs, following which it will be possible to calculate the contractual balance maintenance costs (CMEC).

c) Decree-Law 184/2003, of August 20:

Establishes the exercise of new activities on the electricity market, namely wholesale and retail trading and importing and exporting electricity and, to develop them, it creates the positions of seller and external agent.

d) Decree-Law 185/2003, of August 20:

To develop the MIBEL, this decree-law establishes a set of general rules, of transitory nature, required to create a free, competitive electricity market and calls for the adoption by the end of 2003 of a new Basic Law that will undertake a profound revision of the electricity sector legislation.

For this purpose, the decree-law establishes the general rules applicable to the supply of electricity within the SEN, particularly the attributions and duties of the market agents and the obligations of public service and of universal service.

It establishes the guarantee of adoption of indemnity measures for producers for the termination of the CAEs entered into by REN and the tied electricity production entities.

It also defines the organised market and the responsibilities of the market operator, and establishes

the principal of transmission or allocation to producers of the land allocated to the respective electricity generating centres.

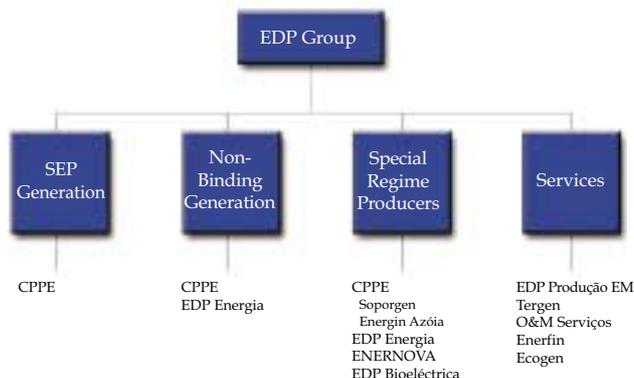
e) Decree-Law 198/2003, of September 2:

Recognises the right to remuneration for the land constituting the sites on which the SEP electricity generating centres are set up, and establishes the rules allowing REN to sell or to lease them to the present SEN producers.

Publishes as an appendix plans of the areas allocated to the electricity generating centre sites.

>> 1.1.2 Generating Business

The EDP Group is now involved in every segment of the market covered by the present SEN legislation. Its companies are organised in the following manner:



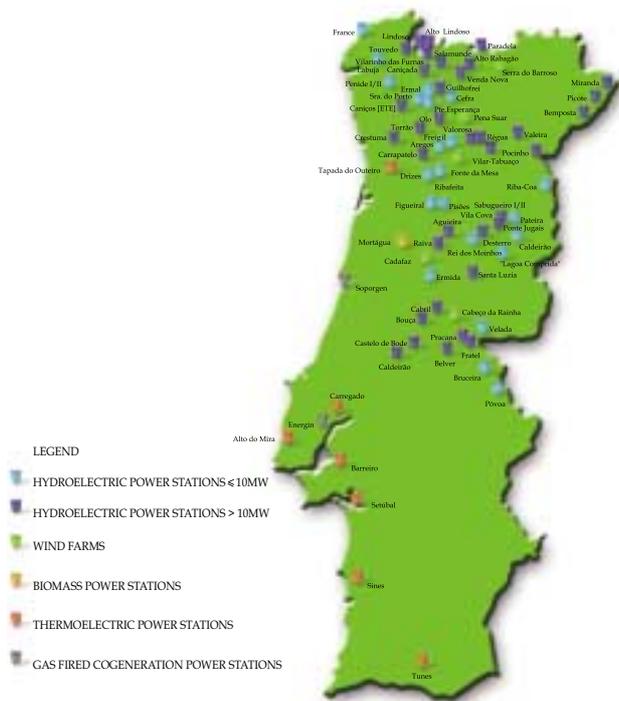
With a view to face more competitively the new framework created by MIBEL and to allow greater clarification and formalisation of the new areas and activities that will appear during 2004, several measures were implemented in 2003 with regards to the organisation of EDP Produção:

- In June, the companies in the generation area were reorganised and grouped by business units (Energy Generation, Engineering & Cogeneration, and O&M Services) with a view to their simplification and to recompose their respective corporate offices;
- In July, the Trading area of the EDP Group was transferred to EDP Produção, to which a part of the CPPE fuel area was also transferred. During the month, ENERNOVA and EDP Bioelétrica were transferred to the direct sphere of the EDP holding company. These companies are engaged in specific sectors of generation in the area of renewable energies;



- EDP Produção EM-Engenharia e Manutenção, S.A., also went ahead with the rationalisation of structures involving integration by technical speciality of the resources and know-how in the hydroelectric and thermoelectric areas;
- At the end of the year a new organisation model was approved for EDP Produção, accompanied by the acquisition of the investments by CPPE, allowing it to consolidate TER, EDP Cogeração, HDN, Hidrocenel and HidrOeM as from January 1, 2004. This new organisation is designed to confront more competitively the new framework created by MIBEL, to the extent that it will lead to greater clarification and formalisation of the new areas and businesses that will appear in 2004.

The electricity generating facilities in Portugal are shown in the following map:



In general terms, the following are the highlights in generating activity in 2004:

- A year characterised by very good hydrological conditions, with a coefficient of hydroelectric coefficient of 1.33, the highest of the past 30 years (in 2000 the figure was 0.76). Inflows were uniform throughout the year, contributing to considerable storage by the reservoirs, standing at about 64% of maximum capacity at the year-end;

- Net hydroelectric generation at SEP totalled 13 964 GWh, an absolute record for Portuguese hydroelectric generation (more than twice the 2000 generation). Thermoelectric generation totalled 12 619 GWh (27.6% less than in 2002);
- Net generation at SEI, including hydroelectric, thermoelectric, wind, biomass, cogeneration and natural gas generation, totalled 1 949 GWh, about 48.6% more than the previous year, mainly due to the growth of hydroelectric generation (57.6%) and the coming on stream of the experimental TER (203 GWh).

Maximum Power as at December 31

EDP Group	MW				
	2003	2002	2001	2000	1999
SEP Power Stations	7 051	7 183	7 183	7 183	7 230
Hydroelectric power stations	3 903	3 903	3 903	3 903	3 903
Thermoelectric power stations	3 148	3 280	3 280	3 280	3 327
SENV Power Stations	647	255	309	270	270
Hydroelectric power stations	255	255	309	270	270
Thermoelectric power stations	392	0	0	0	0
Special Regime Producers	241	216	117	106	29
Mini-hydroelectric power stations	56	55	1	0	0
Windfarms	65	40	40	30	20
Biomass	9	9	9	9	9
Cogeneration	111	112	67	67	0
Maximum Power	7 939	7 654	7 609	7 559	7 529

Net generation

EDP Group	GWh				
	2003	2002	2001	2000	1999
SEP Power Stations	26 583	24 201	26 947	24 000	23 459
Hydroelectric power stations	13 964	6 764	12 607	10 229	6 457
Thermoelectric power stations	12 619	17 437	14 340	13 771	17 002
SENV Power Stations	908	497	786	623	447
Hydroelectric power stations	705	497	786	623	447
Thermoelectric power stations	203				
Special Regime Producers	1 041	815	535	209	55
Mini-hydroelectric power stations ⁽¹⁾	196	75	4	0	0
Windfarms	128	113	90	70	53
Biomass	38	37	18	5	2
Cogeneration ⁽²⁾	679	590	423	134	0
Net Generation	28 532	25 513	28 268	24 832	23 961

⁽¹⁾ Separation of the generation between SENV/PRE in 2002 (under Decree-Law 85/2002 of 6 April).

⁽²⁾ Includes energy delivered to industrial customers.

SEP generation

Binding electricity generation in Portugal has been granted to three companies holding licences - CPPE, Tejo Energia and Turbogás - which have long-term contracts for exclusive supplies to the REN. At the end of the year the power contracted with these producers was 8626 MW.

The CPPE has electricity generating facilities with 7 051 MW of contracted power (82% of the total), split between 3 903 MW for the hydroelectric plants and 3 148 MW for the classic thermoelectric plants (132 MW less than in 2002 due to the termination during the year of the CAE of the Alto Mira Plant).

CPPE's hydroelectric generation can cover about 25% of electricity consumption of the public network of mainland Portugal in an average hydrological year. Corresponding to about 10 000 GWh. All the hydroelectric power stations, with a total of 63 generator groups that constitute one of the country's biggest sources of endogenous energy, have been almost completely modernised, and the respective command and control centre is located at a single point, the Régua Telecommand Centre.

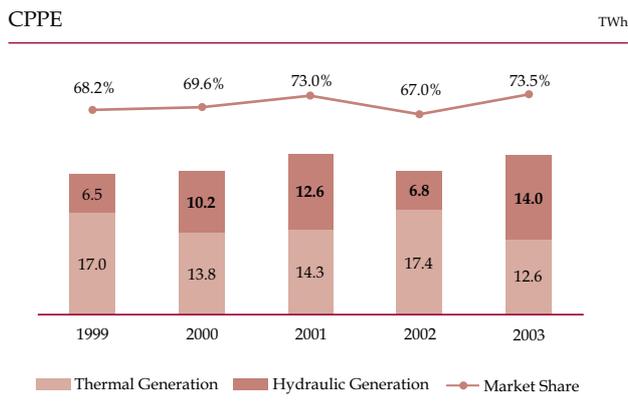


The electricity generating capacity of the CPPE plants located in the Douro hydrographic basin, essentially consisting of run-of-river facilities, could be increased through the storage capacity of new reservoir facilities to be constructed on the tributaries of the upper Douro, and by increasing the power of the existing run-of-river plants. At the end of 2003 Environmental Impact Evaluation was being undertaken in respect of an hydroelectric plant on the Sabor river, which, if approved by the Government, will allow better management of the inflows into the Douro, contributing to a reduction of the national energy bill and to better flood control.

The CPPE thermoelectric generation facilities comprise six plants that use as fuel coal, fuel oil, and natural gas and diesel.

The EDP Group has investments in other binding producers, namely 10% in Tejo Energia, which runs the Pego power station, and 20% in Turbogás, which runs the Tapada do Outeiro power station.

Net Generation and Market Share at SEP



CPPE's net generation in 2003 totalled 26 583 GWh (13 964 GWh of hydroelectric origin and 12 619 GWh of thermoelectric origin) accounting for 73.5% of SEP generation and covering 62% of the electricity consumption needs of the public network of mainland Portugal (SEP and SENV). In 2000 these figures were 67% and 60% respectively. It should be mentioned that the growth rate of Consumption based on Emission was 5.9%, compared with a growth of 1.6% in 2002.

Reflecting the effects of the good hydrological year, CPPE's total net generation increased 9.8% compared with 2002, with the greater growth of the hydroelectric plants (106.4%) more than offsetting the reduction of the contribution made by the thermoelectric plants (27.6%), the lowest in the past six years.

The Sines power station continues to constitute the basis of the country's electricity supplies, having kept its generation (9 473 GWh) at the level of the previous year, accounting for 75% of CPPE's thermoelectric generation.



Water storage in the reservoirs remained high during the first half of the year, then decreasing up to the end of the year to stand at 1 561 GWh at the end of December (21% less than in 2002), or about 65% of maximum capacity.

With regard to service quality, the CPPE power stations continued to provide high availability levels, standing in 2003 at 96.8% for the hydroelectric and 92.7% for the thermoelectric power stations.

Power Station Availability (CPPE)

Binding Producers



Additionally we draw attention to the following facts in the SEP generation activity:

- The conclusion on June 30 of the extension of the CAE of the Alto da Mira Power Station, and the signature by CPPE and REN of the respective Handing-over Certificate. Mention is also made to the prorogation of the CAE of Groups 1 and 2 of the Tunes Power Station up to December 2004;
- Conclusion of the modernisation of the groups of the Castelo do Bode Power Station, the oldest hydroelectric plant, allowing it to restart a new cycle of useful life with a reliability equivalent to that of a new plant;
- Submission to the DGE of the final documents in respect of the Environmental Impact Study (EIS) of the Comparative Evaluation of the Plans of the



Hydroelectric Power Stations of the Baixo Sabor and Alto Côa, and start of the work of the Evaluation Commission, which issued the EIA conformity declaration leading to the public hearing stage on December 30;

- Continuation of the construction of the Increase of Power at Venda Nova (Venda Nova II Undertaking), the construction work to be concluded during the early months of 2004, despite some constraints that appeared in the hydraulic circuit and in the plant, which have obliged several adaptations in setting up the reversible groups;
- The publication of CPPE's role in flood management in conjunction with the National Civil Defence Service and INAG (the Water Institute), namely: two information sessions held at the Régua Telecommand Centre, the first directed at the Régua Commercial and Industrial Association and local media, and the second to national media; participation in the public and restricted sessions organised by the Oporto Civil Government concerning this matter; and information sessions held at the Alto Lindoso power station directed at the Civil Defence Services of the district of Viana do Castelo and at the municipalities of Ponte da Barca and Ponte de Lima.

Non Binding Generation

- Hydroelectric power stations in operation

During 2003 at HDN and Hidrocenel, which operate the hydroelectric power stations of the EDP Group that were integrated into CPPE on January 2, 2004 attention is drawn to the following:

a) their operation jointly with EDP Energia within the scope of the SENV, with the status of offering agents on the basis of a mandate contract that establishes the electricity purchase and sale conditions, the remuneration of power provided and the programming and dispatch model of power stations with a power of more than 10 MW;

b) the application lodged with the DGE to issue a new hydroelectric generation license covering the transition of the Lindoso and Ermal hydroelectric power stations from the SENV, to the specific legislation governing the Special Production Regime.

For this segment of the business total installed capacity at HDN is 80 MW and at Hidrocenel 94 MW, with a total of 255 MW at the level of the EDP Group, with the inclusion of EDP Energia's Belver hydroelectric power station.

The net generation figures for HDN and Hidrocenel totalled 121 GWh and 288 GWh, an increase of 34.8% and 29.6% respectively. The net production of EDP Energia in the SENV was 296 GWh, 167.0% more than in 2002.

• Ribatejo Thermolectric Power Station

Through TER, EDP Produção is building a combined-cycle thermolectric power station located next to the Carregado Power Station, designed to operate under the Non Binding Generation regime, which was integrated in CPPE from January 1, 2004.

This new project has three generating groups with a unit power at emission of 392 MW. The first stage involves the adjudication of the construction of group's 1 and 2, with an option on the adjudication of group 3. In December, EDP took the decision to exercise the option on the construction of group 3 and its construction contract is currently being drawn up. It is expected to come into service in April 2006, six months ahead of the date initially planned.



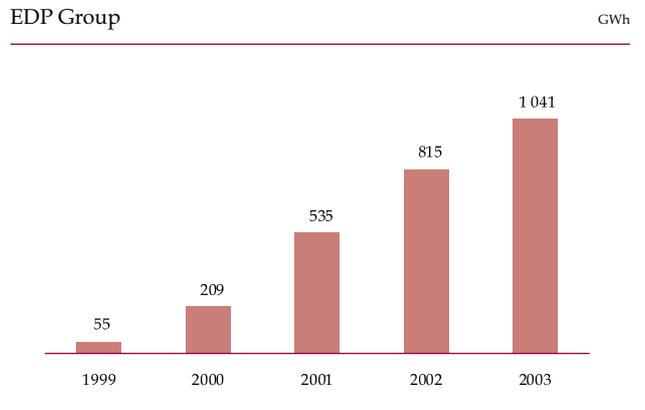
Relevant factors during 2003 include:

- a) group 1: the gas turbine was lit for the first time on September 5 and the first synchronisation with the 220 kV grid took place on September 12, the nominal load of the gas turbine having been achieved on September 29. The first start-up of the steam turbine took place on October 14. The group's nominal power (392 MW) was achieved for the first time on November 19. The first period of 10 days of experimental service was successfully carried out in December;
- b) group 2: the commissioning of the equipment forming part of the group took place in December;
- c) the conditions governing the supply of the energy produced during tests were agreed with EDP Distribuição, with an accumulated emission of 203 GWh during this period;
- d) within the scope of licensing, the Environmental License issued by the Environment Institute and the Group 1 Operating License, issued by the DGE, were received during December.

Special Regime Generation

Generation based on renewable sources totalled 1 041 GWh, about 27.7% more than in 2002, chiefly the result of the increase of hydroelectric generation (161.5%).

Special Regime Generation



• **Hydroelectric Generation**

During 2003 the net generation figures for HDN and Hidrocelnel were 131 GWh and 47 GWh respectively, an increase of 30.5% and 11.5% compared with 2002 (EDP Energia's net generation in the PRE was 19 GWh, 142.6% more than in 2002).

In connection with this type of generation in 2003 attention is drawn to the following:

- a) the acquisition by HDN, of Hidrinor - Hídrica do Norte, S.A., which runs the Labruja hydroelectric power station;
- b) the commissioning of the Hidrocelnel Lagoa Comprida power station; and
- c) the progress made in the technical and economic valuation processes and negotiations involving the purchase of two companies owning mini-hydroelectric power stations.

• **Wind Farm Generation**

At the end of 2003, ENERNOVA had five wind farms in operation - Fonte da Mesa, Pena Suar, Cabeço Rainha, Cadafaz and Serra do Barroso - with a total installed capacity of 65 MW, an increase of 24 MW (59%) compared to the end of 2002, or about 25% of the total installed wind-farm capacity in mainland Portugal.



This increase was a result of the enlargement of the Cabeço Rainha Wind Farm (6 MW) and of the coming on stream of the Serra do Barroso Wind Farm (18 MW).

Despite the fact that average wind-farm generation was lower than in the previous year, output was 128 GWh, 13.8% more than in 2002 due to the start of generation of the wind farms mentioned above.

With regard to new wind-farm projects, construction of the Fonte da Quelha (12 MW), Alto do Talefe (12 MW) and Padrela (7.5 MW) wind farms was nearing completion at the end of 2003, and they are expected to come on-stream during January 2004. A start was also made on the construction of the Vila Nova (20 MW) and Açor (20 MW) wind farms, expected to come into service during the second and third quarters of 2004.



At end of 2003, the Alagoa de Cima (13.5 MW) wind farm was at the call for tenders stage, an undertaking in which ENERNOVA has a 40% stake and is expected to be commissioned at the end of 2004 or beginning of 2005.

As far as other projects are concerned, some of which in partnership, about 111 MVA were at the licensing stage and about 227 MVA at the study stage. The first group includes 20.6 MVA acquired from three promoters, which will be included in the Serra d'el Rei Wind Farm, to be commissioned in 2005.

Taken together, the wind farms in service, at the construction/call for tenders stage and in the portfolio under ENERNOVA management at the end of 2003 had a total Grid connection power of about 400 MVA, or about 12.5% of the total already granted by the DGE up to 2007.

• Biomass Generation

EDP Produção Bioelétrica, S.A., now owns the Mortágua Forest Residue power station.

This plant, with an installed power of 9 MW, came into service in 1999, with a net generation in 2003 of about 38 GWh, an increase of 2.2% compared to 2002. This was a result of several technical improvements to some of the equipment and industrial installations.

A total of about 90,000 tonnes of forest residues were consumed, of which about 78% were direct forest residues and 22% pine and eucalyptus bark.



• Cogeneration

EDP Cogeração is engaged, on the one hand, in continuing the management of Soporgen and Energin, owners of natural gas cogeneration plants providing electricity and heat to the manufacturing facilities of Soporcel and Solvay Portugal and, on the other hand, in determining and implementing new projects.



The Soporgen plant has been in service since 2000 and its equipment will reach the 30 000 hours threshold during the first quarter of 2004. It has proved possible to ensure extremely regular supplies of electrical and thermal energy due to the very small number of operating incidents.

During April 2003, the final handing-over took place of the supply and construction of the plant under the contract entered into in 1999 with ABB/Alstom Power.

The Energin plant will have reached the 20 000-hour mark during the second quarter of 2004, and three distinct working periods were seen during the year under review.

Several technical improvements were introduced between January and March, and progress was made in the performance of the plant.

The plant worked under normal operating conditions up to October when there was a serious breakdown of an item of auxiliary equipment of the 60 kV substation as a result of which the gas turbine was unavailable up to the last day of the month. On start-up, there were several technical hitches of various kinds and the plant came into normal working condition only towards the end of December

The net generation of the EDP cogeneration facilities in 2003 totalled 679 GWh, 89 GWh more than in 2002, having supplied 147 GWh to the Grid (9% more than the previous year).

Services

• **Within the scope of EDP Produção EM, the focus is on:**

- a) the conclusion of the Quality Management System development and implementation program;
- b) the obtaining by EM of the General Quality Manager brand, awarded by the National Civil Engineering Laboratory, given the maximum class (8) in every category;
- c) the activities within the scope of the major investment projects, notwithstanding the fact that the two major hydroelectric undertakings in which EDP Produção EM has been engaged for several years are in their final stage - Alqueva and the increase of the power of Venda Nova II - and that group 1 of the TER has already come into experimental service. Both these projects still involved substantial resources in 2003, in addition to those allocated to the activities of group 2 of the TER and of the Pedrogão plant, which is at the stage of intensive development;
- d) the signature of a programme-contract with CPPE covering the power-station operation support services, consultancy, management, supervision, and commissioning of works, as well as non-recurrent maintenance work on the above mentioned power stations;

- e) the programme-contract entered into with ENERNOVA covering the study, design, management and supervision of the construction of wind farms;
- f) the activities linked to the environmental requalification of power stations and, in particular, the contacts and negotiations with CPPE in respect of the Sines power station, and with HidroCantábrico in respect of the Aboño and Soto Ribera power stations. The latter is the first case of the provision of services to this EDP Group subsidiary, providing expectations of further developments; and
- g) in international business, management of the increase of the power of the FAFEN cogeneration plant (stage II), the provision of services within the scope of the NOx reduction project at the Coloane A power station in Macao, and the revision of the design and call for tender processes involving the rehabilitation of the Matala dam for ENE (Angola);

• **In the sphere of action of O&M Serviços, the focus is on:**

- a) the enlargement of the company's business, with a focus on the fact that the end of 2003 O&M Serviços was providing operation and maintenance services at the Mortágua power station, at the Soporgen, Energin and Carrigo cogeneration plants, at the Fonte da Mesa and Pena Suar wind farms, and at the Sines, Setúbal, Carregado and Barreiro power stations; and
- b) the signature of the provision of technical assistance services to the PRM and PM of Energin / Solvay with Transgás.

• **Tergen**

During 2003 Tergen's business was directed at meeting the goals established in respect of the organisation, training, selection and recruitment of the human resources required to operate and maintain the TER. Project monitoring activities were also undertaken and technical support was provided to the Company promoting this power station.

• **HidrOeM**

The object of HidrOeM is the joint management and operation of the EDP Group's hydroelectric generating assets, presently integrated into the SEI.

Within the scope of the reorganisation of EDP Produção, the human resources and the duties previously entrusted to HDN, Hidrocel and the O&M area of EDP Energia were transferred to HidrOeM and the material resources necessary to the exercise of this activity were also assigned.

HidrOeM was integrated into CPPE on January 1, 2004.



Energy Balance

Consumption based on to emission (energy emitted to the transport network) grew by 5.9% in 2003 compared with 2002, a growth significantly higher than the figure of 1.6% in 2002.

Due to the considerable rainfall during the year (a hydroelectric coefficient of 1.33 in 2003 compared to 0.76 in 2002), hydroelectric generation was more than twice that in 2002, with a corresponding decrease in thermal generation. The Ribatejo thermolectric power station came on stream in 2003, with a contribution of 203 GWh to total generation.

Energy Balance

Generation		GWh		
		2003	2002	Var. %
Hydroelectric Coefficient		1.33	0.76	0.57
EDP Group Power Stations				
Hydroelectric emission	SEP	13 964	6 764	106.4%
Thermolectric emission	SEP	12 619	17 437	(27.6%)
Hydroelectric emission	SENV	705	497	41.9%
Thermolectric emission	SENV	203	0	-
Mini-hydroelectric emission	PRE	196	75	161.5%
Windfarm emission	PRE	128	113	13.8%
Biomass emission	PRE	38	37	2.2%
Cogeneration emission	PRE	679	590	15.1%
Net Generation of the EDP Group		28 532	25 513	11.8%
Direct sales to Industrial Customers		(532)	(449)	(18.6%)
Emission to the network (EDP Group)		28 000	25 064	11.7%
Other SEP Producers	SEP	9 572	11 920	(19.7%)
Self-producers	SEI	3 184	2 461	29.4%
Importer / (Exporter) balance		2 793	1 899	47.1%
Hydroelectric Pumping		(485)	(670)	27.6%
Consumption based on to emission		43 064	40 674	5.9%
Synchronous Compensation		(31)	(37)	17.5%
Consumed by Production itself		(3)	(3)	-
Consumption of the Transport Network		(10)	(9)	(11.1%)
Losses		(813)	(684)	(18.9%)
Energy delivered to Distribution		42 207	39 941	5.7%

>> 1.1.3 Binding Distribution and Supply Business

Distribution Business

The overall volume of energy distributed in 2003 grew by more than 5%. This growth was driven by the good weather conditions, since, according to REN, excluding this effect and the effect of the number of working days, the increase would have been lower by 1.6%. Attention is also drawn to the sharp growth of supplies in very high tension, mainly the result of changes to the manufacturing process of one of the customers. On the other hand, there was a sharp increase in the reception of energy from Special Regime Producers, which, in the case of cogeneration, was mainly the result of the large number of cogenerators opting to sell to the SEP the whole of the energy generated at their plants in the wake of Order-in-Council 399/2002. This effect caused an increase of about 1% of the consumptions fed by the EDP Distribuição network, to the detriment of own-consumption.

Following the liberalisation process there has been considerable growth of the number of customers subscribing to the SENV. Consequently, electricity sales to SEP customers declined by about 3%.

Telemetry equipment to be installed at all medium voltage customers was acquired through an international procurement process for tenders. The campaign to systematically install this equipment, in compliance with the order issued by ERSE, began in May 2003.

EDP Distribuição continued to implement the GeoEDP Programme directed at the management of spatial information and systems integration.

Binding Supply Business

The liberalisation of the energy market determined the necessary adaptation to the new reality. EDP Distribuição therefore made significant investments in improving the quality of the commercial service and of its relations with customers, thus promoting its image and the degree of satisfaction of its business partners.

The spirit of openness in contacts with the National Association of Portuguese Municipalities and the capacity demonstrated in responding to questions posed by local authorities, both of an institutional nature and arising from the concession contracts, allowed the renovation of 95% of these contracts by the end of 2003.

Information to be provided to customers was also subject to special care, and invoices now contain regular, ongoing information and/or promotional messages, related particularly to available means of payment and the changes made to invoices in the wake of the full implementation of the new commercial system. This called for a major investment to allow EDP to prepare for the foreseeable changes that will take place in the energy market.

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More dynamic relations with customers were also brought about by the publication of commercial information leaflets, by participation in various fairs and exhibitions and by the organisation of EDP weeks at the Citizen Shops.

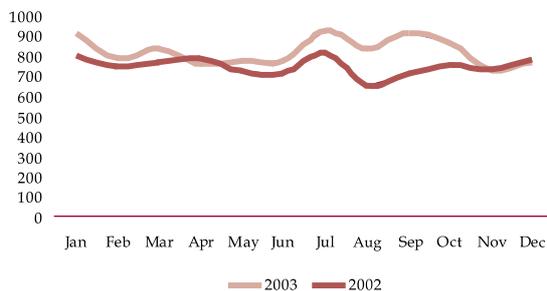
Closer approach to customers was also the result of the commitment to improve the channels of access to the company, particularly through the involvement, in Coimbra, in the new Citizen Shop. Attention is also drawn to the implementation, with the sponsorship of the Citizen Shop Management Institute and in partnership with the local authorities, of 45 Citizen Attendance Posts, in addition to the enlargement of the network of energy and payment points through the PayShop.

The investment in the call centre was equally determinant in giving faster access to the company. Its capacity was increased through the installation of a further two regional ACDs (Automatic Call Distribution) in Lisbon and Oporto, in addition to those at Coimbra and at Setúbal designed to provide decentralised attendance on the occurrence of abnormal events.



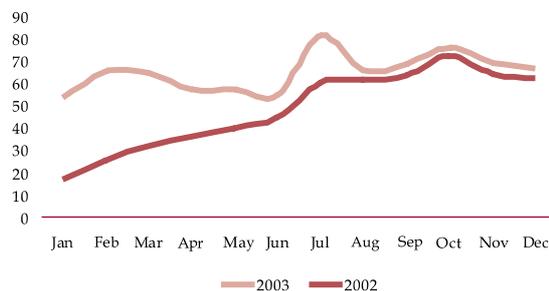
Front-Office - N° of Calls Attended

EDP Distribuição thousand



Back-Office - N° of Tasks

EDP Distribuição thousand



Attention is drawn to the improvements to the EDP website on the Internet, involving new contents and existing functions, particularly of a commercial nature. Partnerships were established with other portals and the Virtual Shop was disclosed to a significant number of local authorities.

With regard to rational use of energy, we would emphasise the co-operation with the National Agency for Energy and with the Regional and Municipal Energy Agencies, in addition to the protocol entered into with Quercus in respect of the promotion of the "Ecocasa". Mention is also made of the 2002 edition of the national competition - EDP Prize - that distinguished corporate customers that, in the various sectors of activity, implemented measures directed at more rational use of electricity.

Electricity Acquisition and Sales

Low voltage customers are of particular importance to total electricity sales to the customers of the SEP, accounting for almost 60%, up 4.6% from the previous year.

Electricity Customers and Sales in the SEP

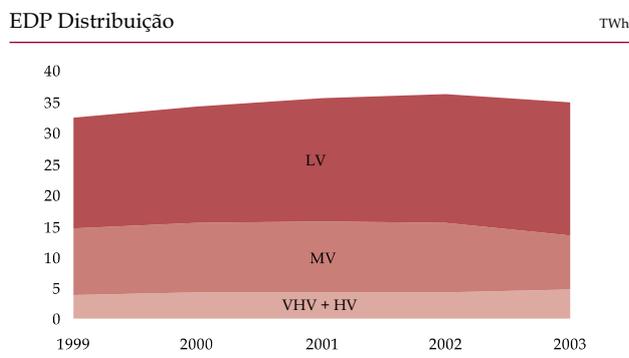
EDP Distribuição

	Number of Customers			Electricity Sales (GWh)		
	2003	2002	Var. %	2003	2002	Var. %
Total	5 765 996	5 664 655	1.8%	34 821	35 947	(3.1%)
Very high voltage	15	11	36.4%	1 115	875	27.4%
High voltage	110	98	12.2%	3 640	3 396	7.2%
Medium voltage	18 980	20 377	(6.9%)	8 565	11 186	(23.4%)
Special low voltage	28 111	27 290	3.0%	3 042	2 880	5.6%
Low voltage	5 676 733	5 575 766	1.8%	17 293	16 530	4.6%
Public lighting	42 047	41 113	2.3%	1 166	1 080	7.9%

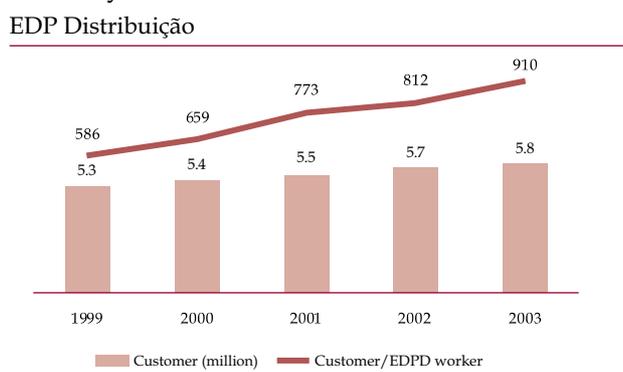


With regard to medium voltage customers, a total of 1430 transferred from the SEP to the SENV, which was at the root of the reduction of over 20% of the SEP sales in this segment when compared with the previous year.

Electricity Sales in the SEP by Voltage Levels



Electricity Customers and Sales in the SEP



The total number of customers has increased over the past five years at a compound annual rate of 2.2%, while the ratio of customers to employees in the distribution business rose from 586 in 1999 to 910 at the end of 2003.

Electricity Purchases

EDP Distribuição GWh

	2003	2002	Var. %
For SEP	38 045	38 972	(2.4%)
REN	32 307	34 791	(7.1%)
SENV	2 044	1 354	51.0%
PRE	3 694	2 827	30.7%
For SENV	4 216	993	324.5%
REN	4 216	993	324.5%
Total	42 261	39 965	5.7%

The amount of electricity bought during 2003 for consumption by SEP fell 2.4% following the transfer of customers from the SEP to the SENV. However, the decline of purchases from REN was considerably less significant as a result of the sharp growth of purchases from PRE and from SENV.

Commercial Service Quality

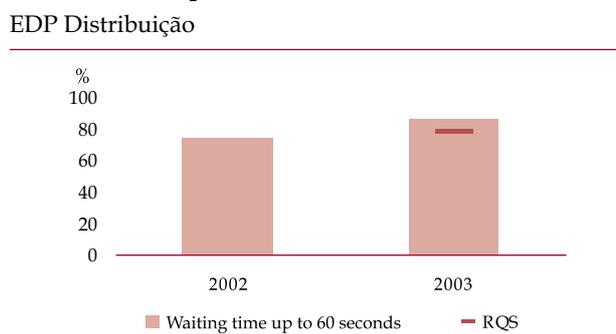
Publication of the new RQS (Service Quality Regulations), which came into effect in February 2003, increased the efforts of EDP Distribuição to adapt to the new market conditions. Therefore, taking into account the full liberalisation of the sector in 2004, measures continued to be implemented during 2003 designed to optimise the quality of services provided to customers and to increase response capacity.

As a result of these efforts, particularly the IT systems of a commercial nature that came into service, it has been possible to quantify the performance of the quality service indicators defined in article 30 of the General Service Quality Regulations.

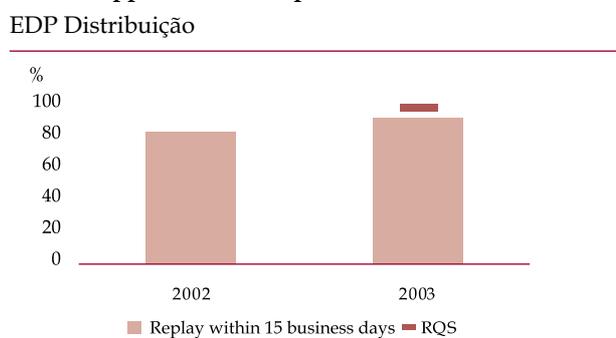
Despite the fact that it was not possible to comply with all the standards imposed by the RQS, it can be expected that, once the changes to the procedures in question are implemented, it will be possible to comply with them as a whole in 2004.

With regard to waiting time at the centralised call center EDP complied with RQS as a result of the improvements compared with 2002. The RQS has still not complied with complaint response times despite the improvement.

Centralised Telephone Attendance



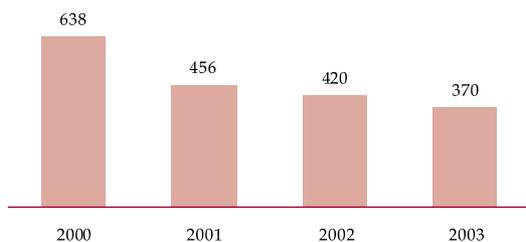
Claims Appraised and Replied



Technical Service Quality

With the objective of improving Technical Service Quality, EDP Distribuição decided to increase the investment in this area by about 20%. During 2003 there was a 50-minute improvement in the Equivalent Interruption Time for Medium voltage Installed Power, or 12% compared with 2002, leading to a final figure of 370 minutes.

Equivalent Interruption Time for Medium Voltage Installed Power minutes



It should also be said that the violent fires that raged during the summer of 2003, which was declared a national disaster, affected a large number of distribution lines and imposed frequent electricity cuts both for safety reasons and at the request of entities involved in fighting the fires.

Therefore, the Equivalent Interruption Time referred to above includes about 29 minutes that can be attributed directly to these quite extraordinary causes outside of the control of the company. Excluding this effect, the final figure would have been 341 minutes, an improvement of 79 minutes or 19% compared with 2002.

EDP is committed to improving the Quality of the Service provided to its customers. The Quality of the Service provided is largely reflected in the parameters defined by the DGE as well as in the intangible experience of the customers when contacting the company via the different channels. During 2003 a number of projects were put into motion designed to bring the company closer to the needs expressed by consumers. There was therefore a significant reduction of energy interruption time that causes problems of various kinds for customers, often for reasons independent of the company. Major investments were made in information systems designed to improve damage response by the company, meter-reading reporting and collections. There was a focus on the attendance quality of the call centre, on greater efficiency in response to applications for the supply of electricity, and on the improvement and repair of infrastructures. Many of these projects have already been fruitful in terms of results. Others are pilot projects that are expected to be implemented on a larger scale during 2004. In 2003 what was transmitted in-house and communicated to the outside world is that EDP will increasingly have to be the benchmark as far as the quality of its service is concerned because Quality is the basis of a solid company in an increasingly competitive market.



Energy balance

Energy distributed in 2003 totalled 38 869 GWh, 5.3% more than in 2002, of which 34 821 GWh in the SEP and 4 048 GWh in the SENV.

Energy sales in the SEP were down 3.1%. The very-high voltage segment saw the greatest growth rate, 27.4%, while the decline of the medium voltage segment reflects the transfer of customers to the SENV within the framework of growing liberalisation of the sector.

Energy Balance

EDP Distribuição	2003	2002	Var. %
Energy Delivered to the Distribution Network	42 207	39 941	5.7%
Own consumption by Distribution	(79)	(46)	(72.6%)
Distribution losses	(3 259)	(2 990)	(9.0%)
Energy Leaving the Distribution Network	38 869	36 905	5.3%
Sales of Energy at the SEP	34 821	35 947	(3.1%)
Very high voltage	1 115	875	27.4%
High voltage	3 640	3 396	7.2%
Medium voltage	8 565	11 186	(23.4%)
Special low voltage	3 042	2 880	5.6%
Low voltage	17 293	16 530	4.6%
Public lighting	1 166	1 080	7.9%
Delivery of Energy at the SENV	4 048	958	322.6%
EDP Group customers	2 724	644	323.2%
Very high voltage	0	0	-
High voltage	45	78	(41.6%)
Medium voltage	2 679	566	373.3%
Other customers	1 324	314	321.4%
Very high voltage	0	0	-
High voltage	68	104	(34.5%)
Medium voltage	1 256	210	497.1%

>> 1.1.4 Non-Binding Supply Activity

During the present stage of liberalisation of the market, that began on January 1, 2002, all customers connected to the grid in medium, high or very-high voltage are eligible, that is, they are free to choose their electricity supplier. Eligible consumption accounts for about 48.5% of national consumption.



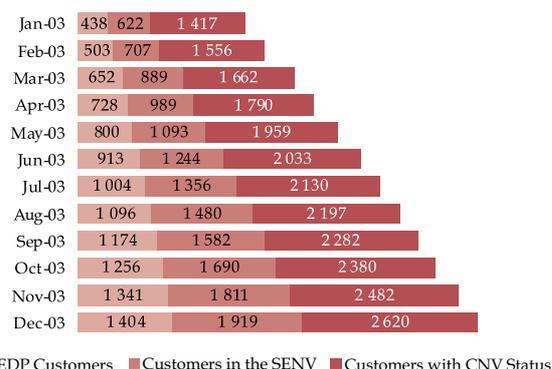
The involvement of the EDP Group in supply on the SENV is managed through its subsidiary EDP Energia. During 2003 the climate surrounding the business of EDP Energia was not particularly propitious. On the one hand, the market system's competitiveness fell against that of the public system, as a result of the prices charged on the wholesale electricity markets and of the moderate growth of the tariffs, established by ERSE, applied to the public system. On the other hand, another competitor came into the market.

Against this background, and taking into account the opportunities and threats of the present stage of growth of the Portuguese market and the future evolution towards an Iberian market, EDP Energia concentrated its activity on three areas:

- In the organisational area, stabilising and consolidating the structure that had been prepared, particularly with regard to Human Resources and Information Systems, ensuring efficient management of available resources;
- In the supply area, developing a number of services complementary to the supply of energy, so as to provide the various market segments with a wide-ranging service of excellence contributing to greater customer loyalty and differentiated offer; and
- Abroad, setting up an electricity supply company based in Spain (EDP Energia Ibérica), harmonising its commercial position in certain market segments with that of HidroCantábrico.

At the end of 2003, of a total of 2 620 customers with the standing of non-tied customers, 1 919 were SENV customers and 1 404 were EDP Energia customers.

Customers



Both in generation and in supply the business increased significantly in 2003 as a result of the increase of hydroelectric production, of the growth of the number of customers and of Trading business with the other companies of SENV, of EDP Group and of HidroCantábrico.

Electricity Sales

EDP Energia	GWh		
	2003	2002	Var. %
Electricity Generation (SENV + PRE)	296	111	167.0%
Electricity Supply (SENV)	2 724	644	323.2%
Very High Voltage	0	0	-
High voltage	45	78	(41.6%)
Medium voltage	2 679	566	373.3%

During 2003 EDP Energia consolidated its leadership as electricity supplier in the SENV, achieving a market share of 73% at the end of the year in terms of customers and 67% in terms of sales. This performance helped the EDP Group to supply approximately 13% of the consumption associated with eligible customers during 2003.

Market Share

EDP Energia	2003		2002	
	Sales GWh	%	Sales GWh	%
Sales GWh - SENV	4 048	100.0%	958	100.0%
EDP Energia	2 724	67.3%	644	67.2%
Other suppliers	1 324	32.7%	314	32.8%
Number of Customers - SENV	1 919	100.0%	493	100.0%
EDP Energia	1 404	73.2%	350	71.0%
Other suppliers	515	26.8%	143	29.0%

>> 1.2 Iberian Market - Spain

>> 1.2.1 Organisation and Regulation

Electricity Sector

Directive 96/92/EC of the European Parliament and of the Council was transposed ahead of schedule to the Spanish electrical sector. This directive establishes common rules for the internal electricity market as a result of the publication of Law 54/1997 of November 27, which is still in force and establishes, among other things, the following basic principles:

- Introduction of competition in generation activity through the following measures:
 - a) as from January 1, 1998 electricity generation in Spain began to operate on the basis of free competition in a system of offer of electricity by producers and a system of demand by eligible consumers, distributors and sellers. Electricity is sold at the system's marginal price plus a complementary power and services component required to ensure adequate supplies;
 - b) the setting up of new generation units was liberalised, though they still have to secure the necessary authorisations;

- c) producers are entitled to use primary sources of energy at their generation units that they consider most appropriate taking into account legal restrictions in the matter of the environment and planning classification; and
 - d) there is a possibility of priority being given to generation installations using local energies (e.g. domestic coal), provided that they do not account for more than 15% of total primary energy required for electricity generation and are compatible with free market competition.
- Guarantee of the proper working of the system through the following:
 - a) REE - Red Eléctrica de España, S.A. (REE) carries on transport manager and system operator activities, and is responsible for technical management with a view to ensuring the continuity and security of the supply and the proper co-ordination of the production and transport system;
 - b) responsibility for economic management of the system is entrusted to the market operator Compañía Operadora del Mercado Español de Electricidad, S.A., an entity legally separate from REE, which is responsible for the mechanisms involved in the reception of offers and communication required to establish the generation market.
 - Progressive liberalisation of electricity suppliers and introduction of supply activity:
 - a) the announced extension of the liberalisation of low voltage consumption came about as from January 1, 2002, thus completing the gradual process of liberalisation established by law;
 - b) right to the use of the transport and distribution networks by eligible customers and supply companies paying single tolls at national level for the use of these networks, without prejudice to differing tolls depending on the voltage and on the use of the network or on consumption characteristics, depending on whether they are transport or distribution networks;
 - c) remuneration of the distribution business for each company in keeping with criteria based on the costs necessary to carry on the business, taking into account a model that characterises the distribution areas and other parameters.
 - Formation of single prices and tariff structures across the whole country, applicable to non-eligible customers or to those not wishing to exercise their right of eligibility.
 - Transitory period and tariff evolution

To allow a gradual process and to ensure the economic and financial feasibility of the companies during the transition to a competitive market, an initial 10-year transitory period was determined, during which remuneration was established for the electricity system companies to cover the cost of transition to the competitive system. Its value was later reduced by about 20% and the initial period was extended to 2010.

- Through Royal Decree 1436/2002, published in the Boletín Oficial del Estado on December 31, 2002, the Spanish government fixed an overall average increase of the electricity selling tariff for 2003 for the electricity distributor companies, amounting to 1.69% of the tariffs in force in 2002, and an average overall increase of 1.95% for the tariffs for access to the electricity transport and distribution networks.

- Legal separation of activities

Under the terms of the law, companies carrying on any of the regulated activities (economic and technical management of the system, electricity transport and distribution) must have the business in question as their sole corporate object, and they cannot carry on unregulated activities as well.

- Accounting separation of activities

Companies whose corporate object comprises electrical activities shall have separate accounts for each activity and shall submit annual reports thereon.

Gas Sector

Following the acquisition of NaturCorp by Hidro-Cantábrico in 2003, the organisation and regulation of the gas sector in Spain warranted closer monitoring.

Therefore, on October 7, 1998, Law 32/1998 governing the hydrocarbons sector was approved, marking the start to the opening of the gas sector, while safeguarding the public interest with no direct intervention in the market. This law came to divide the sector into three activities: the transporters, owning the natural gas regasification and storage facilities; the distributors, owning the distribution pipelines, charged with the operation, maintenance and construction of the network up to the consumers; and the sellers, who acquire gas to sell to end consumers or to other sellers.

While the transport and distribution activities are regulated, selling is undertaken on a free market basis. With a view to lending greater transparency to the sector, both the selling and the regulated activities have to be carried out by different companies, though, within the same group, transport, regasification, distribution and storage activities can be carried on by the same company though they must keep separate accounts.



Subsequently, on June 23, 2000, Royal Decree-Law 6/2000 was published with a view to the introduction of urgent measures designed to increase competition in the natural gas sector, particularly:

- Simplifying the entry of new sellers;
- Introducing a new entity into the structure of the sector, known as the System Manager, charged with managing 75% of the gas arriving from Algeria via the Maghreb pipeline to meet the requirements of tariff customers;
- Establishing the date of January 1, 2003, for liberalisation for all consumers; and
- Reducing to the end of 2005 the period of exclusivity for distributors in a given geographic zone.

Lastly, on December 27, 2002, Royal Decree-Law 1434/2002 was published, governing the transport, distribution and selling activities, supplies and natural gas installation licensing procedures.

Other sundry legislation completed the legal framework of the industry, defining procedures for the auction of the remaining 25% of the gas from Algeria (ministerial order of June 29, 2001), the remuneration for regulated activities within the sector (ministerial order ECO/301/2002 of February 15), gas supply tariffs (ministerial order ECO/302/2002 of February 15) and the tolls due on third-party access to the gas installations (ministerial order ECO/303/2002 of February 15).

At the end of the first year of liberalisation of the gas sector for all consumers, the Spanish government published, early in 2004, Order ECO/31/2004 of January 15, updating the remuneration of the regulated activities of the gas sector in 2004.

>> 1.2.2 Position of the EDP Group

Throughout 2003 EDP, through the group of companies controlled by HidroCantábrico, extended the scope of its business on the Spanish market, making progress in its mission of becoming an Iberian operator.

Because of its approximate size five to six times that of the Portuguese market, for its dynamics and for the geographic continuity that it represents for EDP, the Spanish market is a natural area of expansion of the Group's business, more so since the constitution is imminent of MIBEL, to which both the Portuguese and the Spanish governments are firmly committed.

The 40% holding in HidroCantábrico has allowed EDP to get ahead and to adapt to the scenarios of evolution to MIBEL since it is the only Iberian electricity company that has acquired operating experience on both sides of the border. Emphasis is given to the Group's capabilities in managing flows of electricity at Iberian / cross-border

level, and at the same time is aligned with the specific regulatory characteristics of each country.

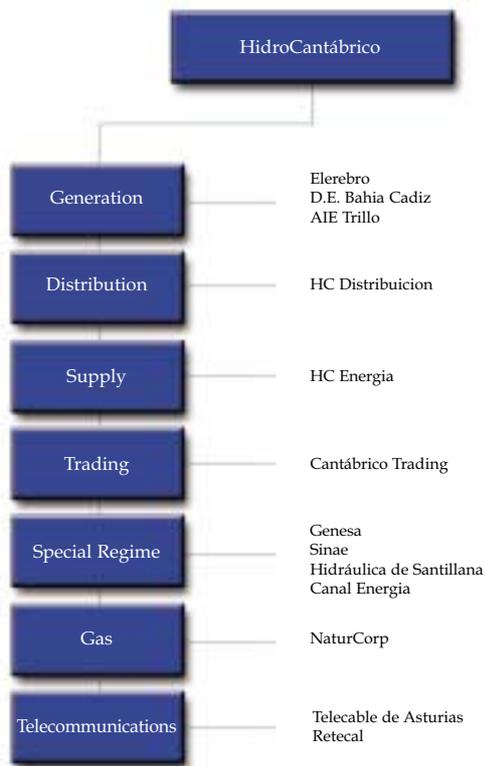
The solidity of EDP's position in the future Iberian electricity market also lies in the complementary nature of the portfolios of assets of HidroCantábrico and of EDP. Since HidroCantábrico's production is mainly of thermal origin (85% of gross generation in 2003), there is a natural cover of the rainfall risk that affects the country's generation, allowing annual generation quotas to be met both in dry and in wet years. The complementary nature of the EDP / HidroCantábrico relationship is also clear to see in EDP's longer tradition in supply than in production, the reverse of HidroCantábrico's position.

Parallelism between the strategic options adopted by EDP in Portugal and by HidroCantábrico in Spain underpins the intensification of the Iberian role. In this connection one should point out the increase of the HidroCantábrico's position in the gas sector resulting from the acquisition of a 62% stake in NaturCorp. This was the biggest goal that was reached in Spain during 2003 and it allowed HidroCantábrico to become the second biggest Spanish company operating in the gas distribution business. As in Portugal, HidroCantábrico recognises that bringing together the gas and electricity businesses adds value to the companies both in the generation and in the distribution and supply areas.

There are other symmetries between the positions of EDP in Portugal and of HidroCantábrico in Spain that themselves strengthen the Iberian role. These include the progressive use of natural gas as the fuel preferred in increasing generation capacity, for reasons to do with economy, the environment and diversification of the sources of primary energy, and the focus on the renewable energies sector, taking advantage of the conditions created by the establishment of special regimes governing the remuneration of investment in infrastructure of this kind.

Lastly, we would call attention to the fact that, in September, the Council of Ministers of the Spanish government lifted the inhibition of EDP's voting rights in HidroCantábrico.

The following chart shows the simplified structure of HidroCantábrico:



>> 1.2.3 HidroCantábrico's Business

As determined in the merger project between HidroCantábrico and Adygesinval, S.A., which came about in December 2002, the effects of this merger on the annual accounts were backdated to January 2002. In practice, it was only in 2003 that the new corporate structure came up to cruising speed, although the 2002 accounts were already based on the merged companies from an economic and fiscal standpoint.

At corporate level, the main event of the year was related to the acquisition of 62% of NaturCorp Inversiones during the third quarter of 2003. This company wholly owns NaturCorp Multiservicios, acquired in turn from Ente Vasco de la Energia in the wake of the privatisation process implemented by the regional government.

The acquisition of NaturCorp involved paying up about €251 million in cash and 100% of the shares in Gas de Asturias, valued at €322 million.

In addition to the investments made in the gas sector, the other priority growth area established for HidroCantábrico was renewable energies. The focus on this sector led to an increase of the holding in Sinae, through the purchase of 14.3% of this company for approximately €11 million. Following this acquisition the HidroCantábrico Group now controls 80% of Sinae, a

company engaged in development, construction management, operation and maintenance of assets in the renewable energies area, with a particular focus on wind farms.

Still in connection with Sinae, a strategic realignment was undertaken in 2003 leading to a decision to increase its share capital and to significantly reduce its staff as a result of termination of non-core activities in the areas of renewable energies consultancy, engineering and installation projects. Following the implementation of these measures, Sinae was left with the human and financial resources required to pursue the Group's strategic goals in Spain where, in the wind farm business, the intention is to achieve a market share in the coming years equal to that held by the group in the production and distribution of energy under the normal regime.



In the wake of a regulatory decision, HidroCantábrico and the three other major electricity companies in Spain reduced their holding in REE from 10% to 3% during 2003, by means of a public offering that provided a cash inflow of €102.5 million. In keeping with a strategy of concentration on core businesses, other assets considered not strategic by the group were sold, particularly the HidroCantábrico holding in CMG - Companhia Mexicana de Gás and other minority holdings in projects in the area of renewable energies in which HidroCantábrico did not have a controlling interest.

At management level emphasis is given to the various initiatives undertaken by the team responsible for the management of the company, in particular:

- Implementation of a new strategic procurement management model, which, through greater centralisation and rationalisation, has provided major economies without any reduction of the quality of the service provided to internal customers;
- Introduction of a new competence and human resources management model drawn up on the basis of a diagnosis of the organisational environment with a view to the preparation of the group, its senior staff in particular, for the challenges inherent in providing services in a free market, through the development of skills



in leadership, teamwork, communication and motivation;

- Negotiation of a new collective bargaining agreement, oriented more towards the reality both of the company and of the energy sector, now faced with the open market;
- Adjustment of the commercial strategy in keeping with the new stage of the company's life following the acquisition of NaturCorp, taking the opportunity to segment the electricity and gas market, to restructure the sales teams and to define new control and monitoring tools for the commercial activity; and
- Definition of established procedures to be employed in the analysis of investment projects, providing rigour,

objectiveness and speed in all these processes, with immediate, clear benefits in decisions related to increasing capacity in projects in the area of renewable energies.

In view of the corporate reorganisation of the group following the merger and the establishment of new strategic and development plans, new premises were inaugurated in Madrid in keeping with the dimension and growth prospects of the companies, without incurring any additional costs, while maintaining the company's registered office at Oviedo.

Electricity Generating Business

In geographic terms, the electricity generating Business of the HidroCantábrico Group is as follows:



(1) For the Special Regime 100% of the value of the participated projects are considered

In electricity generation, the company was able to achieve a high level of availability and efficiency of the electricity generating facilities in 2003, reflected in the large volume of energy produced, although the above average rainfall meant that prices fell on the wholesale market.

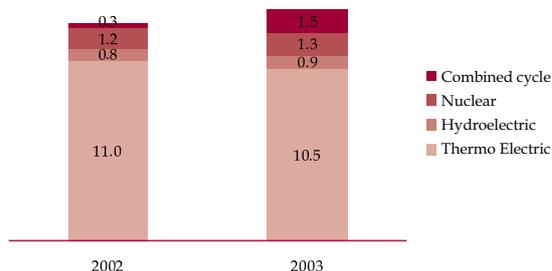
Net Generation

HidroCantábrico (100%)		GWh	
	2003	2002	Var. %
Hydroelectric	861	771	11.7%
Thermo Electric	10 491	10 997	(4.6%)
Nuclear	1 257	1 212	3.7%
Combined cycle	1 546	328	371.4%
Net Generation	14 155	13 308	6.4%

Net generation delivered to the grid exceeded expectations at 14,155 GWh, an increase of about 6.4% over 2002, which, since it was a dry year and therefore a very good one for the HidroCantábrico asset portfolio, was itself an exceptional year.

Net Generation

HidroCantábrico (100%) TWh



HidroCantábrico's market share of electricity generation, in accumulated terms, stood at 7.6% at the end of December slightly lower than the figure of 7.7% at the end of 2002.

For the Elerebro em Castejón Power Station, 2003 was the first full year in operation. It is HidroCantábrico's first CCGT Power Station and it was in operation during more than 4 000 hours during the year, even though it was a wet year, which is not as good for thermal generation.

The average price of energy sold on the wholesale market stood at €35.83/MWh, about 19% less than the figure of €44.15 MWh in 2002, partly caused by high hydroelectric productibility during 2003 and the greater generation capacity available within the Spanish electricity system.

Special Regime Generation in 2003 amounted to 233.3 GWh, 47.3% more than in 2002.



Gas and Electricity Distribution Customers

The total number of customers of the electricity distribution business stood at 561 208, 2.2% more than in 2002. The number of customers in gas distribution more than tripled, to 542 794, driven by the acquisition of NaturCorp.

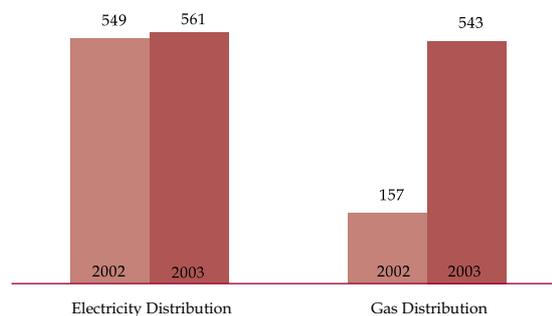
Distribution Customers

HidroCantábrico (100%)

	2003	2002	Var. %
Electricity Distribution	561 208	549 091	2.2%
High voltage	19	19	-
Medium voltage	690	649	6.3%
Low voltage	560 499	548 423	2.2%
Gas Distribution	542 794	157 051	245.6%

Distribution Customers

HidroCantábrico (100%) thousand



Electricity sales amounted to 8 659 GWh, 2.5% more than in 2002, while gas sales amounted to 9 627 GWh as a result of the inclusion of NaturCorp in the HidroCantábrico consolidation perimeter as from August 1, 2003. If the sales of NaturCorp during the whole of 2003 were taken



into account, HidroCantábrico would have achieved a market share of 7.7% in gas distribution business in Spain.

Sales of Electricity by Distribution

HidroCantábrico (100%)			
	GWh		
	2003	2002	Var. %
High voltage	5 520	5 571	(0.9%)
Medium voltage	991	861	15.1%
Low voltage	2 148	2 015	6.6%
Electricity Distribution	8 659	8 447	2.5%
Gas Distribution	9 627	1 824	-

Gas and Electricity Supply Activities

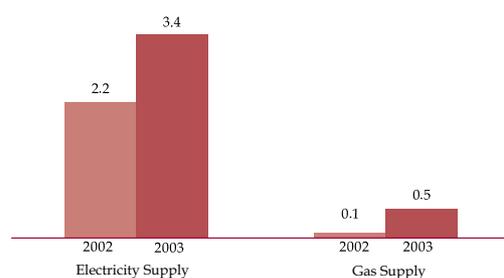
The 50.2% growth of electricity customers is due to the fact that in 2003 liberalisation came to cover all low voltage customers, while the growth of gas customers includes, in addition to this effect, the increase caused by the consolidation of NaturCorp.

Supply Customers

HidroCantábrico (100%)			
	2003	2002	Var. %
Electricity Supply	3 376	2 247	50.2%
Asturias	1 180	472	150.0%
Rest of Spain	2 196	1 775	23.7%
Gas Supply	474	84	464.3%
Asturias	70	8	775.0%
Rest of Spain	404	76	431.6%

Supply Customers

HidroCantábrico (100%) thousand



Electricity supply totalled 4 712 GWh, 19.1% more than in 2002, while gas supply amounted to 5 711 GWh which compares with 1 908 GWh in 2002. Taking into account the total sales of NaturCorp in 2003, HidroCantábrico would have achieved a market share of 3.9% of the liberalised gas market in Spain and 7.4% on the basis of the liberalised and non-liberalised markets.

Energy Sales by Supply

HidroCantábrico (100%)			
	GWh		
	2003	2002	Var. %
Asturias	1 024	933	9.7%
Rest of Spain	3 688	3 022	22.0%
Electricity Supply	4 712	3 955	19.1%
Asturias	408	157	159.9%
Rest of Spain	5 303	1 751	202.9%
Gas Supply	5 711	1 908	199.3%

>> 1.3 Brazil

>> 1.3.1 Organisation and Regulation of the Brazilian Electricity Sector

The organisation and regulation of the Brazilian electricity sector throughout 2003 was influenced by the following aspects:

- The macroeconomic situation that varied between a framework of disproportionate risk perception and one of reasonable balance;
- A positive energy situation as far as the hydrological risk in the main load centres was concerned (with the exception of the Northeast Region);
- Significant growth of installed capacity; and
- Moderate growth of the consumer market, despite the fact that the growth of the economy was almost nil.

In September 2002, on the eve of the presidential elections the Brazil-risk stood at 2 393 points and the commercial dollar rate at 3.89 reals. The General Price Index (IGP-M) stood at 25.31% in December, the trade surplus at 13.13 billion dollars and the GDP was growing at a real rate of 1.5%, signaling a confidence crisis in the new government elected in October 2002.

A conservative macroeconomic policy was maintained during 2003, introducing reform in the social security and taxation areas and an endeavour was made to gain international confidence. The country was able to reverse expectations and the year ended with the Brazil-Risk below 500 points and the commercial dollar trading around 2.90 reals, an IGP-M of 8.71% and a record trade balance of 24 831 billion dollars. However, the conservative monetary policy was reflected in GDP growth, up by just 0.2%

The a good rainy season in 2002-03 (with the exception of Northeast Region) and the coming on stream of new undertakings, were determinant to the performance of the electricity sector in 2003, which resulted in an excess of electricity supply.

Although the 12-month accumulated total consumption to October 2003 increased by an average of 4.4%, the absolute threshold achieved was lower than in 2000. The

desired balance of surplus energy in generation, and the reconstitution of revenues that had been forecast by the distributors were not solved by the growth of the market.

Faced with this panorama, Mines and Energy Ministry (MME) presented a Proposed Institutional Model for the Electricity Sector, later converted to Institutional Model for the Electricity Sector on December 11.

Institutional model for the Electricity Sector

The new regulatory framework seeks to re-establish medium and long-term planning, to centralise the regulated marketing of blocks of energy between the concessionaires on central bodies, and to create a suitable climate to bring about investment, particularly in production.

Two new entities were created – the Electricity Marketing Board (CCEE), succeeding the Wholesale Electricity Market (MAE), and the Energy Research Company (EPE) whose main purpose is to undertake studies to allow the MME to comply with its role of executor of the energy planning.

The responsibilities of the existing agents were altered: the MME is once again the direct agent of the conessor entity; the National Energy Policy Council (CNPE) is responsible for the security of the system; the regulatory duties of the National Electricity Agency (ANEEL) have been adjusted; and the structure of governance of the National Electricity System has been altered.

Contracting energy will be undertaken by the CCEE in two different environments:

- the regulated contracting environment, including contracting by distributors to serve captive customers; and
- the free contracting environment, including contracting to serve free customers through freely-negotiated contracts.

The distributors have to provide the contracted coverage for 100% of their market, through regulated contracting, always by means of auctions. This means that bilateral contracting by distributor concessionaires without public auction has been eliminated, and they can no longer sell to free consumers. Self-dealing has also been extinguished. However, contracts that existed prior to the introduction of the new model remain valid.

Furthermore, the public service concessionaires cannot provide services atypical to the electricity sector except with ANEEL approval.

It should be mentioned that the regulatory environment has not yet been fully defined and that the rules of the new model are to be defined by future legislation, leading to criticism by the agents.

>> 1.3.2 Position of the EDP Group

Taking into consideration, on one hand, the macroeconomic and regulatory framework in Brazil and, on the other, the restructuring of the EDP Group started during the first half of 2003, there have been significant positioning adjustments to the business of EDP in Brazil.

The EDP Group has defined the following as its major guidelines for Brazil:

- Inclusion of the Brazil operations in its strategic agenda;
- The need to develop these operations on a self-sustaining basis; and
- The strengthening and the autonomy of local management, in keeping with the Group's strategic principles.

In this connection, a start has been made to a process of repositioning, which will take place over a short to medium-term time horizon, consisting of five stages, not necessarily sequential:

- Corporate restructuring: integration of all activities in Brazil under the EDP Brazil sub-holding company, which will therefore consolidate not only the financial aspects but also planning and strategic control;
- Capital restructuring: optimisation of the allocation of the own and borrowed funds employed by EDP Brazil as a whole, to ensure the best possible shareholder return;
- Corporate governance: harmonisation and alignment of the corporate governance structures and procedures of the EDP Brazil companies, in particular in the sub-holding company/ subsidiaries interface, with a view of improving the efficiency and transparency of the decision-taking process. In this field, alterations have already been made to the composition of the boards of directors and management of the companies, so as to strengthen local integrated management capabilities;
- Strategic positioning: introduction of the necessary adjustments to the existing portfolio with a view to obtain greater added value for shareholders and the establishment of strategic platforms for the development of future businesses in the light of the attractiveness of the macroeconomic, regulatory and competitive framework that will be established; and
- Generation of synergies: ensuring that EDP Brazil, taken as a whole, is worth more than the sum of its parts, thus providing adequate remuneration of capital employed, in line with best international practice. The relaunch of the Efficiency Programme and the analysis of the feasibility of the shared services units are included in this stage.



>> 1.3.3 Business of the EDP Group in Brazil

Company Restructuring

During December 2003 the EDP Group concluded a new stage of corporate restructuring, involving the transfer to EDP Brasil, S.A., of the direct control of IVEN, S.A., the company that controls Escelsa - Espírito Santo Centrais Elétricas, S.A., and Enersul - Empresa Energética de Mato Grosso do Sul, S.A..

During the process Calibre Participações S.A., 135 Participações S.A., EDP 2000 Participações Ltda., and EDP Investimentos Ltda., were also liquidated. These were vehicles used at the time of acquisition of the investments in IVEN. The liquidation involved their transfer to EDP Brazil, increasing its share capital to the benefit of the company's shareholders, the aim being to simplify the corporate structure and to eliminate tax inefficiencies.

As a result of this process, EDP Brazil now holds 23.98% of the total share capital and 69.55% of the voting capital of IVEN.

Also in December, the EDP Group promoted the incorporation of Enerpro Serviços de Produção e Engenharia, S.A., by Energest, S.A., which now handles development and implementation of energy production projects and the provision of engineering and operation and maintenance services for production units in Brazil.

Generation

Maximum Power and Net Generation

EDP Group in Brazil

	2003	2002
Lajeado	903	903
Peixe Angical (1)	452	452
Fafen (Cogeneration)	54	-
Maximum power as at 31 Dec (MW)	1 409	1 355
Lajeado	4 457	2 589
Peixe Angical (1)	-	-
Fafen (Cogeneration)	167	201
Net Generation (GWh)	4 624	2 790

(1) Under construction

• **Lajeado**

The Lajeado hydroelectric power station, built by Investco, a company in which EDP has a 27.65% stake, is located on the river Tocantins, with an installed capacity of 902.5 MW, which occurred as planned and generated 4457 GWh of electricity during 2003, a year marked by below-average flows during the wet season.



Within the scope of the environment, the mitigation of socio-economic impacts consolidated the implementation of the Rural Development Plan through agreements entered into by the company, the authorities and the local population, leading to the emancipation of the affected families and to the transfer of public services, health and communications in particular, to the competent governmental and municipal entities. In the biotic area, work went ahead on reforestation and on cleaning the reservoir, while limnology and ichthyofauna studies were carried out in respect of the working of the power station.

• **Fafen**

The Fafen thermoelectric power station, located at the Camaçari Petrochemical complex in the state of Bahia, saw the start to the construction of its second stage during March 2003, consisting of a 26.7 MW gas turbine and a 53 MW steam turbine.

EDP is developing the undertaking in partnership with Petrobrás in the proportion of 80% to 20%. In its final form, set to be concluded in February 2004, it will have the capacity to generate a net 133 MW of electricity and 42 tonnes of steam per hour, burning natural gas. During 2003 the plant generated a total of 167 GWh and 352,603 tonnes of steam.

• **Peixe Angical**

Work on the Peixe Angical hydroelectric plant, with an installed capacity of 452 MW, which had been suspended in 2002 as a result of difficulties in securing financing under acceptable conditions, restarted in October 2003 following agreements entered into by EDP with the Eletrobrás Group and Banco Nacional de Desenvolvimento Económico e Social (BNDES).

Under these agreement, Furnas Centrais Elétricas S.A., - an Eletrobrás subsidiary - agreed to acquire a 40% stake in the project, while BNDES put up the finance for about 50% the project (670 million reais, out of a total budget of 1391 million reais), allowing a substantial reduction in the financial effort



required by EDP. The three generating units are programmed to come on stream in May, July and October 2006.



• Couto Magalhães

The Couto Magalhães hydroelectric power station (150 MW installed capacity), in which EDP has a 49% stake and the Rede Group 51%, is not yet past the environmental (EIS/RIMA), energy and engineering studies stage to determine the final characteristics of

the undertaking. Work has now been suspended in view of the new environmental requests made by the authorities – not included in the concession contract – which would substantially increase the costs of the project and cause delays that could compromise the economic feasibility of the undertaking.

Therefore, the Ener-Rede Couto Magalhães Consortium has asked ANEEL to formalise the amicable rescission of the concession contract. The position of the regulator on this matter is still awaited.

• Feasibility studies of new hydroelectric plants

The feasibility study of the Ipueiras hydroelectric power station has been concluded and the decision of the authorities in respect of the licensing process covered by this study is awaited. Also awaited is the decision by the environmental authority allowing the conclusion of the environmental studies in respect of the Tupirantins hydroelectric plant. Studies concluded and approved by the authorities may lead to the power station concession being offered by public auction. By drawing up these studies EDP will be entitled to bid in the auction or to be reimbursed in respect of the costs of the feasibility study.

Distribution Business

Number of Customers

EDP Group in Brazil

	Bandeirante			Escelsa			Enersul			Total		
	2003	2002	Var. %	2003	2002	Var. %	2003	2002	Var. %	2003	2002	Var. %
Total Customers	1 320 211	1 297 285	1.8%	968 165	954 381	1.4%	613 832	596 569	2.9%	2 902 208	2 848 235	1.9%
Residential	1 210 721	1 184 016	2.3%	764 264	756 409	1.0%	503 544	489 211	2.9%	2 478 529	2 429 636	2.0%
Industrial	7 620	9 303	(18.1%)	10 633	11 069	(3.9%)	4 451	4 686	(5.0%)	22 704	25 058	(9.4%)
Commercial	86 510	88 594	(2.4%)	85 465	84 460	1.2%	53 279	52 354	1.8%	225 254	225 408	(0.1%)
Other	15 360	15 372	(0.1%)	107 803	102 443	5.2%	52 558	50 318	4.5%	175 721	168 133	4.5%

Sales

EDP Group in Brazil

GWh

	Bandeirante			Escelsa			Enersul			Total		
	2003	2002	Var. %	2003	2002	Var. %	2003	2002	Var. %	2003	2002	Var. %
Bought in & own-generation electricity	11 236	13 872	(19.0%)	7 237	8 343	(13.3%)	3 449	3 704	(6.9%)	21 922	25 919	(15.4%)
Electricity entering distribution	12 389	11 804	5.0%	8 184	7 337	11.6%	3 390	3 270	3.7%	23 964	22 411	6.9%
Losses in distribution	(1 009)	(886)	(13.9%)	(997)	(838)	(19.0%)	(533)	(516)	(3.4%)	(2 539)	(2 240)	(13.4%)
Sales to customers	9 543	10 165	(6.1%)	5 900	6 365	(7.3%)	2 816	2 754	2.2%	18 260	19 284	(5.3%)
Residential	2 132	2 115	0.8%	1 195	1 134	5.5%	872	863	1.1%	4 200	4 111	2.2%
Industrial	5 227	5 991	(12.8%)	2 745	3 290	(16.6%)	654	671	(2.5%)	8 626	9 952	(13.3%)
Commercial	1 180	1 130	4.4%	754	839	(10.2%)	547	527	3.7%	2 481	2 497	(0.6%)
Other	1 004	929	8.1%	1 206	1 102	9.4%	743	693	7.1%	2 953	2 724	8.4%
Deliveries to access customers	1 837	753	144.0%	1 287	134	860.4%	41	0	-	3 165	887	256.8%
Sales to MAE (1)	282	1 668	(83.1%)	46	587	(92.2%)	16	272	(94.3%)	343	2 527	(86.4%)

(1) Wholesale energy market

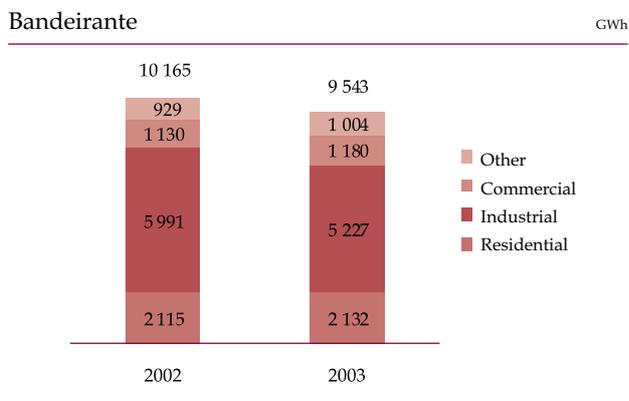
• **Bandeirante**

a) Activity: Bandeirante's sales to direct customers totalled 9 543 GWh, in respect of 1.3 million customers, a reduction of 6.1% compared with the previous year as a result of the departure of a number of free customers.

For this reason and owing to the downturn of industrial activity seen during the year, the industrial segment declined by 12.8%.

The residential segment, affected by lower purchasing power, increased by 0.8%, while the commercial segment returned a growth of 4.4% compared with 2002.

Sales



b) Tariffs: in keeping with the concession contract, a new tariff period started in October 2003. The regulator granted Bandeirante a tariff increase of 18.08% and a "Factor X" of 1.83% to re-establish the economic and financial balance of the contract.

It should be pointed out that by determination of the regulator, the repositioning will be implemented in stages, 14.68% in the first stage. The difference of 3.4% will be divided and added to the next 3 annual tariff adjustments, generating an increase of revenue of 71 million reais each year, at October 2003 prices.

In an endeavour to dilute the crossed subsidies that exist in the tariff system, the regulator, at the time of this repositioning, applied tariff realignment. As a result of this procedure, the Bandeirante network access tariff increased by an average 130% for the various voltage levels.

c) Efficiency and productivity: Bandeirante has sought to motivate its employees through training courses in building up a creative, innovative culture directed at results and oriented towards customers and the market.

Measures have been developed and implemented to increase efficiency, such as the reduction of stocks and of operating costs.

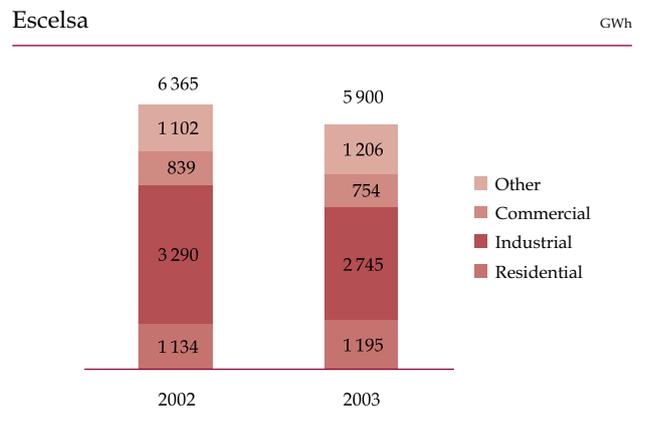
The measures, and the conclusion of the modernisation projects, have allowed the company's efficiency to improve and staff numbers to be lowered to 1 261, meaning that the index now stands at 1 047 customers per employee.

• **Escelsa**

a) Activity: Escelsa, which covers 968,000 customers, sold 5 900 GWh of electricity in 2003, 7.3% less than in 2002.

To meet its own requirements of 7 237 GWh, Escelsa generated a total of 1 179 GWh, or 16.3% of its requirements, and bought in 6 057 GWh from other producers in the interconnected system.

Sales



b) Tariffs: as from August 7, 2003, as provided for in the concession contract, the electricity tariffs for Escelsa's customers were adjusted by an average of 17.30%.

The adjustment, provided for in the concession contract, comprised two parts, designed to compensate: i) costs not controlled by Escelsa, which are passed on to the tariffs, such as bought-in energy, transmission costs and sectorial charges; ii) costs controlled by Escelsa, which were corrected by the IGP-M, less the deflator of 0.63% reflecting the passing on of productivity gains to the customers for this year, the so-called "Factor X", as determined by ANEEL on the occasion of the periodic tariff revision in August 2001; and iii) the costs incurred by Escelsa during the period of rationing.



The tariff adjustment was applied differently across the various voltage categories, involving a realignment designed to reduce the cross subsidies existing between the various supply voltages.

- c) Efficiency and productivity: the Executive Committee implemented an organisational structure in March 2003 providing greater control over work processes and methods and ensured multiplication of knowledge and productivity gains through in-house synergies.

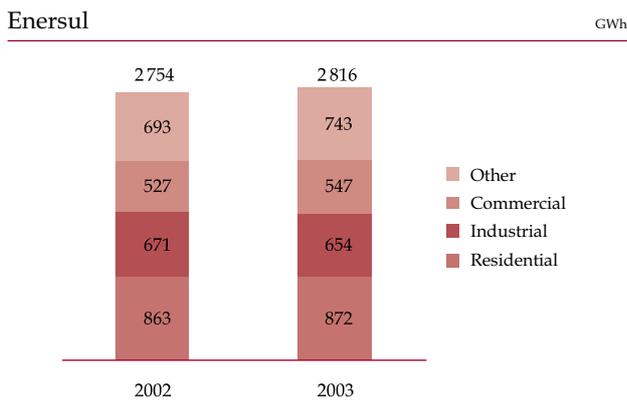
The staff numbered 1309 at the end of 2003 and the customers per employee ratio stood at 740.

• Enersul

- a) Activity: in 2003 Enersul sold a total of 2 816 GWh of electricity, serving 614 000 customers.

To meet its needs of 3 449 GWh Enersul itself generated 208 GWh, or 6.0%, and bought in 3 241 GWh from other producers in the interconnected system.

Sales



- b) Tariffs: during 2003, as provided for in the concession contract, Enersul underwent its first periodic tariff revision, including the repositioning of its electricity supply tariffs, the realignment and determination of "Factor X".

ANEEL fixed the Enersul tariff repositioning at 42.26%, to be applied to the electricity supply tariffs. However, by determination of the regulator, this repositioning percentage will be implemented in stages, 32.59% in the first year. The difference of 9.67% will be split and added to the next four annual tariff readjustments, generating an increase of revenue of 55 million reais each year, at April 2003 prices. ANEEL also provisionally fixed "Factor X" at 2.35%.

To dilute the crossed subsidies that exist in the tariff system, ANEEL, at the time of this repositioning, applied tariff realignment.

- c) Efficiency and productivity: the Executive Committee implemented an organisational structure in March 2003 providing greater control over the work process and methods and ensured multiplication of knowledge and productivity gains through in-house synergies.

The staff numbered 944 at the end of 2003, 1.7% more than in 2002. Despite the number taken on, the company's customers per employee ratio improved to 650.

• Efficiency Programme

A start was made during 2003 to the implementation of the Efficiency Programme in Brazil. This EDP Group programme, began in 2002, is designed to implement throughout the group a permanent goal of rationalising expenditure and cutting costs.

The areas involved in this work are very diversified, covering human resources, materials and services procurement, and optimisation of technical and commercial operations.

The work has led to the inclusion in the business plan of a number of horizontal initiatives, which will have a forecast impact of about 11 million reais in 2004, in addition to those impacts stemming from the modernisation efforts underway within the companies, providing savings of more than 40 million reais.

Supply Activity

As mentioned earlier, the electricity supply market was marked in 2003 by expectations as to the definition of the new model for the Brazilian electricity sector. As in 2002, influenced by the end of rationing and by the elections, 2003 was influenced by considerable uncertainty in view of the lack of definition of a transparent, stable regulatory framework. The result as far as supply was concerned was the postponement by major free customers of decisions regarding contracting electricity for longer periods, leading to a restricted market with greater competition between operators.

During 2003, Enertrade sought to optimise its resources with a view to reducing and mitigating the risk of the electricity assets of the EDP Group. At the same time, it pursued maximisation of profits through supply electricity to major industrial consumers of energy. This allowed Enertrade to consolidate its position as the most active supply company on the Brazilian market.

The reduction of the EDP Group's exposure to the market risk was mainly due to the sale of electricity by Lajeado not under contract in the long term. This electricity was placed on the free-customer market through several structured products that received a good welcome since they allow the wholesale market price risk to be shared between the seller and the end customer through maximum and minimum attendance price mechanisms.

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Enertrade's sales totalled 2 737 GWh, of which 1 620 GWh involved direct sales to customers whose use of electricity is intensive. This sales volume reflects an increase of about 103% compared with 2002. Enertrade's average selling and purchasing prices in 2003 were 58.80 and 53.34 reals per MWh respectively. Another area of activity was the continuity of operations with electricity purchase options, under which 135 GWh were sold to several market agents.

During the year Enertrade provided services to market agents and free customers. In addition to the activity of representing free consumers and self-producers before the

MAE, it included in its range of services the provision of consultancy to major energy consumers, designed to provide the means to allow consumers to take a decision as to joining or not the wholesale market.

Enertrade's integrated activity with the Group's distributors, Bandeirante, Escelsa and Enersul, allowed them to use the self-supply limit established by prevailing legislation, in contracting for the coming years. These contracts were closed within the price parameters established by ANEEL and taking into account the distributors' tariff modes.





>> 2 TELECOMMUNICATIONS

>> 2.1 Global Framework

2003 was marked by the slowdown of economic activity that had been felt since 2002, with an inevitable impact on the telecommunications sector, particularly sensitive to the economic cycle.

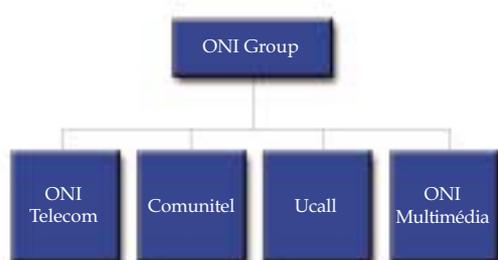
Against a background influenced by efforts to reduce costs and to increase operating efficiency, implemented by most economic agents, the ONI Group maintained its growth, achieving consolidated revenues of more than €310 million, about 25% more than in 2002.

The Group's environment both in Portugal and in Spain continued to be extremely adverse, and the barriers imposed by regulatory questions have been maintained, preventing any real competition. The main difficulties have to do with access to the local loop and also with the costs of interconnection with the networks of the incumbents, whose tariffs are among the highest in Europe.

2003 was also influenced by the conclusion of the process of termination of the business of ONI Way and by the exercise of the sale option on the whole of the company's share capital.

>> 2.2 Organisation and Business of the ONI Group

During 2003 and in the wake of the concentration of the group's activity on the fixed business, the Group's structure was reorganised and now has the following business composition:



Portugal

Regulatory Evolution

The evolution of the regulatory framework of the industry in Portugal was influenced in 2003 by the process of transposition and implementation of the new regulatory framework of the European Union, which should have come into force in the various Member States on July 25, and, in Portugal, by the start of the duties of the Competition Authority and by the need for ongoing intervention by the sector regulator (ANACOM).

As far as the fixed networks are concerned, there continued to exist a clearly insufficient degree of competition, reflected in the maintenance or even increase (as in the case of services supported on ADSL technology) of the market share of the incumbent operator, which continues to hold about 90% of telephone traffic and 95% of direct accesses, having increased its broadband market share to about 80%.

The incumbent operator therefore continued to benefit from the situation, strange in European terms, of holding at the same time the basic telecommunications network and the principal cable TV network, which was not subject to any structural measure, nor were its negative effects even reduced by an approach to best European practice in terms of conditions of access to the basic network.

The main aspect to remember as far as the legislative framework is concerned has naturally to do with the delay seen in Portugal to the process of transposition of the new Community framework, which, despite the fact that it involved no public hearing, contrary to what was seen in other countries, was approved by the Assembly of the Republic only in December, with its publication consequently postponed to 2004.

Notwithstanding the activity of the regulator during 2003 and in previous years, there continued to be several constraints of a legal and regulatory nature that significantly conditioned the development of real competition in the fixed network services market. In most cases they were recurrent issues that have not yet been subject to any deliberation.

Of the various obstacles encountered, the following are underscored in more general terms:

- Absence of structural measures to combat the joint control of the country's two main access networks by the same entity and of conditions to approach best European practices to offset the foregoing;
- Lack of fast, effective regulator response to market needs, with no clear, quantified political objectives in terms of real competition;
- Absence of measures to promote investment in own networks and of simplification of access to the private domain to install the respective infrastructures;
- Absence of a clear, open and competitive policy of adjudicating telecommunications procurement services by the Public Administration; and
- Indefinition of the border between the activities of the Competition Authority and of ANACOM.

More specifically in terms of regulation, the following constraints to the development of real competition in general and to that of ONI Telecom in particular should be emphasised:

- Termination tariffs in the mobile networks not oriented to costs and discriminatory (compared with termination of traffic from operators in other countries) with the overall average values that are the highest of the entire European Union;
- Interconnection tariffs with the PT Comunicações network generally higher than the European average and about 50% higher than best practice;
- Freeze on the dial-up Internet access interconnection tariffs since 2002, now standing far higher than that of the Fixed Service Telephone (SFT), thus compromising the objective of promoting the Information Society;
- Persistence of conditions of the Disaggregated Local Loop Offer (OLL) that are particularly serious for new operators - loop activation prices among the highest of the European Union and monthly charges very close to those of the retail SFT tariff of the incumbent operator, and continuation of inadequate or unnecessarily costly OLL operating conditions; and
- Continuation of extremely high administrative costs in respect of number portability (in some cases 100 times greater than those of the majority of the countries of the European Union).

Evolution of the Fixed Telecommunications Business

ONI maintained its strategy of a complete approach to the domestic market through a portfolio of products and services directed at every segment of the market, although the conscious focus on more profitable segments and on those with a greater capacity to retain customers naturally occasioned a sharper growth in the more

attractive segments (companies and operators) and a reduction of the weight of the residential segment.



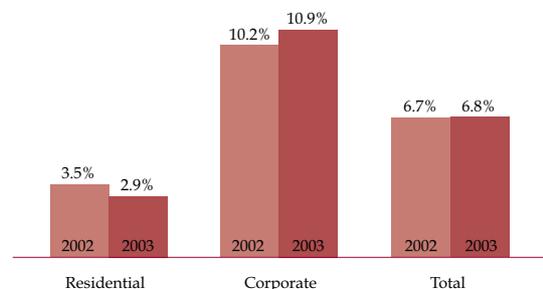
Nevertheless, at the end of 2003 ONI began the launch of an innovative, competitive service for the residential segment with direct access via OLL - the OniPremium. This product allies the fixed telephone service with the broadband and releases the customer from the incumbent operator. Given the geographic limitation to which the service is subject, ONI has retained its traditional indirect-access products and services, including voice, telephone cards and Internet.

In the corporate market, growth efforts were centred on a large group of key customers and on the development of alternative contact channels. ONI services directed at the SMEs were also promoted, which constitute the greater part of the Portuguese corporate fabric and provide the greatest business growth potential in the medium term.

The operators segment performed well, up by about 25% compared with the previous year, confirming ONI as a "carrier's carrier" within Iberia. Emphasis is given to the fact that these results were achieved as a result of the increase of market share in a highly competitive market environment, with declining demand and considerable erosion of prices.

Market Share

Fixed Telecommunications in Portugal



Spain

Regulatory Evolution

Regulatory activity in 2003 was influenced by the General Telecommunications Law 32/2003 of November 4. The resultant regulations are still under preparation. In practice, this law will transpose to Spanish legislation the Community directives for the Telecommunications industry, in a process similar to that began in Portugal.

With regard to voice services, particularly relevant to the business of Comunitel and its subsidiaries, mention is made of the negative effect of the Spanish government's freeze on the proposed single invoice and of the positive effect of the supervisory activities of the Regulator, with heavy fines imposed on the incumbent operator for anti-competitive practices.

With regard to interconnection between operators, the essential factor in 2003 was the implementation of the new OIR (Reference Interconnection Offer), providing an average 10% reduction of interconnection prices, a 10% increase of average capacity lease prices and a 65% average reduction of average interconnection prices.

As far as the local loop offer (OLL) is concerned, which is fundamental to the sector's evolution expectations, attention is called to the start of the process of modification of the OLL by the CMT (Telecommunications Market Commission), designed to reduce service activation time and to establish penalties for the incumbent operator for non-compliance.

Evolution of the Fixed Telecommunications Business

Involvement in the Iberian fixed telecommunications market is of extreme significance to ONI for its business potential (between 5 and 6 times the value of the Portuguese market) and for the creation of economies of scale that increase the efficiency of the group's cost structure.

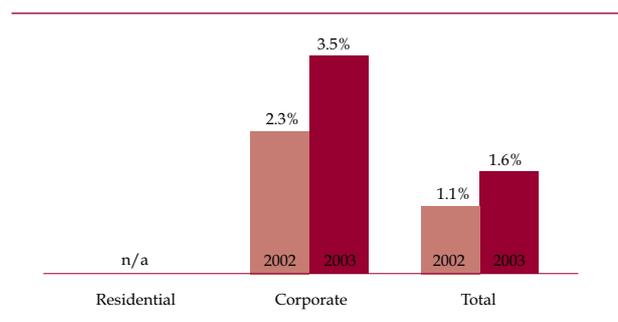
ONI is present in Spain through Comunitel and its subsidiary OLA Internet, a company acquired at the end of December 2002 dedicated to marketing voice services for SMEs, the same target segment as Comunitel's, efforts being directed at complementing each other in terms of the offer and cost structure, interconnection costs in particular.

The aim is to consolidate this association based on the market position already achieved by Comunitel and by OLA Internet, with a focus on three main aspects: efficiency, profitability and market segmentation.

Comunitel's business in 2003 was marked by a focus on the offer of direct access via OLL, having overhauled its products and services portfolio, leading to a sharp growth of average revenue per user. Additionally, investments were made in 130 OLL telephone exchanges, which consolidated Comunitel as Spain's leader in this type of access.

Market Share

Fixed Telecommunications in Spain



Consolidated Business

The principal consolidated operating indicators for ONI's fixed operations reflect growth compared with 2002.

Operating Highlights

Fixed Telecommunications

	2003			2002			Var. % Total
	PT	ES	Total	PT	ES	Total	
Voice traffic (M. min.)	938	1 700	2 639	733	919	1 651	59.8%
Corporate	409	958	1 367	347	524	871	57.0%
Residential	245	-	245	286	-	286	(14.6%)
Operators	285	742	1 027	100	394	494	107.8%
Registered CLIs ('000)	406	242	649	399	108	506	28.1%
Corporate	41	242	283	42	108	149	89.6%
Residential	366	-	366	357	-	357	2.4%
Internet data traffic (M min.)	638	30	667	704	45	749	(10.9%)
Corporate	55	30	85	55	45	100	(15.2%)
Residential	583	-	583	649	-	649	(10.3%)

Emphasis is given to the growth of the overall volume of voice traffic to more than 2 billion minutes, a 60% increase over 2002.

Internet traffic using switched access fell by around 11% as a result of lesser investment in attracting residential customers of little profitability and of customer migration to direct OLL/ADSL access, both in the residential and in the corporate segments.

Direct access customers, that is, those connected directly to the ONI network numbered more than 5000 in Portugal and Spain.



Other Businesses

UCALL

The Group's provision of call-centre services was spun off in 2001 through the creation of UCALL. The aim was to increase efficiency in the use of the existing resources and platforms, particularly the human and technical resources that provide customer care services.

Taking into account the progressive convergence of the Telecommunications and Information Technologies sectors, ONI SGPS joined up with EDINFOR in this undertaking, EDINFOR having acquired a minority holding in the UCALL share capital.

ONI Way

At a General Meeting held in January 2003 the ONI Way shareholders decided to end the business carried on by the company within the scope of the licence that had been granted to it to operate UMTS international mobile communications systems.

In keeping with this decision, an application was lodged with the Economy Minister to revoke the licence, and this was approved by Order dated January 13. ANACOM was charged with taking the necessary steps to implement this determination, particularly the release of the bank guarantee provided by ONI Way at the time the licence was granted and termination of the obligations imposed by the licence.

Having overcome the legal issues calling into question the shareholders' deliberations directed at closing down the mobile telecommunications business, a start was made to the plan of action to implement the decision, involving, among much other work, the following tasks:

- Renegotiation of the contract with the principal supplier of technology to put a halt to the network construction work and to minimise the respective costs;
- Negotiation of the termination of the leases of the technical and administrative facilities;
- Negotiation with distributors and commercial network agents to reach agreement as to termination of the contracts entered into in the meantime;
- Sale of assets within the scope of the contracts closed with mobile operators; and
- Sale of other assets not included in the contracts with the operators that could be dispensed as a result of the termination of the mobile telecommunications business.

As a result of the termination of the mobile telecommunications business, the larger part of the 109 employees allocated to the project as at January 1, 2003, severed their employment ties with ONI Way by mutual agreement. ONI Way had no employees as at December 31, 2003.

Germinus XXI

Germinus XXI was initially conceived as an Internet business incubator. The recession that struck the sector imposed its conversion into a services and systems integrator. Its business areas were overhauled during 2003 so as to refocus on the core business, services engineering.

During 2003 the company was successful in consolidating its market position, having increased its commercial activity outside the Group, a large part of its business involving major customers such as ICM, SUN, RENFE, Repsol, Vodafone, TDATA and RTVE.





>> 3 INFORMATION TECHNOLOGIES

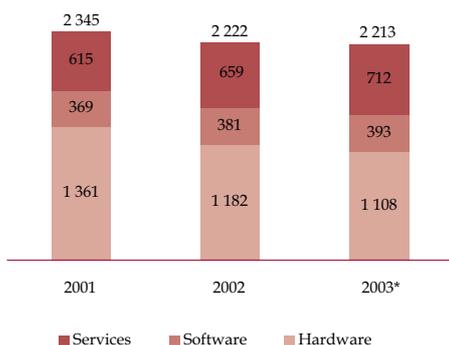
>> 3.1 Information Technologies Market (IT)

The poor economic background that began in 2002 continued during 2003. The prolonging of the climate of economic recession led, for most companies, to a deterioration of their economic and financial situation, to a reduction of investment and to a decline of acquisition of goods and services in the IT area.

Overall Spending on IT

Portugal

million dollars (constant Jan. 2003 prices)



* Estimate

Source: IDC, December 2003

Notwithstanding the present adverse conditions, the domestic IT market still provides interesting potential and it can be expected that the rate of growth of the Portuguese IT market will outperform the European average in the coming years, particular in the services area.

>> 3.2 Position of the EDP Group

EDP is involved in the IT market mainly through the EDINFOR Group, the market leader in outsourcing services, systems integration and IT consultancy.

In 2003 one of its subsidiaries was awarded the Innovation Prize at the Cannes World Congress on Development of Intelligent Card Applications Congress - SIMagine 2003.

EDP is also involved in the market through Central-e, which heads the operation of the forumB2B.com portal on the B2B market.

>> 3.3 Business of the EDINFOR Group



During 2003, in the wake of the announcement of the search by EDP for a strategic partner for EDINFOR, there was a focus on internal reorganisation, cost reduction and putting in order the Group's companies from an economic standpoint. The following strategic goals were established:

- To clarify and take advantage of the relationship with the EDP Group not only through improvement of the services provided but also, and chiefly, through implementation of a new model of commercial relations more focused on contracting, transparency and market values;
- To increase turnover outside the EDP Group, with a more aggressive, structured focus on the more attractive segments and customers;
- To continue measures to improve processes and rationalise the cost structure so as to adapt EDINFOR to the new marketplace realities through specific in-house programmes, redesign and optimisation of procedures, creation of decision-taking criteria and restructuring of cost & works accounting;

- To consolidate the EDINFOR Group as the sole entity involved in the provision of integrated services, creating a single brand for the core business, consolidating companies and divisions into coherent business units and organising a commercial and provision of services platform to co-ordinate the integrated offer;
- To foster EDINFOR's activity as a company that recruits, develops and retains talent, while rebalancing the skill pyramid through the overhaul and harmonisation of human resources policies and the creation of knowledge management mechanisms; and
- To re-evaluate, consolidate and optimise the international role of the EDINFOR Group through optimisation of the Brazil units and through a review of several important initiatives.

Project for a Strategic Partnership

During the second half of 2003 EDP prepared the sale of a part of the EDINFOR Group's share capital. This process, expected to be concluded in 2004, is designed to provide the EDINFOR Group with a shareholder base of a more technological nature than at present. Essentially, EDP wants to ensure that its core systems continue to be run in the first place by the Group's information technology company but that the new shareholder may be able to provide the company with growth capacity in this important global market and, at the same time, focus on:

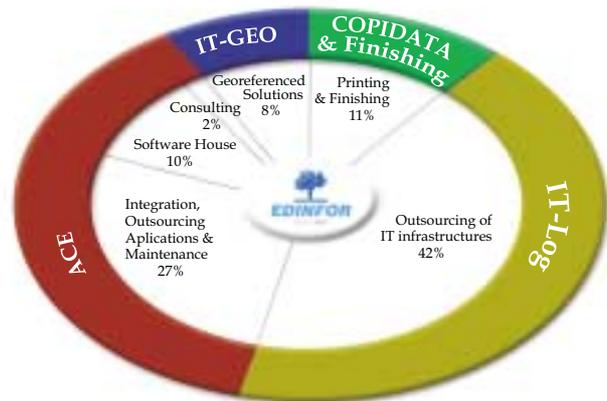
- EDP's dedication to its core business;
- Security in critical systems, with the best performance/price ratio; and
- Autonomous development of EDINFOR, from a financial and industry standpoint.

In the wake of previous measures dealing with aspects involving reorganisation and organisational consolidation, several important measures were taken:

- At the ACE (incorporated joint venture) the initial number of companies was reduced to four business clusters each with its distinct but complementary focus;
- At EDINFOR, S.A., important steps were taken in the optimisation and consolidation of the offer of IT infrastructure involving the merger of IT-LOG, S.A., with the Data Processing Centre. Consolidation also went ahead of the Finishing Centre and of Copidata, bringing them together into a single entity;
- Concentration of premises and resources in certain parts of Lisbon and the start of the back-office merge and optimisation process, allowing greater recourse to EDP Valor; and
- A start to the CustomerMoreMore project, an initiative designed to promote improvement of the relations of the EDINFOR Group with its customers, EDP in

particular. The project now being implemented includes six sub-projects that will lead to a new organisation, new processes and new systems in the following areas: commercial platform, customer service, service management, administrative and financial back office, and information systems.

During 2003 the breakdown of EDINFOR's operating revenues by the main groups of companies and sectors of activity was as follows:



Note: The gains from the data processing center were aggregated to IT/Log, since both entities have entered into a merger process at the end of 2003.

Business within the EDP Group

Major outsourcing contracts were closed with EDP during 2004, establishing a new model of relationship with the EDP Group companies allowing rationalisation of means and optimisation of internal processes:

- Revision of outsourcing contracts with EDP connected with the management of the distributed systems (LAN and Desktop Management) throughout the Group, covering a total of some 8500 users across the country;
- Applicational management of the SIAG (Management Support Information System), development of an additional application to control R&D projects and provision of services in the decision-support area. In quality, provision of support to EDP's SIAG and SGCD applications. Emphasis also on the implementation of a meter-reading system for EDP Distribuição Internet self-service for its customers;



- Within the scope of the IT infrastructures, the design of the new local networks for new premises and enlargement of existing infrastructures and, in the area of communications, the design of the new connections and the restructuring of the WAN network of the EDP Group;
- In the middleware area, the development of the SGD, a document management product;
- In support of the EDP call centre, management of the contract with EDP Distribuição calling for the provision of call centre services and the advance of the project to interconnect the incident management system with the call-centre support system;
- In the area of georeferenced solutions, the extension of the GeoEDP Programme to EDP Valor to manage its real-estate holdings; and
- In Brazil, the solutions in the georeferenced information systems and content management systems for companies of the EDP Group.

Business outside the EDP Group

EDINFOR was particularly active in the Central Government sector, namely:

- In Social Security, the development of solutions connected with the introduction of the Social Income, the question of temporary disability and of the Administrative Process Code, the Single Current Account and the implementation of the Social Security accounting and financial system;
- In the Health sector, a project for waiting lists, a preliminary project involving the concept of a new health card, and support to the development of the Health call centre; and
- In the revision of the Citizens Shop Portal, in the maintenance of the SAP system of the National Administration Institute and in the implementation of a new back-office system for the Madeira Autonomous region.

In Local Government:

- In the concept and implementation of portals, Internet pages, back-office systems, and commercial and billing systems for Local Authorities; and
- In the creation of a municipal data warehouse for underground infrastructure management for the city of Lisbon, consolidation of the cartographic cover of mainland Portugal and its sharing with local authorities.

In the Banking and Insurance sector:

- In the implementation of e-learning systems, contracting loans, general scanning and archiving, card fraud and complaints, and data warehouse underpinning marketing activity; and

- In the implementation of a solution in the field of medicine at work.

In the utilities sector:

- In the implementation of an automatic system to receive customer meter readings using the ELAG and SCGA applications, allowing voice recognition in addition to keyboard communication;
- In the implementation of commercial and billing systems for water companies in Portugal and abroad, the development of e-learning systems for an oil company and maintenance of management systems and implementation of new applications for several electricity companies; and
- In major projects for Electricidade dos Açores (in partnership with GlobalEDA) and for Electricidade da Madeira in the georeferenced area.

In the Telecommunications, Media and Post Office sector the focus is on the concept of an agent commission system for a postal company and on the development and implementation of a billing system for a big media company.

Important activities were also seen in Industry, Services and Transport, specifically:

- Support to the development of new corporate processes in the information systems area of a railway company; and
- Implementation of management and complaints systems for civil construction companies and of a data warehouse for a motorway concession company for traffic control purposes.

In the Hotel and Tourism area, attention is drawn to the implementation and maintenance of new back and front-office systems for various hotel groups.

With regard to the Commerce and Distribution sectors, the spotlight is on the implementation of Navision solutions for several chains of stores, in addition to the provision of outsourcing and maintenance services.

In almost all the foregoing sectors the provision of printing services was also of importance (the envelopes and forms markets) as were the finishing and mailing services provided by EDINFOR. In the printing area, the focus is on the increase of envelope exports to Spain and, in the finishing area, on the improvement of the service provided to the BCP Group.

On the international market attention is called to:

- The development and implementation of a SAP information system for the Central Bank of Mozambique;
- A CRM system in Tunisia for Tunisie Leasing and back-office, data-warehousing and planning systems for Companhia de Electricidade de Macau;

- The rollout of the Cimpor SAP system for its factory in Egypt;
- The maintenance of management systems and implementation of new customer applications for Cape Verde Telecom and Unitel (Angola);
- The implementation of a SAP ISU solution for NaturCorp;
- The Mercator project within the georeferenced solutions for Électricité de France/Gaz de France;
- Involvement in a data migration project for COX Telecommunications in the USA;
- In Brazil, implementation of a georeferenced information system solution at SABESP, the provision of outsourcing in the GIS area for COMGÁS and implementation of an Application Service Provider and security system for TV Cidade, using Cisco technology; and
- Microsoft training courses for the European Community (EuroStat), technical and functional assistance for the Luanda electricity distribution company, co-operation with SAP Italy in the implementation of several projects for companies located in that country and the development of Assync call centres and TV events (management of voting by phone) in Spain with the co-operation of Hewlett Packard.

>> 3.4 The Business of Central-e

Central-e operates in the B2B market through the forumB2B.com portal. This EDP Group company has been in business for three years and owns the first corporate portal to carry out transactions in Portugal. This constitutes a prime means of controlling and reducing costs related to the transactions of member organisations.

Entirely supported by the Internet, the forumB2B.com applications cover companies entire procurement processes, based on the following aspects:

- Tools - *e-procurement*, electronic auctions, calls for tenders and catalogue management;
- Methodologies - project management, strategic sourcing, procurement and management of change; and
- Experience - EDP Group, Galp Energia, ONI, CME, Metropolitano de Lisboa and UMIC - Mission, Innovation and Knowledge Unit.

According to various studies, the B2B market continues to grow. The trend is towards increasing integration of corporate information systems and electronic business solutions and towards increasing investment in mainly Internet-based integrated management information systems.

Creation of catalogues containing more and better information on goods and services will make a significant contribution to the development of electronic business. Online transactions will lead to better knowledge of the market and to greater transparency (at the level of competitors' strategies and of in-house procedures).

Market pressure will be determinant to the development of electronic business since companies with technologically more sophisticated business partners will be obliged to negotiate and co-operated online and the pressure of major corporate groups brought to bear on their partners to use electronic solutions will also be decisive to their development.

During 2003, two large domestic companies, CME and Metropolitano de Lisboa, implemented the forumB2B.com electronic procurement platform. EDP, Galp Energia and ONI have already implemented this procurement system.

Several electronic auctions and negotiations have also been undertaken for these customers, generating total savings of €1.27 million. These electronic auctions involved various products, such as vehicles and electrical material (EDP), accessories and cables (SMS) and cleaning, security, furniture, signaletics and metalworking services (Metro). The biggest dynamic negotiation of prices to contract out services was undertaken by a state-owned company using forumB2B.com. This deal involved a total of 107 bids, split between the various lots. Total savings amounted to around €0.5 million, to about 10% of the overall value of the services.

The first public online call for tenders was also implemented via forumB2B.com for Galp Energia, covering every stage from the issue of invitations to tender up to the negotiation stage. The bidders were qualified in advance by the organiser and used the electronic platform to access the tender documents, to submit their tenders and to take part in the final negotiation. This electronic form of calls for tenders led to improved procedures, less time, elimination of paperwork and simplicity of execution, among other aspects.

The year was also influenced by the setting up of an incorporated joint venture (or ACE) between Central-e and Tradecom (PT Group), initially designed to provide services within the scope of electronic procurement by Public Administration, an initiative headed by the Innovation and Knowledge Mission Unit, which reports to the Presidency of the Council of Ministers. The main object of the ACE is to provide a unique range of technological services and platforms to simplify the exchange of products and services between subscribing companies and organisations, contributing to a reduction of costs and to an increase of the transparency of procurement procedures.



Within the scope of the national electronic procurement programme approved by the Council of Ministers on July 26, 2003, Central-e was awarded two electronic procurement pilot projects, one for the Presidency of the Council of Ministers and the other for the Ministry for Public Works, Transport and Housing. Implementation of these projects began in September 2003 in partnership with Tradecom, to which a pilot project was awarded by the Justice Ministry, also being implemented in partnership with forumB2B.com.

Within the scope of this partnership the public portal Tradeforum (www.tradeforum.pt) was launched during 2003 to incorporate these initiatives into the Public Administration.



>> FINANCIAL STATEMENTS - SUMMARY

EDP - Electricidade de Portugal, S.A.

Consolidated Balance Sheet as at December 31, 2003 and 2002

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

Note: See accompanying notes to the Financial Statements in the Financial Report.

EDP - Electricidade de Portugal, S.A.

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

	2003	2002
	(Thousands of euros)	
Sales	6 456 361	5 988 140
Cost of sales	3 921 046	3 687 097
Gross Margin	2 535 315	2 301 043
<i>Other operating income</i>		
Services rendered	521 159	398 417
Work in progress for own purposes	235 623	241 769
Other income	18 081	30 614
	774 863	670 800
	3 310 178	2 971 843
<i>Other operating costs</i>		
Supplies and services	632 518	675 070
Personnel costs	646 636	624 771
Other expenses	203 984	183 112
	1 483 138	1 482 953
Gross Operating Margin (EBITDA)	1 827 040	1 488 890
Provisions	75 706	100 645
Depreciation and amortisation	845 592	739 541
Operating Margin (EBIT)	905 742	648 704
Financial Gains / (losses)	(266 600)	(157 413)
(Amortisation of investments)	(92 420)	(65 431)
Current Results	546 722	425 860
Extraordinary Gains / (losses)	(14 443)	(138 939)
Profit before tax	532 279	286 921
Charge for income taxes	239 255	171 168
Charge for deferred income taxes	(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	0,13 euros	0,11 euros

Note: See accompanying notes to the Financial Statements in the Financial Report.

EDP - Electricidade de Portugal, S.A.

Individual Balance Sheet as at December 31, 2003 & 2002

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

Note: See accompanying notes to the Financial Statements in the Financial Report.

EDP - Electricidade de Portugal, S.A.

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

	2003	2002
	(Thousands of euros)	
Sales	-	-
Cost of sales	-	-
Gross Margin	-	-
<i>Other operating income</i>		
Services rendered	24 252	16 242
Work in progress for own purposes	-	310
Other income	3 170	882
	27 422	17 434
	27 422	17 434
<i>Other operating costs</i>		
Supplies and services	61 360	67 126
Personnel costs	5 637	4 316
Other expenses	2 099	3 048
	69 096	74 490
Gross Operating Margin (EBITDA)	(41 674)	(57 056)
Provisions	873	11 183
Depreciation and amortisation	8 112	6 151
Operating Margin (EBIT)	(50 659)	(74 390)
Financial Gains / (losses)	354 350	272 158
(Amortisation of investments)	(13 541)	(11 126)
Current Results	290 150	186 642
Extraordinary Gains / (losses)	81 712	173 885
Profit before tax	371 862	360 527
Charges for income tax	(14 479)	(24 587)
Charges for deferred income taxes	5 232	49 898
Net Profit	381 109	335 216
Earnings per Share - Basic - Euros	0,13 euros	0,11 euros

Note: See accompanying notes to the Financial Statements in the Financial Report.



>> PROPOSAL FOR THE APPROPRIATION OF NET PROFITS

Pursuant to the terms of Article 27 of the articles of association, the board of directors is pleased to propose the following appropriation for the net profits in the sum of €381.109 million:

Appropriation of net profits thousand euros

	2003
Legal reserve	19 055
Dividends	270 000
Retained earnings	92 054
Net Profits	381 109

The proposed dividend amounts to €0.09 per share, providing a payout ratio of 71%.



>> THE OUTLOOK FOR 2004

The coming year will be one of great changes for EDP. Both the surroundings and the internal stance and organisation will undergo major alteration.

In terms of the outside world, we can look forward to three major changes that EDP will face with confidence: the creation of MIBEL, the full liberalisation of the market and preparation for a new regulatory period.

The long-awaited Iberian integration, which will be formalised on April 20, 2004, constitutes an enormous opportunity for EDP. The fact that it is the only Iberian group operating on both sides of the border will allow EDP and HidroCantábrico to take advantage of a market six times the size of the Portuguese one.

Full liberalisation of the electricity market in Portugal, programmed for June 2004, is also a very important event. EDP is preparing to be the "customers' EDP", to be able to meet this great challenge and to confirm its regard for the customer in a free and competitive market.

Preparation for the new regulatory period with ERSE is of the utmost importance. EDP will work in conjunction with the regulator in a spirit of co-operation and maximisation of efficiency to ensure that the 2005-07 three-year period is one of success for the company's customers, staff and shareholders. EDP will meet its commitment to these three groups.

At internal level, too, we shall continue to change to better serve.

The restructuring begun in 2003 will continue to allow EDP to approach the performance of its European counterparts. The simplification of the company that started in 2003 will be concluded during 2004.

By the end of the year EDP will have less companies, but more efficient ones, with lighter structures and simpler, more efficient procedures.

It is also with great expectations that we await the integration of the "Gás de Portugal" gas business in compliance with Council of Ministers' Resolution 68/2003 of May 10. This integration will allow EDP to serve its customers better since, for the first time, it will be possible to offer integrated, competitive products at Iberian level, increasing the capacity acquired through the purchase of NaturCorp by HidroCantábrico.

We can therefore say in all certainty that the coming year will be a motivating one for all who work for the Group.

Should the assumptions set out in the Strategic Plan for 2004-06 come about, 2004 will allow the consolidation of the EDP Group as an attractive investment for shareholders.



>> ACKNOWLEDGEMENTS

The Board of Directors would like to thank those shareholders that have more closely accompanied the evolution of the company, the State in particular, in the persons of the respective members of the Government, namely the minister for State and Finances, the Minister for the Economy, the Secretary of State for the Treasury and Finances and the Secretary Assistant to the Minister for the Economy.

The gratitude of the Board of Directors also extends to all those entities that co-operated with the EDP Group during 2003, particularly:

- CMVM, Euronext Lisboa and Interbolsa;
- the statutory auditor and the external auditors of the companies of the EDP Group;
- financial institutions; and
- institutions of a scientific, university and technical nature.

A special word or thanks is also due:

- to the customers of the EDP Group companies, to whom we would reaffirm our attention and commitment in the demand for excellence in the provision of services and in the full satisfaction of their needs;
- to the shareholders for their continued confidence in the EDP Group; and
- to the employees, for their contribution to the development of the EDP Group, for their competence and professionalism in performing their duties and for their commitment to the dynamism of change and growth of the EDP Group.

During 2003 Jorge Fernando Alves Ferreira Guimarães, Fernando Noronha Leal, António Manuel Barreto Pita de Abreu, Manuel de Jesus Martins, Jorge Manuel Jardim Gonçalves, Prof. João Afonso Ramalho Pereira Bento and Prof. Ernâni Rodrigues Lopes stepped down from the EDP Board of Directors.

To these directors the Board would like to express its recognition and gratitude for their contribution to the development of the EDP Group.

Lisbon, March 1, 2004

The Board of Directors

Francisco de la Fuente Sánchez (Chairman)
João Luís Ramalho de Carvalho Talone (Chief Executive Officer)
António de Almeida
António José Fernandes de Sousa
Arnaldo Pedro Figueirôa Navarro Machado
Jorge Manuel de Oliveira Godinho
José Manuel Gonçalves de Morais Cabral
José Manuel Trindade Neves Adelino
Luís Filipe Rolim de Azevedo Coutinho
Paulo Azevedo Pereira da Silva
Pedro Manuel Bastos Mendes Rezende
Rui Miguel de Oliveira Horta e Costa (Chief Financial Officer)
Vítor Ângelo Mendes da Costa Martins

>> EXTRACT FROM THE MINUTES OF THE ANNUAL GENERAL MEETING

>> EXTRACT FROM MINUTES Nº 1/2004 OF THE ANNUAL GENERAL MEETING OF EDP - ELECTRICIDADE DE PORTUGAL, S.A., HELD ON MARCH 31, 2004, IN THAT PART CONNECTED WITH THIS PRESENT LEGAL PUBLICATION:

(...)

The examination of the list of attendances, duly organised, having determined that Shareholders were present or duly represented owning one billion, five hundred and thirty-nine million, six hundred and forty seven thousand, three hundred and forty-two shares, exceeding the minimum quorum established by law for deliberation on first call regarding the items of the Agenda, and as it was also found that the required legal publication of the notice of the General Meeting had been properly undertaken, the chairman of the Board of the General Meeting expressed his pleasure at the increase of Shareholder participation and declared the Meeting legally constituted and in a position to validly deliberate on all the items of the Agenda, and therefore declared the meeting open -----

(...)

The joint discussion of the first two items of the Agenda having ended, Item One, in respect of the individual accounts for two thousand and three, was put to the vote, and they were approved by majority, with fourteen million six hundred and ninety-five thousand and ninety-three (97.71%) of votes in favour, zero votes against and three hundred and forty-three thousand and seven hundred and eleven abstentions.-----

Item Two of the agenda, concerning the consolidated accounts for two thousand and three, was put to the vote, and they were approved by majority, with fourteen million six hundred and ninety-five thousand and ninety-three (97.71%) of votes in favour, zero votes against and three hundred and forty-three thousand and seven hundred and eleven abstentions. -----

The Meeting then moved on to the appraisal of Point Three of the Agenda, the chairman of the Board of the General Meeting having tabled the proposal for the appropriation of profits presented by the Board of Directors, as follows: Net profit for the year: 381,108,990.40 euros; Legal reserve 19,055,449.52 euros; Dividends: 270,000,000.00 euros; and Retained earnings: 92,053,540.88 euros.-----

(...)

The Board of Directors' proposal was approved by majority, with fifteen million three hundred and fifty-six thousand and fifty-nine (99.99%) votes in favour, three hundred and forty-three votes against and one thousand five hundred and fifty-eight abstentions. -----

(...)

The proposal in respect of Item Four in respect of the appraisal of the management and supervision of the Company having been put to the vote, a vote of confidence in the Board of Directors, and in each one of its members, and in the Statutory Auditor was approved with fifteen million three hundred and fifty-five thousand nine hundred and ninety-six (99.99%) were votes in favour, zero votes against and one thousand nine hundred and sixty-four abstentions. -----

(...)

Item Five of the Agenda having been tabled, and following clarification provided by the chairman of the Board of the General Meeting in respect of questions raised by some Shareholders, the request for authorisation to deal in treasury shares was put to the vote. The Meeting adopted a resolution to give the Board of Directors the authorisation under the proposed terms, with fifteen million fifty-five thousand seven hundred and eighty-four (99.99%) votes in favour, five hundred and fifty-five votes against and one thousand six hundred and twenty-one abstentions. -----

(...)

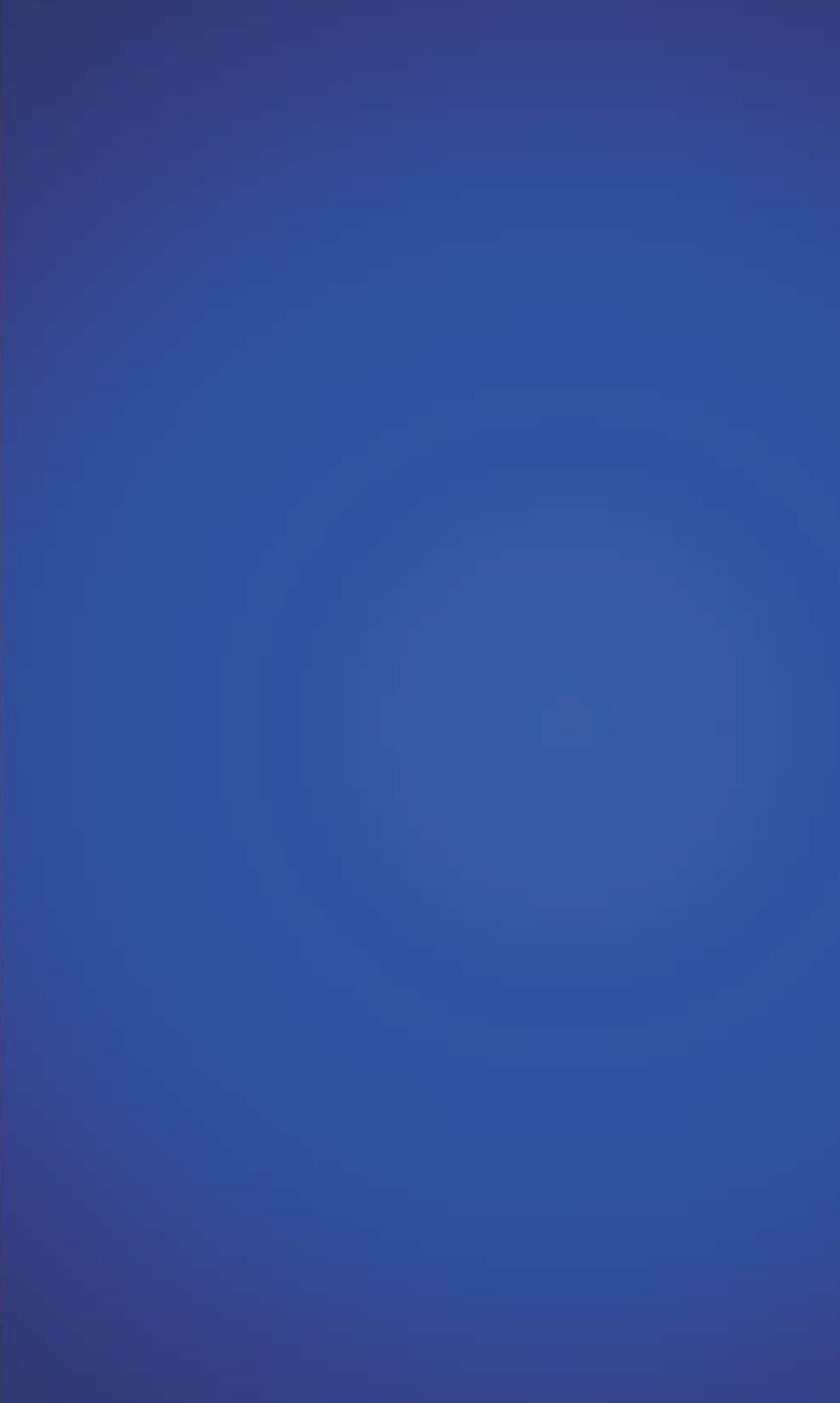
Item Six of the Agenda was then tabled in respect of the request for authorisation to acquire and dispose of own bonds. The proposal submitted by the Board of Directors having been put to the vote, the Meeting decided to approve it under the terms that had been presented, with fifteen million three hundred and fifty-five thousand and seven hundred and ninety-six (99.99%) in favour, five hundred and eighty against and one thousand five hundred and eighty-four abstentions. -----

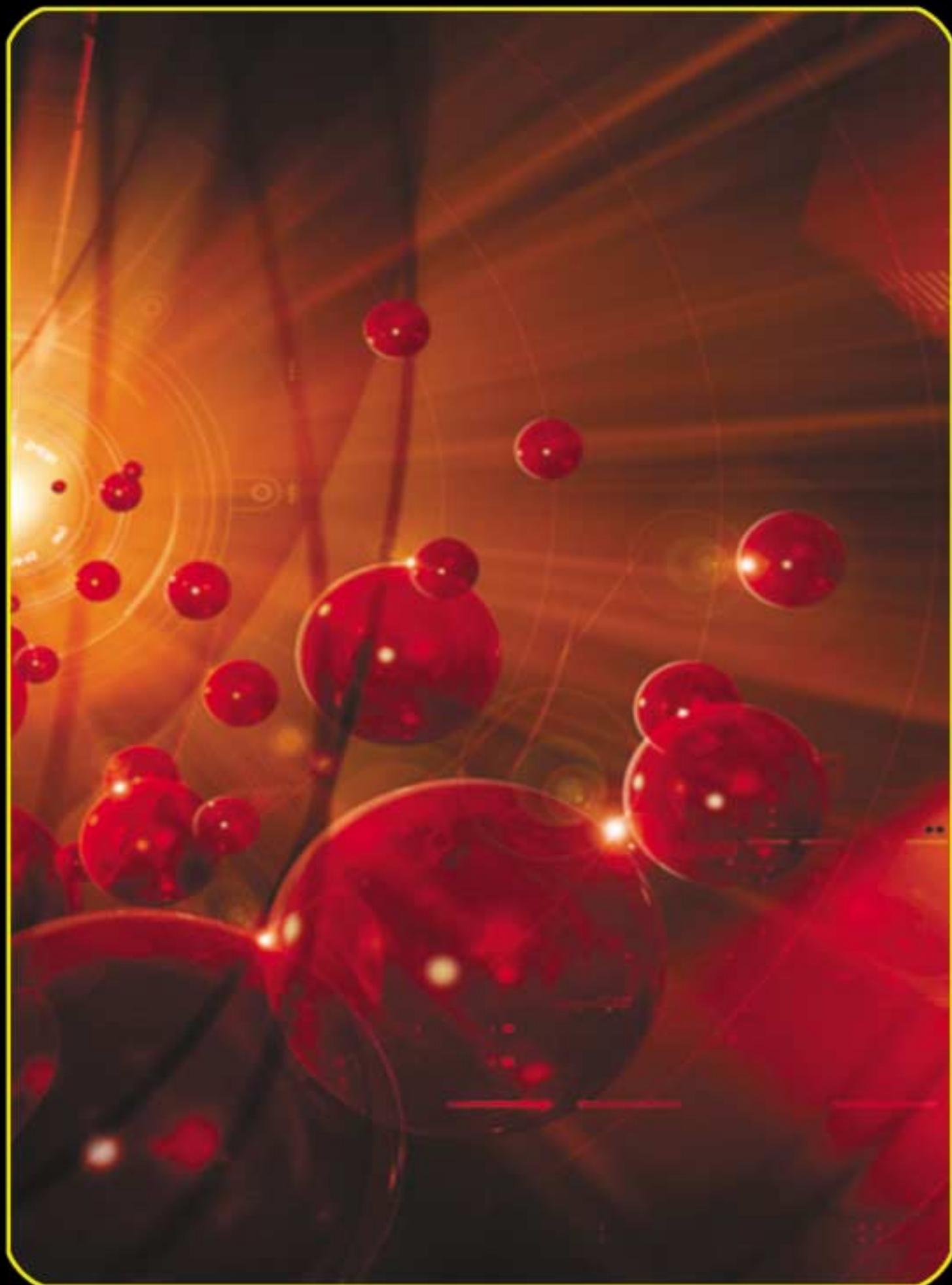
(...)

Lastly, Item Seven of the Agenda was tabled in respect of the proposal to partially alter the articles of association, to modify article 11 in respect of the notice required to convene Meetings. Put to the vote, the Meeting approved the said proposal, with fifteen million three hundred and fifty-three thousand nine hundred and eighty-eight (99.97%) votes in favour, twenty-five were votes against and three thousand nine hundred and forty-seven abstentions. -----

Lisbon, March 31, 2004

The Company Secretary
António Pedro Balançuela Alfaia de Carvalho





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