



Activity Report

1st Half 2004

June 30, 2004

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2nd Part

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I – THE EDP GROUP

EDP's **vision** is to be the most competitive and efficient producer and supplier of gas and electricity services and solutions in the Iberian Peninsula. Its mission is based on three fundamental pillars: creating value for its shareholders, guaranteeing quality of service and ensuring the professional fulfilment of its employees.

In pursuing its mission, EDP's main **values** are the customer as a focal point of the Group's activities, the ambition of being the most competitive company in the electricity sector in the Iberian Peninsula, efficiency as a critical factor in the creation of value for its customers, shareholders and employees, transparency in its relations with all entities inside and outside the group, rigour as the general rule for decision making, respect for the environment and the development of sustainable solutions actively supporting the communities that we serve and compliance with the highest ethical standards in each and every activity that we engage in.

EDP's core business today is the generation, distribution and supply of electricity. It has more than 5.8 million customers in Portugal, 570 thousand in Spain and 3.0 million in Brazil. EDP's electricity generating facilities consist of 7,971 MW installed in Portugal, 2,594 MW in Spain and 957 MW in Brazil.

In 2003 HidroCantábrico acquired NaturCorp in order to pursue the fundamental aims of EDP's strategy in terms of the absolute priority of ensuring the Group's growth in the Iberian Peninsula and the focus on guaranteeing its correct positioning in the convergence between the gas and electricity businesses in this market. This made it the second largest gas operator in the Spanish market with more than 500 thousand

customers and a market share of about 10%. In 2004, as part of the restructuring of the Portuguese energy sector, EDP signed an agreement with Eni, S.p.A. and the remaining Galp Energia shareholders, with a view to acquiring the whole of the share capital of GDP – Gás de Portugal, SGPS, S.A., which is expected to be held 51% by EDP and 49% by Eni. This process, which will allow EDP to become a gas and electricity operator throughout the Iberian Peninsula, is at present being reviewed by the European Commission's competition authority.

II – HIGHLIGHTS

ECONOMIC AND FINANCIAL HIGHLIGHTS

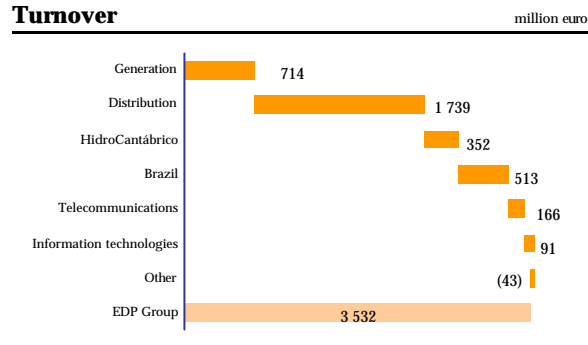
	thousand euro		
	1H 2004	1H 2003	Var %
EDP Group Consolidated			
Turnover	3 531 982	3 345 691	5.6%
EBITDA	986 601	877 706	12.4%
Operating profit	551 567	406 838	35.6%
Net profit	274 852	182 044	51.0%
Cash-Flow (1)	709 886	652 912	8.7%
Operational investment	447 064	337 050	32.6%
Net assets	18 790 000	18 071 351	4.0%
Shareholder's equity	5 364 221	5 413 058	(0.9%)
Financial liabilities	7 459 932	8 003 063	(6.8%)
Return on equity	10.3%	6.7%	3.5%
Return on assets	2.9%	2.0%	0.9%
Financial liabilities / Shareholder's equity	139.1%	147.8%	(8.8%)
Net assets / Liabilities	140.0%	142.8%	(2.8%)
Earnings per share (euros)	0.092	0.061	51.0%
Payout ratio	70.8%	80.5%	(9.7%)
Market capitalization	6 900 000	5 580 000	23.7%
Electricity Generation - Portugal			
Turnover	714 075	636 219	12.2%
EBITDA	450 831	405 129	11.3%
Operating profit	328 967	284 003	15.8%
Net profit	197 937	163 111	21.4%
Operational investment	99 881	79 264	26.0%
Electricity Distribution - Portugal			
Turnover	1 738 825	1 788 294	(2.8%)
EBITDA	262 094	265 143	(1.2%)
Operating profit	101 567	50 129	102.6%
Net profit	26 894	52 096	(48.4%)
Operational investment (2)	122 781	112 746	8.9%
Electricity Supply - Portugal			
Turnover	156 271	59 985	160.5%
EBITDA	(1 324)	32 642	(104.1%)
Operating profit	(3 129)	30 888	(110.1%)
Net profit	(2 119)	20 651	(110.3%)
Operational investment	1 629	1 748	(6.8%)
Electricity and Gas in Spain (100%)			
Turnover	879 468	700 336	25.6%
EBITDA	192 519	154 714	24.4%
Operating profit	109 117	83 556	30.6%
Net profit	10 879	30 380	(64.2%)
Operational investment	126 937	73 463	72.8%
Electricity in Brazil			
Turnover	513 457	449 234	14.3%
EBITDA	129 672	86 757	49.5%
Operating profit	91 821	47 400	93.7%
Net profit	15 769	29 500	(46.5%)
Operational investment	113 962	66 769	70.7%
Telecommunications			
Turnover	165 818	148 555	11.6%
EBITDA	12 797	(2 503)	-
Operating profit	(20 753)	(38 385)	45.9%
Net profit	(53 348)	(64 636)	17.5%
Operational investment	13 541	18 298	(26.0%)
Information Technologies			
Turnover	91 024	95 230	(4.4%)
EBITDA	21 607	21 137	2.2%
Operating profit	6 576	9 513	(30.9%)
Net profit	(7 700)	1 466	-
Operational investment	7 344	18 127	(59.5%)

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

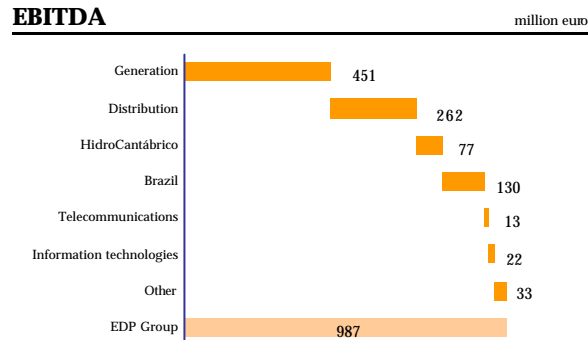
(1) Net profit + Depreciation and amortization + Provisions

(2) Per year

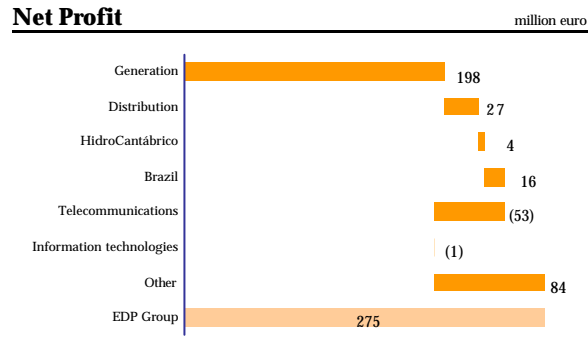
Turnover



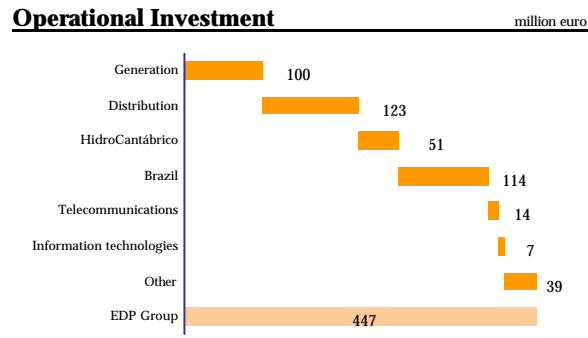
EBITDA



Net Profit



Operational Investment

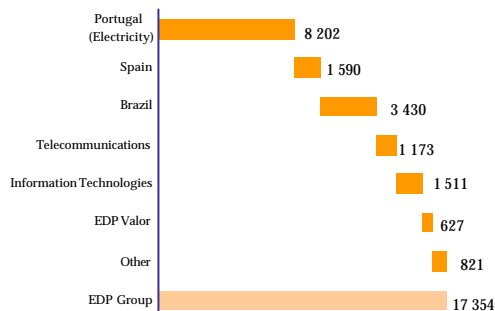


OPERATING HIGHLIGHTS

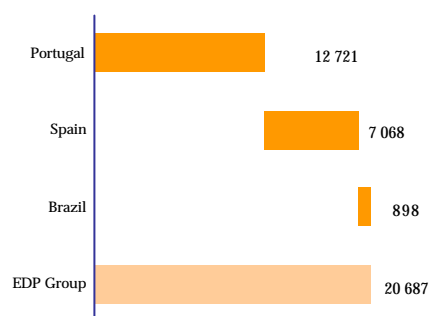
	1H 2004	1H 2003	Var %
Number of employees	17 354	18 390	(5.6%)
Portugal - Electricity	8 202	8 976	(8.6%)
Generation	1 944	2 087	(6.9%)
Renewables	13	13	-
Distribution	6 178	6 808	(9.3%)
Supply	67	68	(1.5%)
HidroCantábrico	1 590	1 383	15.0%
Electricity	1 072	1 106	(3.1%)
Gas	298	65	358.5%
Other	220	212	3.8%
Brazil - Electricity (Distribution)	3 430	3 640	(5.8%)
Telecommunications	1 173	1 362	(13.9%)
Information Technologies	1 511	1 757	(14.0%)
EDP Valor	627	671	(6.6%)
Other	821	601	36.6%
Portugal - Electricity			
Maximum Power (MW)	7 971	7 655	4.1%
Hydraulicity Coefficient	0.81	1.30	-0.49
Electricity Sales (GWh)			
Generation	12 721	15 147	(16.0%)
Distribution	20 385	19 380	5.2%
Supply	2 177	1 026	112.2%
Number of Customers			
Public Service Electricity System	5 773 909	5 688 011	1.5%
Non Binding Electricity System	1 906	913	108.8%
SEP Customers / Employees in			
Distribution	934.6	835.6	11.8%
Distribution Sales / Employees in			
Distribution (Euros)	279.5	261.3	7.0%
Spain			
Electricity			
Maximum Power (MW)	2 594	2 594	-
Electricity Sales (GWh)			
Generation	7 068	6 446	9.7%
Distribution	4 525	4 188	8.0%
Supply	2 220	2 168	2.4%
Number of Customers			
Distribution	565 561	555 072	1.9%
Supply	3 970	2 614	51.9%
Gas			
Gas Sales (GWh)			
Distribution	12 581	1 080	
Supply	5 149	1 493	
Number of Customers			
Distribution	552 720	161 961	
Supply	1 364	108	
Brazil - Electricity			
Maximum Power (MW)	957	957	-
Electricity Sales (GWh)			
Generation	898	851	5.5%
Distribution	10 877	10 447	4.1%
Supply	2 334	1 133	106.0%
Number of Customers	2 951 534	2 878 899	2.5%
Telecommunications			
Number of Active Voice Customers (thousa	175	204	(14.1%)
Portugal	90	136	(33.6%)
Spain	85	68	25.1%
Voice Traffic (million minutes)	1 548	1 356	14.1%
Portugal	495	444	11.6%
Spain	1 053	912	15.4%

Note: 100% of the values presented are considered.

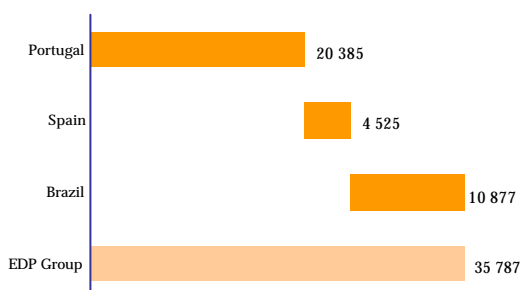
Number of employees



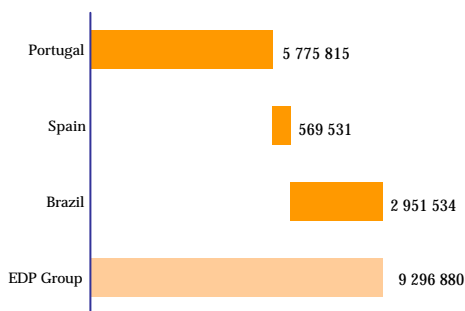
Electricity Generated (GWh)



Electricity Distributed (GWh)



Number of Electricity Customers



III – COMPANY HIGHLIGHTS

20 January – The Portuguese and Spanish governments signed an agreement setting up the **Iberian Electricity Market (MIBEL)**. EDP regards the integration of the Portuguese and Spanish electricity sectors as a unique, highly attractive opportunity to operate in a market much larger than its traditional one. However, the process was held up by a series of circumstances not only of a legal but also of a business nature. The first test transactions were conducted at the OMIP – Iberian Market Energy Operator (Portuguese Unit) on 20 April and the MIBEL development schedule should now be on the agenda of the next Iberian Summit to be held in Santiago de Compostela in the last quarter.

17 March – The Portuguese government announced its draft **National Plan for Granting CO₂ Emission Licences for 2005-2007**. As far as the electricity sector is concerned, the plan provides for the allocation of 21.5 million tonnes of CO₂ a year, though there is no indication of the distribution of licences per generating facility. On 16 July 2004, the Portuguese government submitted a revised draft of the National Plan for Granting CO₂ Emission Licences to the European Commission. This draft provides for the allocation of 19.9 million tonnes of CO₂ per year to the electricity sector, 12.8 million of which have been allocated to EDP's power stations. The main difference between the original plan and the present draft is that, in the new plan, the initial emission rights assigned to the second group of thermoelectric power stations in Ribatejo have been transferred to the reserve of new entrants, in line with the European directive on the emissions trade. This plan does not provide for a globally dry hydrological regime, which may result in the need to acquire additional licences on the market, which will have an impact on the costs of the national electricity system.

31 March - The company's **General Meeting** of Shareholders voted on and approved the individual and consolidated accounts for 2003. The proposal for the appropriation of profits for the financial year (EUR 381,108,990.40) submitted by the Board of Directors was approved – legal reserve: EUR 19,055,449.52, dividends: EUR 270,000,000.00 and retained earnings: EUR 92,053,540.88 – which corresponds to a gross dividend per share of EUR 0.09.

1 April - The agreements on the **acquisition of control of the gas sector in Portugal** were signed, in the context of Council of Ministers Resolution No. 68/2003 of 10th May. They resulted in:

- The purchase by EDP, REN and ENI of the total share capital of GDP – Gás de Portugal, S.A., including all the assets associated with the business. The equity value of this operation is around EUR 1.2 billion and the debt is estimated at about EUR 1.1 billion. On the date of the purchase of GDP's shares,

each party will pay the amount of EUR 400 million to GALP.

- A shareholders' agreement between EDP, REN and ENI, which regulates the management of EDP during the transition period until REN pulls out of the company.

- A shareholders' agreement between EDP and ENI, which regulates the joint management of GDP. In case of a total stalemate in the decision making process, EDP is entitled to exercise its option to buy ENI's total shareholding in GDP. Should EDP choose not to do so, ENI is entitled to exercise a similar option.

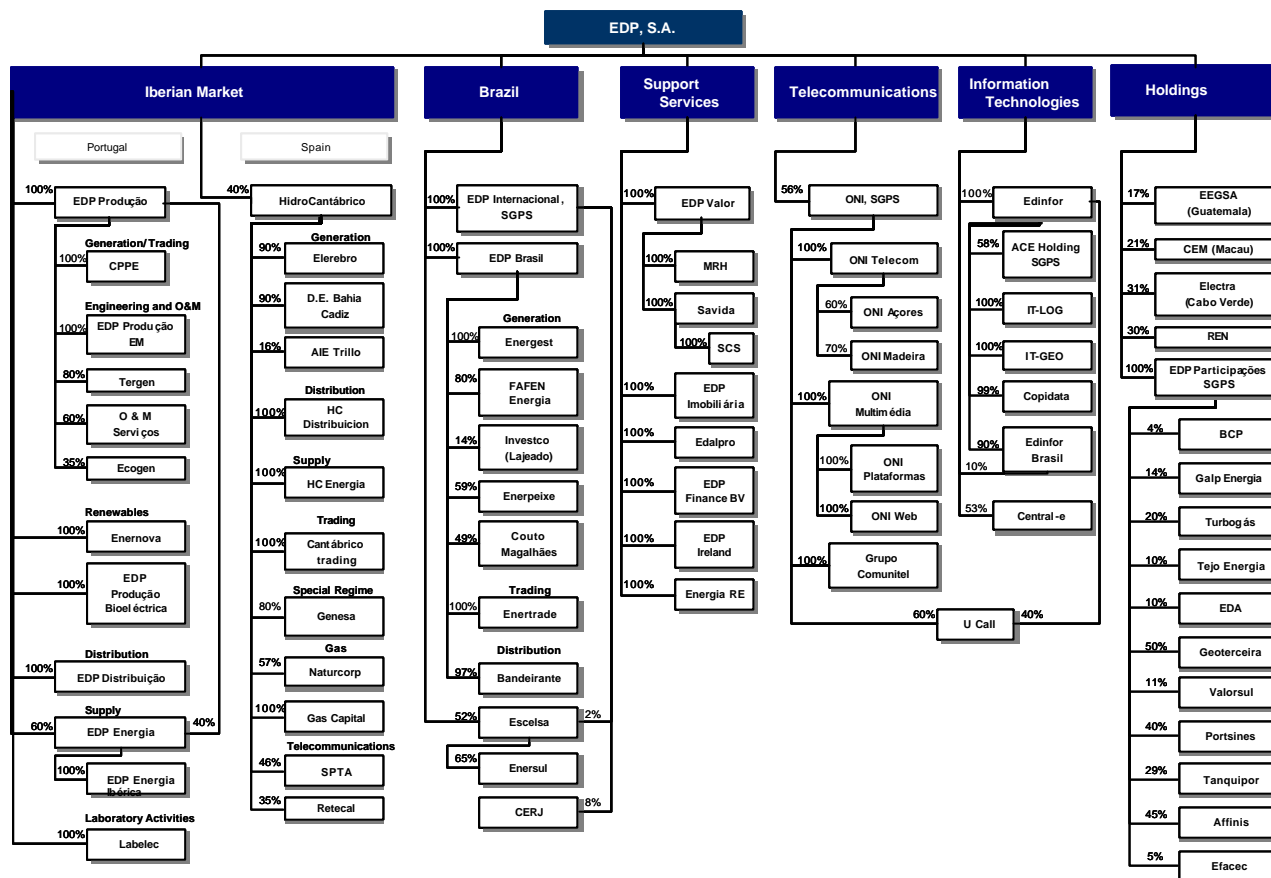
- The agreement between EDP and Parpública, which establishes mechanisms for EDP to disinvest in GALP by selling its entire shareholding in GALP for the amount of EUR 457 million.

29 April - **António Afonso de Pinto Galvão Lucas and Luís Fernando de Mira Amaral were appointed** to the Board for the current three-year mandate from 2003 to 2005, following the resignations from the Board of Directors of António de Almeida and António José Fernandes de Sousa. The Board of Directors decided to appoint José Manuel Trindade Neves Adelino as chairman of the Audit Committee. António Afonso Pinto Galvão Lucas will also be a member.

Relevant facts after June 30, 2004

29 July – EDP announced the strengthening of its shareholding in HidroCantábrico to 95.7%, through the acquisition of an additional stake of 56.2% held by EnBW, Cajastur and Cáser. This acquisition amounts to € 1,195 million, financed through a share capital increase by means of a rights issue in the amount of €1,200 million, through the issue of new shares to EDP shareholders. In September 10, 2004, the Directorate-General for Competition from the European Commission published the decision of not opposing to the referred operation.

IV – ORGANISATION CHART



V – EDP CORPORATE OFFICERS (FOR THE THREE-YEARS 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*

João Luís Ramalho de Carvalho Talone

Rui Miguel de Oliveira Horta e Costa

Arnaldo Pedro Figueirôa Navarro Machado

Jorge Manuel de Oliveira Godinho

Pedro Manuel Bastos Mendes Rezende

José Manuel Trindade Neves Adelino

Luís Filipe Rolim de Azevedo Coutinho

António Afonso de Pinto Galvão Lucas

José Manuel Gonçalves de Moraes Cabral

Paulo Azevedo Pereira da Silva

Vítor Ângelo Mendes da Costa Martins

Luís Fernando de Mira Amaral

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

António Pedro Balançuela Alfaia de Carvalho

Statutory

António José Marrachinho Soares

Alternate

VI – 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.

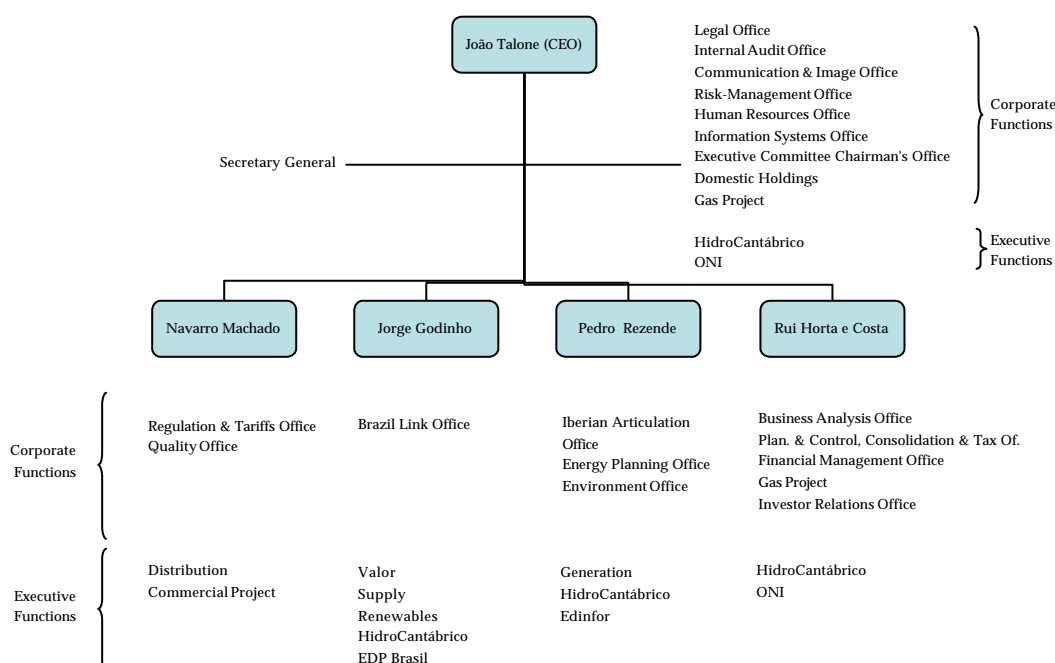
1 DISCLOSURE OF INFORMATION

1.1 The Group's Organisation Structure

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 Eng. Arnaldo Pedro Figueirôa Navarro Machado Eng. Jorge Manuel Oliveira Godinho Eng. Pedro Manuel Bastos Mendes Rezende
Audit Committee	Prof. José Manuel Trindade Neves Adelino (President) Prof. Luís Filipe Rolim de Azevedo Coutinho Eng. António Afonso de Pinto Galvão Lucas
Non-executive Directors	Dr. José Manuel Gonçalves de Moraes Cabral Dr. Paulo Azevedo Pereira da Silva Dr. Vítor Ângelo Mendes da Costa Martins Eng. Luís Fernando de Mira Amaral

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.



Nota: The EDP Foundation and the Environment Office report to the Chairman of the Board of Directors

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.

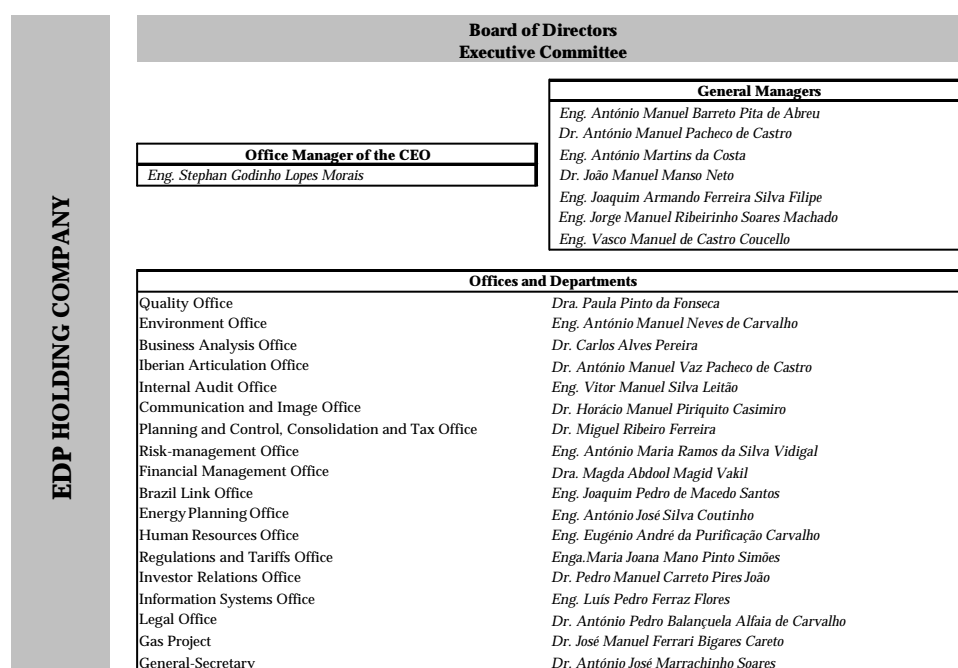
1.2 The Functional Structure of the EDP Group's Holding Company

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, as well as a Corporate Centre organised into Offices and Co-ordination Areas.

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



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 nonconformities 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 Planning and Control, Consolidation and Tax Office (GCO) involves four areas of operations. The first is the consolidation, 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 guiding and standardising the accountancy in "Local GAAP, IFRS/IAS GAAP and US GAAP" basis, as well as Environmental Accounting. The fourth is the Group's taxation area. The GCO started implementing in 2003 an integrated accounting and management control information system across to the entire Group 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.

Investor Relations Office (see detailed description in section 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.

The **General Secretary (SG)** gives secretary's and logistics' support to the Executive Committee and to the corporate officers – General Meeting, Board of Directors, Audit Committee and Remuneration Committee-, being also responsible for spreading Board of Directors and Executive Committee's decisions, supporting the accomplishment of the mandatory information and publications of EDP as an open society, and in the formal features of the performance of the Holding as a shareholder.

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 José Manuel Trindade Neves Adelino (chairman), Luís Filipe Rolim de Azevedo Coutinho and António Afonso de Pinto Galvão Lucas.

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;
- ◆ Discussing with the external auditors the contents of the annual audit report, namely in which respects to eventual qualifications presented for the purpose 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 19 occasions during the first half of 2004.

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, Gonalo Ribeiro Teles, Maria Teresa Andresen and lvaro Jos Patricio 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.

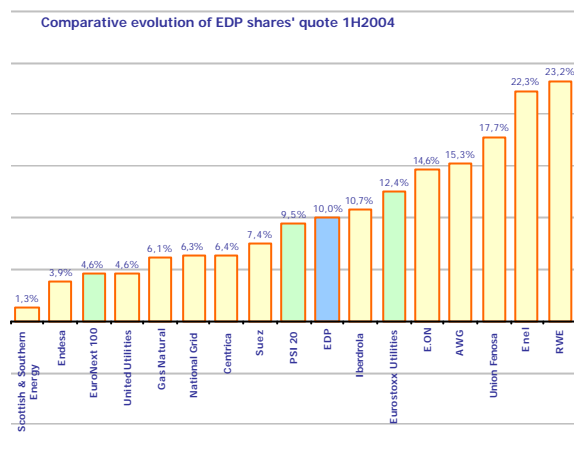
1.5 EDP on the Capital Market

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 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 16% and one of the seven Portuguese companies with greater relative weight on the Euronext 100 index, with a weighting of around 0.5%. 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, 2003, to June 30, 2004, the EDP shares appreciated by 10%, up from 2.09 to 2.30, an increase of 0.21 per share. This market appreciation shows that the EDP shares

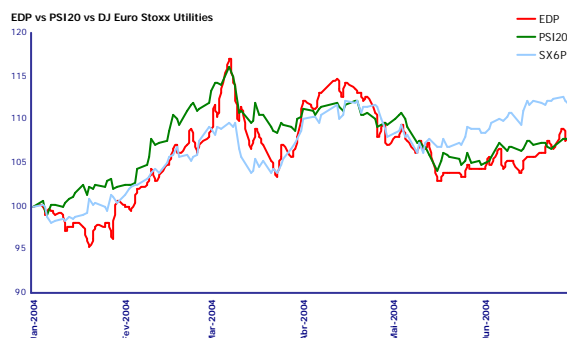
outperformed the PSI 20 index by 0.5 percentage points and the EuroNext100 index by 5.5 percentage points. Though the performance in the Dow Jones Europe Stoxx Utilities index appears lower by 2.4 percentage points, the EDP shares performed the seventh position between the 14 major European companies in the sector.



EDP shares are currently among the most liquid of the domestic market. During the first half of 2004, a total of 1,205 million EDP shares were traded on Euronext Lisbon official market, providing a daily average of 9 million shares and about 57% of the total number of EDP shares admitted to listing on this market. In terms of turnover, EDP accounted for 17% (€2,733 million) of the overall volume of shares traded on the Official Lisbon market (€16,014 million).

Factors influencing EDP Share Prices

The first half of 2004 was marked by a positive performance of the leading global equity index, based in some evidences of economical recovery and increase in the financial performance of the companies, as seen in the first quarter of 2004. Even so, the uncertainty surrounding the sustainability of the economical growth, the evolution on the interest rates and the increase in the oil prices from May on, took to an evident slow down on the shares price in the first months of 2004.



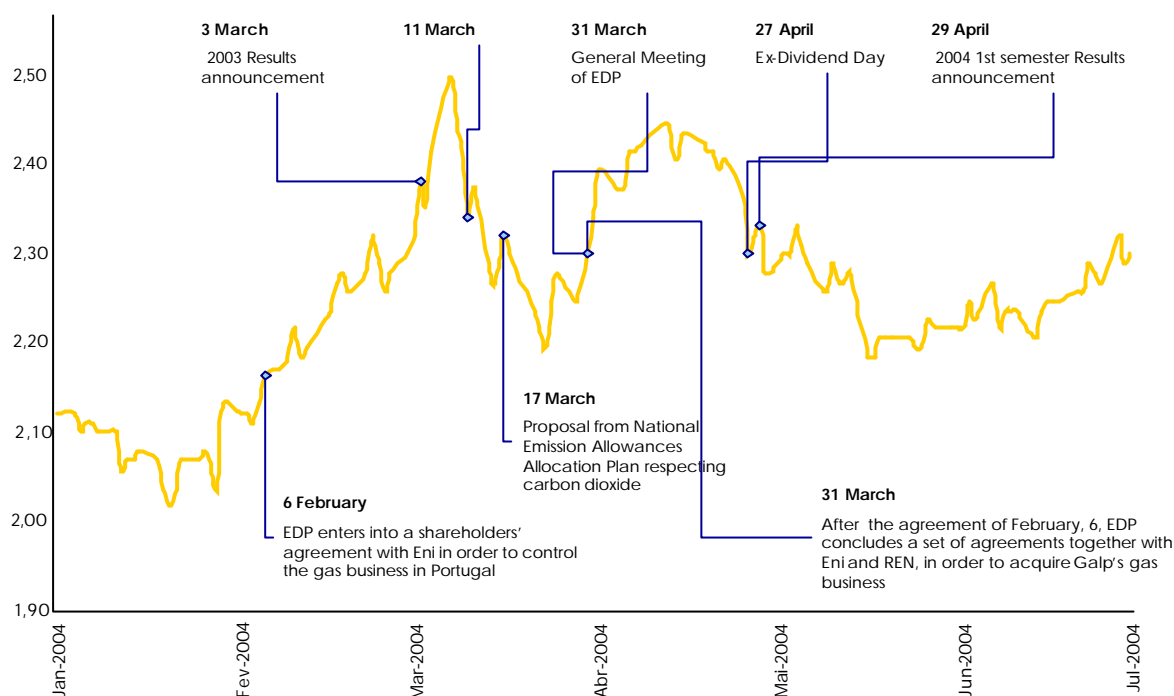
The performance of the EDP shares during the first half of 2004 was influenced, on the one hand, by an upswing of the global markets and, on the other, by a number of favourable factors linked to the day-to-day

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 EDP share reached, during the beginning of 2004, the strategic objectives set out by the Executive Committee for the three-year period from 2004 to 2006, presented to financial analysts and institutional investors in London in December 2003. The set out of these objectives had a positive contribution to the increase in the target prices of the EDP share, recommended by the financial analysts during the first half of the year.

In February, an agreement with Eni, S.p.A. was signed, within the scope of the domestic energy restructuring plan, where basis regarding the handling of the distribution business of both gas and electricity were established.

After this agreement, in March, EDP concluded a set of agreements towards the acquisition of gas business from Galp Energia SGPS, S.A., together with Eni and REN. These agreements define the mechanisms used for transferring the financial investment of EDP in Galp Energia to a controlling stake in gas business. The conclusion of this transaction and the development of the actions set out in the agreements, however still depending on authority approval, should bring EDP the opportunity of becoming an outstanding company in the electricity and gas businesses working in the Iberian Peninsula.



Indicators – Capital Market

	1H2004	2003	2002	2001	2000	1999	1998	1997
EDP Shares on Euronext Lisboa (euros)								
Opening price	2.09	1.58	2.43	3.52	3.50	3.79	3.49	3.49
Closing price	2.30	2.09	1.59	2.44	3.52	3.47	3.75	3.48
Maximum price	2.52	2.14	2.50	3.64	4.22	4.36	4.99	4.04
Minimum price	2.06	1.38	1.47	2.29	3.10	2.82	3.40	2.64
EDP ADSs EDP on the NYSE (US dollars)								
Opening price	26.59	16.79	22.19	33.50	34.75	45.50	38.38	25.84
Closing price	28.16	26.37	16.80	21.80	33.88	34.88	44.56	38.75
Maximum price	31.15	26.50	22.19	34.31	39.50	50.04	54.50	39.63
Minimum price	25.75	15.10	14.56	20.90	25.81	29.00	38.38	25.84
Price variation and benchmark indexes								
EDP Shares	10.0%	31.4%	(34.8%)	(30.7%)	1.6%	(7.6%)	7.9%	12.5%
EDP ADSs	6.8%	57.0%	(22.9%)	(35.6%)	(2.9%)	(21.7%)	15.0%	12.5%
PSI-20	9.5%	15.8%	(25.6%)	(24.7%)	(13.0%)	8.7%	24.9%	19.5%
Dow Jones Eurostoxx Utilities	12.4%	10.4%	(27.1%)	(10.5%)	6.9%	(5.0%)	32.4%	18.7%
Euronext 100	4.6%	12.7%	(32.5%)	(19.7%)	-	-	-	-
Total shareholders return								
Annual price change	0.21	0.50	(0.85)	(1.08)	0.05	(0.28)	0.27	(0.02)
Gross dividend per share distributed during the period	0.090	0.090	0.113	0.140	0.140	0.140	0.130	-
Total shareholder return	14.4%	37.1%	(30.2%)	(26.7%)	5.6%	(3.8%)	11.6%	12.5%
EDP market value								
Market capitalisation at the end of the period	6 900.0	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	0.092	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	1.788	1.766	1.831	2.032	2.068	2.020	2.042	2.059
Liquidity of EDP shares on the markets								
Volume on Euronext Lisbon (M. euro)	2 732.6	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. euro)	21.5	11.0	10.1	14.1	18.4	13.9	17.6	16.4
Volume on NYSE (M. dollars)	35.7	40.8	43.1	33.2	73.2	55.4	179.4	301.5

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 June 30, 2004:

EDP, S.A. Shareholder Structure

Shareholders	Nr shares	% Capital	% Votes
Direcção Geral do Tesouro Parpública - Participações Públicas (SGPS) S.A.	568 853 506	18.96%	19.12%
Caixa Geral de Depósitos	214 220 570	7.14%	7.20%
Banco Comercial Português	145 236 121	4.84%	4.88%
Iberdrola	151 635 713	5.05%	5.00%
Brisa - Participações SGPS	150 000 000	5.00%	5.00%
EDP (treasurv stock)	60 002 297	2.00%	2.02%
Other Private Shareholders	24 348 668	0.81%	-
Total	1 685 703 125	56.20%	56.65%
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.

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

Shareholder information of holdings

Shareholders	Nr shares	% Capital	% Votes
Caixa Geral de Depósitos	145 236 121	4.84%	4.88%
Through Fidelidade-Mundial	1 272 482	0.04%	0.04%
Through CAIXA BI	600 000	0.02%	0.02%
Sub-Total	147 108 603	4.90%	4.94%
BRISA Participações, S.G.P.S. Board Members of BRISA Participações, S.G.P.S.	60 002 297	2.00%	2.01%
Sub-Total	8 085	0.00%	0.00%
Banco Comercial Português	151 635 713	5.05%	5.00%
Board Members of BCP. S.A.	36 448	0.00%	-
Grupo Seguros e Pensões	9 279 020	0.31%	-
Board Members of Grupo Seguros e Pensões	12 385	0.00%	-
Fundação Banco Comercial Português	350 000	0.01%	-
Sub-Total	161 313 566	5.38%	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	Not Resid.
1997 ⁽¹⁾	17-04-1998	18-05-1998	€ 0.648	€ 0.534	€ 0.534
1998 ⁽¹⁾	11-05-1999	28-05-1999	€ 0.698	€ 0.620	€ 0.620
1999 ⁽¹⁾	12-05-2000	31-05-2000	€ 0.698	€ 0.611	€ 0.611
2000 ⁽²⁾	10-05-2001	31-05-2001	€ 0.140	€ 0.119	€ 0.119
2001	10-05-2002	06-06-2002	€ 0.113	€ 0.099	€ 0.093
2002	22-05-2003	18-06-2003	€ 0.090	€ 0.079	€ 0.074
2003	31-03-2004	30-04-2004	€ 0.090	€ 0.083	€ 0.079

(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 2003, the EDP Board of Directors submitted to the Annual General Shareholders' Meeting held on March 31, 2004, a proposal for the appropriation of the net income in the sum of €381.1 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 April 30, 2004.

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.

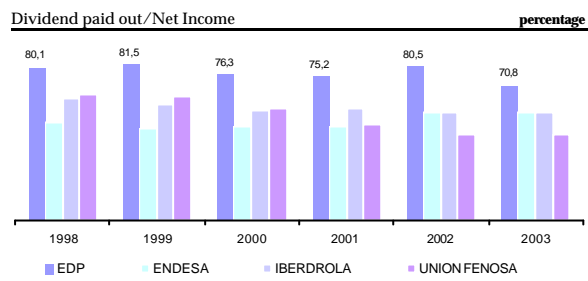
In accordance with accounting principles generally accepted in Portugal, profits distributable in the form of dividends are those remaining after deduction of losses brought forward from previous years and of 5% to increase the legal reserve up to such time as it equals one fifth of the share capital,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

Dividend Payout e Dividend Yield

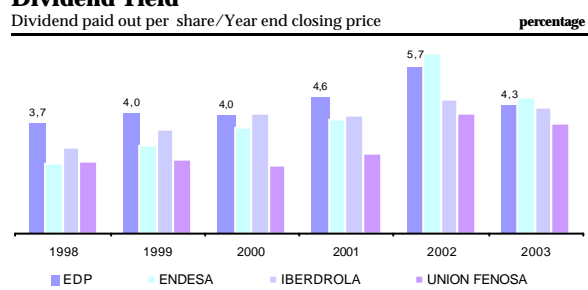
EDP has adopted a sustained dividend distribution policy that is designed to reconcile, on the one hand, strict observance of the relevant legal and statutory provisions and, on the other, the sharing with all its shareholders of a relevant portion of the value created by the Group in accordance with 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 Yield



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⁾ 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 the first half of 2004, 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 the information provided in the following table:

Date of Atrib.	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 the first half of 2004 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 in the following table:

Date of Atrib.	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

(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.

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

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 the first half of 2004 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, 4º 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 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 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 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 is 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.

PricewaterhouseCoopers set out the Limited Review within the scope of the requirements of the CMVM and in compliance to the international auditing practices, on individual and consolidated financial statements, as at June 30, 2004.

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 established 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.

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

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 BVL P. 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.

Araldo 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 Efaced 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, Efaced 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 *Member of the Executive Committee*

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 (1986-1987).

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.

António Galvão Lucas, *Member of the Audit Committee*

He graduated from Instituto Superior Técnico, in Chemical and Industrial Engineering. Chairman of the Board of Directors of EPM, SGPS, S.A. and of the subsidiaries Fábrica de Cerâmica de Valadares, S.A., Valadares España, S.A., and CCS – Serviços de Gestão, Lda.; President of APICER – Associação Portuguesa de Cerâmica; Member of the Senior Boards of AEP – Associação Empresarial de Portugal, of COTEC – Associação Empresarial para a Inovação; of Fórum para a Competitividade and of ERSE – Entidade Reguladora dos Serviços Energéticos. Previously, held management positions in CUF Group in Portugal and Brazil; and in SAPEC Group in Portugal, Spain and Belgium. He was Director of CIP –Confederação Industrial Portuguesa.

Luís Mira Amaral, *Non-executive Director*

He graduated from Instituto Superior Técnico in Electrotechnical Engineering (1969) and took his Master in Economics at Universidade Nova de Lisboa (1982).

He is currently CEO of Caixa Geral de Depósitos, S. A.. Previously he was Member of the EU’s Competitiveness Advisory Board (1997/1998); Minister of Industry and Energy (1987/1995); Minister of Labour and Social Security (1985/1987); Non-Executive Director of Cimpor and BPI and CEO of Banco de Fomento de Angola.

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 consist 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 the first half of 2004, the Executive Committee held 22 ordinary and 8 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 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 the first half of 2004, the Board of Directors held 5 ordinary and 5 extraordinary meetings, one of each held in São Paulo, Brazil.

5.4 Remuneration of Corporate Officers

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;

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 first half of 2004, is detailed as follows:

EDP shares held by Corporate Officers

	Movements in 2004	Nr Shares 30-06-2004
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 Luis Ramalho de Carvalho Talone	-	1 905
Arnaldo Pedro Figueirôa Navarro Machado	-	9 680
Jorge Manuel de Oliveira Godinho	-	30 393
José Manuel Gonçalves de Moraes Cabral	-	715
José Manuel Trindade Neves Adelino	-	895
Paulo Azevedo Pereira da Silva	-	5 986
Rui Miguel de Oliveira Horta e Costa	-	3 762
Vitor Ângelo Mendes da Costa Martins	-	767
Luis Fernando de Mira Amaral	-	3 636
Company Secretary		
António José Marrachinho Soares (Substitute)	-	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

José Manuel Trindade Neves Adelino

Member of the Strategic Board of Portugal Telecom;
Member of the Strategic Board of CTT; Member of the National Education Commission.

José Manuel Gonçalves de Morais Cabral

Member of the Board of Directors of Soponata;
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

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

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 Tecnil ease - 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 Cist Veículos - Sociedade de Aluguer, Lda.; Member of the Board of Directors of BIM-Leasing, SARL (Mozambique).

Vitor Ângelo Mendes da Costa Martins

Senior Consultant of the Citigroup; Member of the Management Board of the IEI – 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.

António Afonso de Pinto Galvão Lucas

Chairman of the Board of Directors of EPM – Sociedade Gestora de Participações Sociais, S. A.
Chairman of the Board of Directors of Fábrica Cerâmica de Valadares, S.A.
Chairman of the Board of Directors of Valadares España, S. A.
Manager of CCS Serviços de Gestão Lda.
Chairman of the Board of Directors of Secla - Soc. de Exportação e Cerâmica, S. A.

Luís Fernando de Mira Amaral

CEO of CGD - Caixa Geral de Depósitos, S. A.

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.						C
CPPE - Companhia Portuguesa de Produção de Electricidade, S.A.					C	
Edalpro Imobiliária, Lda.						D
Edipombal Imobiliária, S.A.						C
EDP - Electricidade de Portugal, S.A.	C	CEO	M	M	M	M
EDP - Gestão da Produção de Energia, S.A.		C	M	M	M	M
EDP - Investimentos, Gestão de Participações e Assistência Técnica, Lda.						M
EDP Brasil, S.A.				C		M
EDP Cogeração - Produção de Electricidade e Calor					M	
EDP Distribuição - Energia, S.A.		C	CEO	M	M	M
EDP Energia, S.A.				C	M	
EDP Estudos e Consultoria, S.A.		C	M	M	M	M
EDP Imobiliária, S.A.					M	
EDP Participações - S.G.P.S., S.A.		C				M
EDP Produção EM - Engenharia e Manutenção, S.A.					C	
EDP Serviner - Serviços de Energia, S.A.				C	M	
Electricidade de Portugal Internacional, S.G.P.S., S.A.			C			M
Energia RE						M
HDN - Energia do Norte, S.A.					C	
Hidrocenel - Energia do Centro, S.A.					C	
Hidroeléctrica del Cantábrico, S.A.	M	M		M	M	M
HidrOeM - Gestão, Operação e Manutenção de Centrais Eléctricas, S.A.					C	
Iberenergia, S.A.						M
Internel - Serviços de Consultoria Internacional, S.A.			C			M
Labelec - Estudos, Desenvolvimento e Actividades Laboratoriais, S.A.			C			
ONI S.G.P.S., S.A.	C	M				M
TER - Termoeléctrica do Ribatejo, S.A.					C	
Tergen - Operação e Manutenção de Centrais Termoeléctricas, S.A.					C	

C: Chairman of the Board of Directors

CEO: Chairman of the Executive Committee

M: Member of the Board of Directors

D: Director

VII – MANAGEMENT REPORT

In the first six months of 2004, the EDP Group's consolidated operating profit was EUR 551.6 million, representing an increase of 35.6% against the EUR 406.8 million achieved in the first six months of 2003. In spite of the positive impact of a change in the accounting criterion for a recurring operating income associated with the offset of the depreciation of shared fixed assets to the amount of EUR 34.9 million (recorded as extraordinary earnings in previous years), this growth essentially reflects improvement in operations in the Group's business areas resulting from:

- A healthy increase in electricity consumption in EDP's markets, namely a 5.2% increase in consumption in Portugal, 4.1% in Spain and 4.2% in the Group's concession areas in Brazil.
- A focus on strict containment of costs and on the increased operating efficiency of the electricity business in the Iberian Peninsula.
- The start-up of the new Ribatejo combined cycle power station, with about 400 MW installed capacity, which generated about 1,155 GWh in the first six months of the year..
- A growth in production activities based on renewable energies, wind energy in particular, resulting from an additional 56 MW of installed capacity in Portugal and 60 MW in Spain compared to the same period in 2003.
- The contribution of the gas business in Spain to this half year's operating margin after the completion of the purchase of 56.8% of NaturCorp by HidroCantábrico in late July 2003.
- The substantial growth in the contribution of EDP's operations in Brazil, as a result of the tariff revision of Bandeirante and Enersul conducted by the regulator of the Brazilian electricity sector in 2003 and the "efficiency programme".

EDP Group's energy activity in Portugal

Electricity Generation

Where electricity generation is concerned, the EDP Group has continued its programme of rational investment in modernising and expanding its electricity generating facilities, with particular emphasis on natural gas combined cycle technologies, and in continuously improving its levels of operating efficiency in its portfolio of generating facilities as a way of maintaining its competitive position in the Iberian market.

On 15 March 2004, Group I of the **Ribatejo combined cycle power plant** went into industrial generation, operating as part of the non-binding electricity system (NBES). The Prime Minister officially opened it on 20 April. On 7 May, the generator in Group II was synchronised with the grid for the first time. It is expected to begin industrial generation in October 2004. On 15 January, notice to proceed was given to the Siemens – Koch Consortium for the construction and supply of Group III, also with a power of 392 MW. It will go into operation in March 2006.

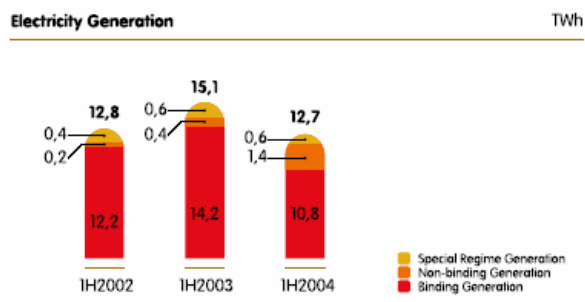
Regarding the **Baixo Sabor** Hydroelectric Power Plant, on 15 June the Minister of Cities, Spatial Planning and Environment issued an Environmental Impact Statement with a conditionally favourable decision. The planned installed capacity for this power plant is approximately 170 MW.

The **Alqueva Hydroelectric Power Plant**, whose 120 MW Group II and 120 MW Group I went into industrial generation on 13 February and 18 June respectively, is now remotely controlled from the Régua Remote Control Centre. EDP expect the state and privately owned company provided for in the memorandum of understanding signed in February between EDIA and EDP to come into existence soon.

The work on implementing additional measures for reducing NOx emissions in Group IV began in May as part of the measures to be taken to comply with new **environmental requirements at the Sines Power Station**. It will be completed in October and the remaining three groups will follow, at a rate of one a year until 2007.

Where quality was concerned, the Quality Management System at EDP Produção EM was certified in February under the NP EN ISO 9001:2000 standard. This company has meanwhile been asked to provide owner's engineer services in the expansion of the generation capacity at HidroCantábrico's combined cycle power stations.

In the first half of 2004, consumption of generation from the national electricity system was 22,567 GWh, which represents an increase of 6.6% in relation to the first six months of 2003. The quantity of energy supplied to the transmission network by EDP Produção was 12,721 GWh, representing a reduction of 16.0% compared to the year before. This drop is associated with the characteristics of the electricity generating facilities belonging to EDP Produção, which owns almost all the hydroelectric plants in Portugal, where the weight of the hydroelectric power stations represents 53% of the total installed capacity. The situation, in the context of low water flow this half year, was mitigated by the effect of the start-up of the new Ribatejo combined cycle plant generating 1,155 GWh.

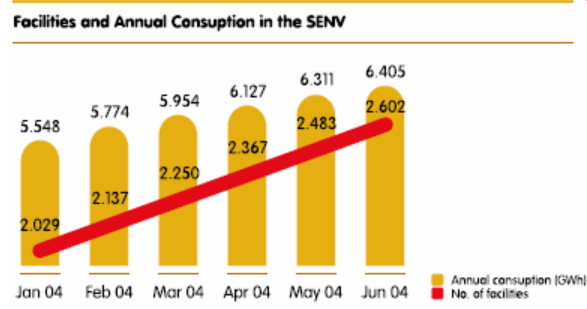


The operating profit of EDP Produção totalled EUR 329.0 million in the first six months of 2004, which represents an increase of 15.8% compared to the same period in 2003. The fact that the Ribatejo combined cycle plant went into operation contributed largely to the increase. Also worthy of note are the higher gains in the capacity charge of the Power Purchase Agreements, associated with the increase in availability rates at the plants bound to the public electricity system, and the increased efficiency in purchasing fuel for these plants.

Supply

On 26 February, the publication of Decree-Law No. 36/2004 extended eligibility to all special low voltage (SLV) customers in mainland Portugal. On 25 June ERSE despatches 12524-B/2004 and 12524-C/2004 were published. This was the last set of documents making possible the opening of the non-binding electricity system to all SLV customers in mainland Portugal. Following the opening of the market to special low voltage, the Council of Ministers meanwhile approved a law providing for the opening of the whole low voltage market, thus ending a cycle that was aimed at the total liberalisation of the market, which was an essential condition for achieving the goal set for the start of the Iberian Electricity Market.

The number of customers using medium voltage (MV), high voltage (HV) and very high voltage (VHV) that have joined the liberalised market has remained relatively high. In June, there were 2,602 facilities operating in the liberalised market, which represents an increase of 109% compared to June 2003. Practically all these facilities have medium voltage connections. On 30 June, EDP Energia had contracts with 73% of these facilities and they are estimated to represent about 65% of equivalent annual consumption in the liberalised market, which is thought to be about 6,400 GWh. At the end of the six-month period, 3,471 facilities had the status of non-binding customers.



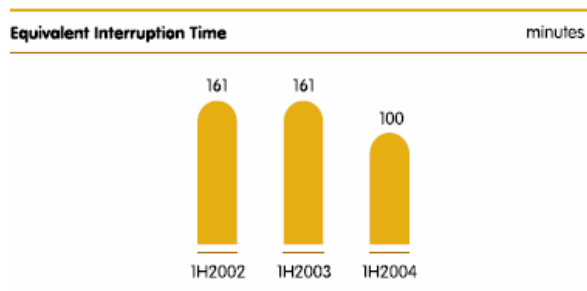
In the first half of 2004, EDP Energia's sales totalled 2,177 GWh, representing an increase of 112% compared to the same period in 2003. The operating profit of this company, which is responsible for the electricity supply in Portugal, was EUR -3.1 million, reflecting the intensification of competition in this market and the adoption of low profit margins.

Distribution

In line with its strategic goals of increasing the operating efficiency of its activities, the EDP Group continued its human resources rationalisation program, which began in 2003. In particular, regarding its regulated electricity distribution, 216 negotiated lay-offs early retirement or pre-retirement agreements were signed in the first half of 2004, in an atmosphere of social peace and of mutual safeguarding of the interests of the company and of its employees.

In accordance with the Group's commitment to constantly improving the levels of service provided to its customers, in the first half of 2004, EDP Distribuição invested around EUR 184 million, most of which went towards improving or expanding the electricity distribution grid. This outlay has been reflected in a substantial improvement in technical service quality and has resulted in a reduction in equivalent interruption time from 161 minutes in the first half of 2003 to 100 minutes in the same period in 2004. The step up in commercial service quality was reflected by an improvement in the indicators laid down in the Service Quality Regulations.

Within the regulatory framework of the activities of EDP Distribuição, ERSE tabled an alteration to the Tariff Regulations for discussion, proposing a duration of one year for the next regulation period beginning in 2005, in view of the continuing uncertainty in the electricity sector with regard to liberalisation and the beginning of the Iberian Electricity Market. It should be noted that the first and second regulatory periods, which began in 1999 and 2002, lasted three years.

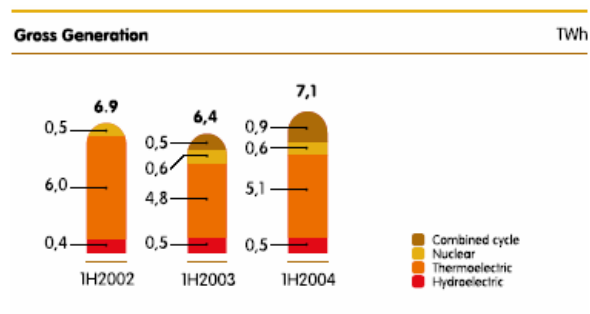


In the first six months of 2004, demand for electricity in Portugal was 20,385 GWh, which represents an annual growth of 5.2% compared to the first half of 2003. This was basically related to an increase in high voltage industrial consumption and low voltage residential and commercial consumption. In this period, the energy delivered by the electricity grid to customers in the non-binding electricity system (NBES) accounted for around 15% of the total demand for energy in Portugal.

The operating profit of EDP Distribuição totalled EUR 101.6 million in the first six months of 2004, reflecting an increase in the regulated income margin of the activities of EDP Distribuição in line with the 5.2% increase in consumption. Also worth noting was the EUR 14.8 million reduction in personnel costs resulting from the implementation of the human resources rationalisation program. This reduction was partially offset by the effect of the increase of about EUR 10.0 million in external supplies and services, as a result of the rise in maintenance costs for the distribution network, due to EDP's commitment to improving the quality of service to consumers. In the period in question, EDP Distribuição also recorded a significant reduction in provisions for doubtful debts compared to the abnormally high amounts in 2003.

EDP Group's energy activity in Spain

Ordinary **generation** from HidroCantábrico's plants was 7,068 GWh in the first half of 2004, which represents an increase of 9.7% compared to the same period in 2003. The longer hours of operation of the combined cycle plant in Castejón contributed to this, as it increased its production to 905 GWh, 84% more than in 2003.



The first half of 2004 was also a period when HidroCantábrico focused its management efforts on restructuring the area of renewable energies. The two

subsidiaries involved in this activity merged to form a single company, Genesa, of which 80% will be owned by HidroCantábrico. After the wind farm at Acebos went into operation and the one at Altos del Voltoya was enlarged, the wind power of the operating farms owned by Genesa reached 207 MW, with 129 MW attributable to Genesa. The Albacete wind farm will go into operation in October. With its 124 MW it will place Genesa among the main agents of the wind energy business in Spain. Work also began on the Las Lomillas wind farm, with 49.5 MW of installed power, in the first half of the year. It is expected to go into operation in the first quarter of 2005.

Also in the sphere of renewable energies, work continued and the first tests were conducted at the Sidergas plant (20.4 MW), which will go into operation in late July 2004. This power plant's technology is based on the use of waste gases emitted by an iron and steel works. The Sevares co-generation plant is also in the final phase of construction with 5.5 MW installed power.

Where **supply** was concerned, electricity sales in the liberalised market totalled 2,220 GWh, which was around 4% lower than in the first half of 2003. There was, however, an improvement in the commercial margin of this activity resulting from the abnormally low price of electricity in the pool in a period of low water flow. The number of liberalised customers, which totalled 3,953 at the end of the first six months, represents a 42% increase against 2003, while the number of regulated "tariff" customers rose by 1.9% to 565,561.

In the electricity sales business, NaturCorp continued its upward trend, selling 14% more than in the first half of 2003. Where gas sales were concerned, NaturCorp sold 10,183 GWh in the first six months, 51% of which was on the liberalised market. On 30 June, NaturCorp had 554,084 customers, which is 6% more than at the end of the first half of 2003. The HidroCantábrico Group had more than 1,125,000 customers on 30 June 2004.

Regarding HidroCantábrico's **electricity distribution**, the energy distributed totalled 4,525 GWh, which was 7.0% more than in the first six months of 2003. We would like to stress the fact that in the first six months of 2004 the TIEPI (equivalent interruption time relative to total installed power) was 25 minutes, compared to 40 minutes in 2003, which ranks HidroCantábrico's distribution area as one of the most efficient in Spain from the point of view of quality service.

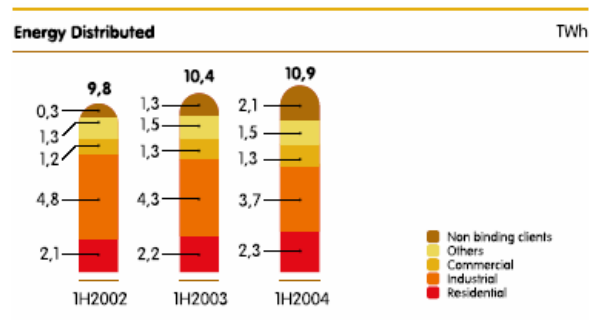
In **gas distribution**, the expansion work in the group's different distribution networks in the Basque Country and Asturias has continued at a normal rate. In this first half year, substantial progress was made in the construction of the La Robla-Cistierna-Guardo gas pipeline, which will be completed in November 2004.

HidroCantábrico's **operating profit** totalled EUR 109.1 million, up 30.6% on the first half of 2003. This increase was due mainly to the effect of the consolidation of NaturCorp as of August 2003, to the 4% increase in regulated revenue from electricity distribution and to the greater contribution from special regime generation to the Group's operating profit. The normally positive impact of the 10.2% increase in the amount of energy sold by HidroCantábrico in the electricity pool was offset this half year by a decrease in the generation margin due to a rise in the price of imported coal and low prices in the Spanish pool.

EDP Group's activity in Brazil

The **corporate restructuring** of EDP Brasil continued in the first six months of 2004, with a view to placing all the Group's assets under its direct control and adopting a structure appropriate to local management, in accordance with the centrally defined strategy. The process is expected to end with the opening of EDP Brasil's share capital and with the transfer of the distributors' minority positions to the holding company.

In the first six months of 2004, the EDP Group companies in Brazil distributed a total of 10,877 GWh, which is 4.1% more than in the year before. Nevertheless, during the period in question some industrial customers moved to the liberalised market, which resulted in a 4.1% reduction in the amount of energy supplied to end users by these companies of this segment. This fall was, however, offset by the increase in income resulting from the distribution system charge that these customers have to pay to the distributors for the use of their grid infrastructure.



Where major investment projects were concerned, more than 30% of the work was completed at the Peixe Angical hydroelectric power plant with an installed capacity of 452 MW. It is expected to go into production in the first half of 2006. The total estimated investment in this project is BRL 1.5 million. About BRL 560 million (EUR 158 million) has been invested so far, BRL 313 million (EUR 86 million) of which in the first half of this year. At the same time, the construction work continued on Phase II of Fafen Energia, a re-powering project from 54 MW to 133 MW, and should be finished in the second half of 2004.

EDP Brasil's operating margin increased substantially to BRL 333.9 million (EUR 91.8 million) in the first six months of 2004 compared to BRL 166.0 million (EUR 47.4 million) in the same period in 2003. On the one hand, this reflects the favourable development of consumption in areas served by EDP Brasil and the result of the tariff revision carried out by the electricity sector regulator (Aneel) in 2003, which gave distribution companies a better return on invested capital. On the other, it reflects a strong commitment to increasing efficiency and containing operating costs, which rose just 11.6% in comparison to the same period a year earlier, in an economic environment experiencing high inflation.

Telecommunications

ONI, which was set up in 1999, is the largest alternative operator in the fixed telecommunications sector in Portugal, representing an association of EDP, the majority shareholder, with the BCP, BRISA and GALP groups. Operating in all the market segments in Portugal, where OniTelecom has about 100,000 customers, and in the corporate segment in Spain, where Comunitel has around 80,000 customers, the ONI Group achieved a positive EBITDA in 2003 and over EUR 300 million in consolidated revenues.

ONI's business is based on a strategy of innovation and quality of service at competitive prices. It is the leading new operator in Portugal, especially in the corporate segment, with a market share of more than 20%. It has also achieved an important position in Spain, where its market share is 5% in the target segment of small and medium enterprises.

Supported by one of the most modern and powerful Iberian networks, with around 150,000 km of fibre optics covering the whole of Portugal and the main regions in Spain, ONI recently began developing its broadband network. It has already installed 160 exchanges to a total of 25 thousand loops, which will enable the company to serve a significant part of the population.

In the first half of 2004, ONI and EDP successfully completed the technical pilot phase of **Powerline** in two areas of Lisbon, with about 300 users. This technology is ready for the construction of a commercial pilot version. Powerline, a worldwide technological revolution, involves the use of electric lines for the transmission of telecommunications: the broadband transfer of data and voice using the electricity grid.

In terms of operating profit, ONI recorded a loss of EUR 20.8 million, which was an improvement on the EUR 38.4 million loss in the first half of 2003. This development is mainly due to two factors. On the one hand, the increase of gross margin by 5%, based on the growth of voice services, namely direct access, and the reduction of interconnection costs. On the other, the reduction of external supplies and services by 15%; benefiting from the cost-cutting program,

namely maintenance costs, advertising and specialised works, and the drop of personnel costs by 11%, reflecting the 189 fewer employees between the first half of 2003 and 2004.

Information technologies

EDINFOR has been involved in the **process of selecting a technological partner** to which a substantial part of EDINFOR's share capital will be sold. The decision to open EDINFOR's capital to outside investors is part of the overall strategy to refocus EDP on its core business, thus reducing its financial and management exposure in other business areas. The instrumental importance of information systems to the EDP Group, especially in the new context of the liberalisation and restructuring of the Iberian energy sector, means, however, that it is advisable for EDP to maintain an important interest in EDINFOR's share capital and, parallel to the transaction, to define with its future partner the terms of the outsourcing contracts that will govern the customer-supplier relationship between EDP and EDINFOR over a long period of time.

EDINFOR's operating profit totalled EUR 6.6 million, which was less than the EUR 9.5 million recorded in the first six months of 2003. This reduction was the result of the EUR 3 million increase in depreciation, amortisation and provisions due to major acquisitions at the end of 2003. EBITDA, on the other hand, rose by 2.2% over the same period, with the reduction in operating costs more than offsetting the lower turnover outside the EDP Group, particularly in the ACE universe. The decrease of turnover is, however, in line with that recorded in the information technology market on the first half of 2004.

Financial performance in the first half of 2004

Strict control of operating costs as an important management objective and the implementation in the last quarter of 2003 of the Human Resources Rationalisation Program, which since it began has resulted in 853 fewer employees, made it possible to reduce the costs of supplies and services by 2.6% and personnel costs by 5.9% in the first half of the year. These measures, associated with a healthy 5.6% growth in operating income, resulted in a substantial improvement in the consolidated profit of the EDP Group. EBITDA (earnings before interest, taxes, depreciation and amortisation) went up by 12.4% to EUR 986.6 million at the end of the period and EBIT (operating profit) rose by 35.6% to EUR 551.6 million.

Supported by the improvement in operating profit in practically all the business areas and by strict financial discipline, reflected in the fact that financial expenses were kept down to EUR 181.5 million, EDP's consolidated net profit in the first six months of 2004 totalled EUR 274.9 million. This represents an improvement of 51.0% in relation to the EUR 182.0 million in the first half of 2003.

In spite of the fact that there have been substantial investments in the last six months, totalling EUR 447 million and that dividends to the amount of EUR 268 million were paid for 2003, the EDP Group's consolidated balance sheet is still very healthy. This absence of pressure is due to the Group's ability to generate high operating cash flow, which totalled EUR 852.0 million this half year. The Group's total net financial debt was EUR 7,256 million, as opposed to EUR 7,205 million at the end of 2003. The total debt to equity ratio plus minority interests is 1.33 and the EBITDA coverage of net interest incurred ratio is a comfortable 6.5 times.

VIII – FINANCIAL REVIEW

Consolidated Balance Sheet

Assets (€ m)	1H2004	2003
Tangible fixed assets	11,706.1	11,651.6
Intangible fixed assets	933.7	950.2
Goodwill	873.8	899.5
Investments	1,701.2	1,582.8
Deferred taxes	546.7	609.3
Customers	110.5	85.8
Debtors and other sundry assets	467.1	350.1
Non-current assets	16,339.1	16,129.3
Inventories	144.0	159.2
Customers	1,031.8	1,022.9
Debtors and other sundry assets	407.5	429.4
Accrued income and deferred costs	664.1	622.4
Trading securities	89.1	144.0
Cash and bank deposits	114.4	143.5
Current assets	2,450.9	2,521.4
Total Assets	18,790.0	18,650.7
Shareholders' Equity		
Share capital	3,000.0	3,000.0
Treasury stock	-55.6	-49.0
Reserves and retained earnings	2,144.9	1,965.9
Consolidated net profit	274.9	381.1
Total shareholders' equity	5,364.2	5,298.0
Minority interests	233.8	236.5
Hydrological correction account	375.2	387.5
Liabilities		
Long-term debt	5,810.9	5,913.6
Provisions for liabilities and charges	804.8	819.6
Deferred taxes	532.2	616.1
Creditors and other liabilities	595.1	542.9
Non-current liabilities	7,743.0	7,892.2
Short-term debt	1,649.1	1,579.1
Creditors and other liabilities	1,123.3	1,239.0
Accrued cost and deferred income	2,301.4	2,018.4
Current liabilities	5,073.8	4,836.5
Total Liabilities	13,425.8	13,352.7
Total Shareholders' Equity and Liabilities	18,790.0	18,650.7

Cash Flow

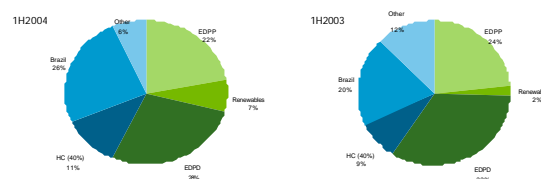
(€ m)	1H2004
Net Profit	274.9
Tariff Adjustment	121.3
Depreciations	426.8
Compensation of subsidised assets depreciation	-40.0
Goodwill Amortization	46.8
Net Provisions	-6.0
Interests Hydraulicity Account	4.8
Other Adjustments (Equity Method, Forex Differences and Other)	-93.9
Add back: Net Financial Interests and other fin.costs (or revenues)	146.7
Change in Operating Working Capital	-29.4
Capex	-447.1
Net Operating Cash Flow	404.9
Divestments of Fixed Assets	10.6
Net Financial Investments	-9.4
Net Financial Interests and other financial costs (or revenues)	-146.7
Dividends Paid and Results Distributed to Employees	-268.0
Other Changes in Non-Operating Working Capital	41.4
Decrease/(Increase) in Financial Debt	32.8

• The core business is still the main contributor with EDP Produção and EDP Distribuição accounting for €455.3 million of total Group cash-flow.

• The cash-flow generation at the core business enabled the EDP Group to pay a €0.09 dividend per share during the first half of 2004. Gross financial debt was reduced by €32.8 million to €7,459.9 million in the first half of 2004.

Operational Investment

CAPEX (€ m)	1H2004	1H2003
EDP Produção	99,9	79,3
Enernova & EDP Bioeléctrica	31,4	7,0
EDP Distribuição	157,4	141,2
(-) Subsidies in cash	34,6	28,5
(=) Cash investments	122,8	112,7
HidroCantábrico (40%)	50,8	29,4
Brazil	114,0	66,8
Other	28,2	41,9
Total	447,1	337,0



• The EDP Group's capital expenditure totalled €447.1 million in the first half of 2004, up 33% year-on-year. Note that the figures presented correspond to the EDP Group's cash out flow on operating investments, considering the consolidation method of each subsidiary.

• EDP Produção's investment rose 26% year-on-year, following the investment in the second 400 MW group of TER (€80.6 million). The first TER unit started industrial service on the 14th February 2004 and the second unit is forecasted to start operations in October 2004. EDP will build a third 400 MW unit in TER for an extra €197.0 million until 2006 when it should start operations. The investment in this third unit should start in the second half of 2004.

• During the 1H2004, the bulk of Enernova's investment was in three new wind farms (Alto do Talefe, Fonte da Quelha and Padrela) with a total installed capacity of 31.5 MW. The wind farms under construction are expected to provide a 12% IRR. Enernova plans to invest €196.0 million in an extra 262 MW by 2006.

• Investment at HidroCantábrico increased 72.8% due to €65.6 million of investments made at the Albacete wind farm (124 MW), which is forecasted to start operating in the fourth quarter of 2004. Total

investment by HidroCantábrico in the project is estimated at €117 million, of which €83 million were already invested. The expected IRR for this project is 10.6%.

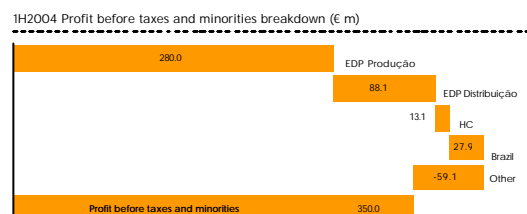
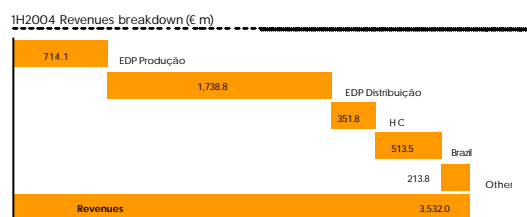
- The bulk of investment at EDP Distribuição was in the distribution network to improve quality of service. Investments in the distribution grid increased 21.6% year-on-year and led to a drop in the equivalent interruption time, from 161 minutes in the first half of 2003 to 100 minutes in the first half of 2004. The regulator remunerates these investments at a 9% pre-tax nominal rate.

- Capex in Brazil increased 71% associated with the investment in the Peixe Angical hydro power plant (450 MW), which amounted to R\$313.3 million in the 1H2004. Peixe Angical should start operating during 2006.

- ONI's operating investment fell 26.0% year-on-year, following a decrease in ONI's investment needs as the major investments required for the expansion of the network have been completed.

Consolidated Profit and Loss Account

(€ m)	1H2004	1H2003	Var %
Sales	3,264.9	3,146.5	3.8%
Cost of Sales	-1,920.5	-1,841.1	4.3%
Gross Margin	1,344.4	1,305.4	3.0%
Services Provided	267.1	199.2	34.1%
Own work capitalised	104.2	116.7	-10.7%
Other income	8.0	9.5	-15.8%
Other operating income	379.3	325.4	16.6%
Supplies and services	302.0	310.2	-2.6%
Personnel costs	324.7	345.3	-6.0%
Other costs	110.3	97.6	13.0%
Other operating costs	737.0	753.1	-2.1%
EBITDA	986.7	877.7	12.4%
Provisions	-46.2	-62.5	-26.1%
Depreciation	-388.8	-408.4	-4.8%
EBIT	551.7	406.8	35.6%
Financial Results	-134.7	-133.8	0.7%
Goodwill	-46.8	-48.7	-3.9%
Current profit	370.2	224.3	65.0%
Extraordinary Results	-20.1	59.4	-133.8%
Pre-tax profit	350.1	283.7	23.4%
Income Taxes	103.4	110.7	-6.6%
Minority interests	-28.2	-9.0	213.3%
Net Profit	274.9	182.0	51.0%



EDP Group reported in the first half of 2004 an increase of 23.4% in Net Profit before Tax, due to:

- TER's entry into industrial service contributing with an extra 400 MW of installed capacity;
- healthy growth in electricity consumption in Portugal (5.2%) and Spain (4.1%);
- the contribution of Naturcorp for the first half of 2004 results, following the acquisition by HidroCantábrico in July 2003;
- the healthy growth in electricity consumption in EDP's concession areas in Brazil (4.1%) and the tariff revisions in Bandeirante and Enersul granted by the regulator last year;
- strong focus on cost control and efficiency improvements at the electricity business in Iberia. Consolidated supplies and services were down 2.6%, while personnel costs fell 5.9% following the introduction of the HR Restructuring Program.;
- Financial results went down as a result of the lower financial investment revenues: i) from the sale of the 3% stake in Iberdrola in the second half of 2003 (€18.6 million of dividends in the first half of 2003); ii) from less €1.6 million of dividends from BCP (stake of 4.36%) which totalled €8.5 million; iii) from the fact that the dividends from Tejo Energia (€3.0 million in 2003) will be paid in the second half of 2004, while in 2003 were paid on a six-month basis;

Electricity Emission in Portugal

(GWh)	1H2004	1H2003	Var %
Hydroelectric (PES)	5,335	8,709	-38.7%
Thermoelectric (PES)	5,440	5,459	-0.3%
Binding Generation	10,775	14,168	-23.9%
Hydroelectric (NBES)	230	429	-46.4%
TER CCGT (NBES)	1,155	-	-
Non-Binding Generation	1,385	429	222.8%
Biomass	24	19	23.1%
Wind Farms	96	58	66.3%
Cogeneration	358	346	3.4%
Small Hydro	83	128	-35.0%
Special Regime Producers	561	551	1.8%
Total EDP emission	12,721	15,148	-16.0%
Pego thermal power station (PES)	1,974	1,812	8.9%
Tapada thermal power station (PES)	3,049	2,112	44.3%
Alqueva hydroelectric power station (PES)	34	-	-
Auto-producers (IES)	1,882	1,633	15.3%
Import / (Export) net	3,351	940	256.4%
Direct sales to Ind. Clients (incl. in Cogen.)	-268	-261	-2.9%
Pumping	-176	-211	16.2%
Gross demand	22,567	21,174	6.6%
Synchronous compensation	-22	-20	-12.4%
Own consumption - generation	-6	-2	-256.8%
Own consumption - transmission grid	-5	-5	1.5%
Losses	-340	-398	14.5%
Energy delivered to distribution	22,193	20,749	7.0%
Hydrolicity Coefficient	0.81	1.30	-

• EDP's total emission, amounting to 12,721 GWh, was down 16% in the period due to lower rainfall, and thus a lower utilization of our hydroelectric power plants (44% vs 61% in the first half of 2003). The hydro coefficient was 0.81 vs. 1.30 in the 1H2003. Given that EDP owns nearly all the hydroelectric generation capacity in Portugal, its contribution to the total energy delivered to the system fell from 73% to 57% year-on-year.

• The first TER CCGT unit, which started industrial service on the 14th February 2004, contributed 1,155 GWh to total emissions to the network, of which 367 GWh were test emissions. During the second quarter of 2004 the second TER CCGT unit initiated test emissions (17 GWh) and is expected to start industrial service in October 2004.

• Sines, which is a base load, coal fired power station, increased generation by 497 GWh in the first half of 2004 because during the first semester of 2003 there were programmed maintenance works that lowered its availability to produce energy. These works are foreseen in the PPA contract with REN and therefore had no influence on the PPA capacity charge.

EDP Produção

Electricity Revenues

(€ m)	1H2004	1H2003	Var %
PPA Capacity Charge	443.1	440.5	0.6%
PPA Energy Charge	123.1	114.4	7.6%
CPPE (PES)	566.2	554.9	2.0%
TER / Trading (NBES)	75.6	35.8	111.3%
Cogeneration (Soporgem & Energin)	20.3	20.5	-1.0%
Small Hydro (1)	5.9	9.0	-34.0%
Total EDP Produção	668.0	620.2	7.7%

⁽¹⁾ Only includes sales from the hydroelectric power plants with installed capacity <10 MW (>10 MW are dispatch by the energy management department).

• The PPA energy charge rose 7.6% due to a higher utilisation of the Sines power station in a period in which coal prices escalated. CPPE's coal and fuel consumption costs were lower than the index reference it receives through the PPA energy charge (€110.1 million vs. €123.1 million). EDPP benefited from the purchase of coal under long-term contracts that were negotiated before the rise in coal prices, as well as from the use of coal stocks in the first quarter of 2004 at lower prices.

• In the first semester of 2003, the programmed maintenance agreed with REN for Sines resulted in lower availability of that coal-fired power station than the one recorded in the first semester of 2004. Programmed maintenance is foreseen in the PPAs with REN, hence it did not affect the PPA Capacity charge.

Fuel Costs

(€ m)	1H2004	1H2003	Var %
Coal	80.7	59.7	35.3%
Fuel-oil	21.4	45.0	-52.4%
Natural Gas	7.4	5.8	27.6%
Diesel	0.6	0.7	-15.3%
CPPE (PES)	110.1	111.1	-0.9%
Natural Gas (TER, Soporgem & Energin)	52.0	18.9	174.9%
Total EDP Produção	162.0	130.0	24.7%

• The higher coal costs accounted for in the first six months of 2004 vis-à-vis the same period of 2003 is related to both the higher availability of Sines (programmed maintenance in 2003) and the consumption of more expensive coal stocks (namely in the second quarter of 2004).

Electricity Purchases

(€ m)	1H2004	1H2003	Var %
Trading, Autoconsumption & Cogeneration	18.0	30.4	-40.8%

• The energy management activity, which was transferred from EDP Energia to EDPP, is responsible for the dispatch, management of energy sales and fuel

procurement for EDPP's power station. Electricity sales from the "TER / Trading (NBES)" item mentioned above relate mostly to TER (including test emissions) and EDPP's hydro power plants in the NBES (HDN and Hidrocelnel).

- Special regime generation's gross profit decreased because of the 35% lower emission at our small hydro power stations.

Operational Profit and Loss Account

(€ m)	1H2004	1H2003	Var %
Electricity Sales	668.0	620.2	7.7%
Services Provided	35.7	6.5	-
Other Sales	10.4	9.6	8.3%
Operating Revenues	714.1	636.2	12.2%
Electricity	18.0	30.4	-40.8%
Fuel for electricity generation	162.0	130.0	24.7%
Sundry materials and goods for resale	1.4	2.0	-27.8%
Supplies and services	31.4	27.1	16.0%
Personnel costs	60.0	60.1	-0.2%
Generation centre rentals	1.8	1.8	1.4%
Other operating costs (or revenues)	-3.9	-2.0	-100.7%
Own work capitalised	-7.4	-18.2	59.3%
Depreciation and amortisation	116.2	116.2	0.0%
Compensation of subsidised assets' deprec.	0.0	(2.0) ⁽¹⁾	-
Provisions	5.7	4.9	16.2%
Operating Costs	385.1	350.3	9.9%
EBIT	329.0	286.0⁽¹⁾	15.0%

(1) The "Compensation of depreciation of partly-funded fixed assets" amounted to €2.0 million in 1H2003. Prior to 2004 this item was presented as an "other non-operating income". Since the 1H2004, the "Compensation of depreciation of partly-funded fixed assets" is presented as an operating item. As such, 1H2003 EBIT - that otherwise would have been €284.0 million - has been restated accordingly. This presentation change has no impact on the company's "Profit before taxes and minorities" or "Net profit".

- Revenues increased from €636.2 million in the first half of 2003 to €714.1 million in the first half of 2004 due to the higher revenues from the PPA Energy charge, the beginning of industrial operations of the new TER CCGT and an increase in revenues from "services provided", which includes mostly intra-group transactions with EDP Energia related with the supply of electricity to non-binding customers.

- EBIT increased 15.0% reflecting the transfer of the energy management activity to EDP Produção, the beginning of TER operations and the efficient fuel acquisition.

Personnel costs	1H2004	1H2003	Var %
Total Personnel Costs (€ m)	60.0	60.1	-0.2%
Number of employees	1,944.0	2,087.0	-6.9%
Average employee cost (€ th)	30.8	28.8	7.2%

- The Human Resources restructuring plan that EDP initiated in 2003 continued to be implemented in the first half of 2004. Headcount was down by 143 year-on-year and gross reduction in personnel includes 100 flexible retirements, 5 lay-offs and 104 pre-retirements in the second half of 2003 and 56 flexible retirements, 3 lay-offs and 18 pre-retirements in the 1H2004. Total headcount now amounts to 1,944 employees,

including 29 from the energy management activity. This HR restructuring is reflected in the 0.2% decrease in Personnel costs despite a 2.8% average salary increase for 2004.

Operating investment (€ m)	1H2004	1H2003	Var %
Binding Generation	10.7	24.0	-55.4%
Non-Binding Generation	80.7	39.3	105.5%
Other investments	1.9	4.1	-52.8%
Financial costs (capitalised)	6.6	11.9	-45.0%
Total operating investment	99.9	79.3	26.0%

- EDPP's investment increased 26% year-on-year, reflecting the investment in the second group of 400 MW of TER which is expected to total approximately €130 million until the end of this year (the 2nd group will start operating in October 2004).

Electricity sales

Electricity Sales (GWh)	1H2004	1H2003	Var %
Energy delivered to Distribution	22,193	20,749	7.0%
Own consumption - distribution	-16	-12	-35.4%
Distribution losses	-1,791	-1,357	-32.0%
Total electricity sales⁽¹⁾	20,385	19,380	5.2%

Electricity sales - BES⁽²⁾	17,236	17,849	-3.4%
VHV (Very high voltage)	606	554	9.3%
HV (High voltage)	2,037	1,718	18.6%
MV (Medium voltage)	3,378	4,558	-25.9%
SLV (Special low voltage)	1,555	1,490	4.4%
LV (Low voltage)	8,995	8,929	0.7%
PL (Public lighting)	664	600	10.7%

Electricity sales - NBES⁽³⁾	3,149	1,531	105.7%
EDP	2,177	1,026	112.2%
HV (High voltage)	17	30	-43.9%
MV (Medium voltage)	2,161	996	116.8%
Non-EDP	972	505	92.6%
HV (High voltage)	10	35	-70.7%
MV (Medium voltage)	962	470	104.7%

⁽¹⁾ Figures presented include Sales to the EDP Group.

⁽²⁾ BES - Binding Electricity System.

⁽³⁾ NBES - Non-Binding Electricity System.

- Demand for electricity was up 5.2% year-on-year with total electricity distributed amounting to 20,385 GWh. Electricity sales in the binding system (BES), which accounted for 85% of total energy distributed in Portugal, decreased 3.4% year-on-year due to the continued transfer of some MV customers to the non-binding system (NBES). However, EDP Distribuição did gain 5 industrial clients and 19 HV clients that explain the 9.3% and 18.6% growth in VHV and HV energy sales, respectively.

- By the end of the first half of 2004, electricity customers totalled 5,776,511, up 1.5% year-on-year. The number of customers with non-binding status totalled 3,485, out of which 2,602 were actually acquiring energy in the liberalised market. Between the first half of 2003 and 2004, EDP Energia, the Group's company operating in the non-binding segment, achieved a 69.1% market share in the liberalised market with 2,177 GWh of energy sold to its 1,906 clients.

• The full liberalisation expected to occur in June 2004 did not take place because of a delay in the publication of the decree-law. Until December 2003, the eligibility threshold for the non-binding system included all consumers except the low voltage ones. The threshold was extended to SLV clients in April 2004.

EDP Distribuição

Regulated Revenues

(€ m)	1H2004	1H2003*
Unit revenue for the UDGr: HV and MV (€ / MWh)	9.48	9.84
Electricity delivered to BES/NBES consumers: HV and MV (GWh)	20,547	19,136
Unit revenue for the UDGr: LV (€ / MWh)	23.87	24.55
Electricity delivered to BES/NBES consumers: LV (GWh)	11,215	10,796
URD total allowed revenues	462.4	453.4
Allowed revenues for the NS activity: VHV: HV and MV	10.8	11.7
Allowed revenues for the NS activity: SLV	5.0	4.6
Allowed revenues for the NS activity: LV	64.8	63.2
CRedes total allowed revenues	80.6	79.5
Allowed revenues for the SPS activity: VHV: HV and MV	7.9	4.2
Allowed revenues for the SPS activity: SLV	2.3	1.2
Allowed revenues for the SPS activity: LV	39.1	39.4
CSEP total allowed revenues	49.3	44.8
t-2 tariff adjustment for UDGr activity	-3.6	-7.0
t-2 tariff adjustment for CSEP activity	0.3	-
t-2 tariff adjustment for CRedes activity	0.2	11.4
t-2 tariff adjustments for UDGr, CSEP and CREDES	-3.1	4.4
t-2 tariff adjustment for Energy Acquisition activity	33.0	-
t-1 tariff adjustment for Energy Acquisition activity	10.6	5.1
Allowed Revenues for Energy Acquisition Activity	43.7	5.1
Total allowed revenues after tariff adjustment	632.9	587.2

• “Allowed Revenues for the Energy Acquisition Activity” are related to: (i) a €25.0 million t-2 tariff adjustment that reflects the recovery of the 2002 differences between EDP Distribuição’s estimated and real costs with energy acquisition in the nonbinding system; (ii) a €10.6 million t-1 tariff adjustment that reflects the 2003 differences between estimated and real fuel costs for the LV segments; (iii) a €6.9 million t-2 tariff adjustment that relates to 2002 differences between the tariff invoiced to final clients (estimated and settled by ERSE) and the amounts really paid to REN for energy acquisition and (iv) a €1.1 million tariff adjustment related to costs with the tariff convergence mechanism.

• The -€118.3 million tariff adjustment recognised in the first half of 2004 is made up as follows: (i) -€28.8 million from the reposition of half of the positive tariff adjustment relative to year 2002; (ii) -€10.6 million from the reposition of half of the 2003 positive adjustment related to the recovery of variations between estimated and real fuel costs regarding energy acquisition for the LV segments; and (iii) -€78.9 million from the first half of 2004 tariff adjustment for the period, partly related to the fact that real consumption for the BES came 1.5% above ERSE’s estimate and to differences between estimated and real fuel costs for the LV segments.

Energy sales and Gross Margin

(€ m)	1H2004	1H2003	Var %
VHV (Very High Voltage)	25.0	24.4	2.7%
HV (High Voltage)	96.4	83.7	15.1%
MV (Medium Voltage)	251.6	337.8	-25.5%
SLV (Special Low Voltage)	152.1	142.9	6.5%
LV (Low Voltage)	1,221.0	1,113.5	9.7%
Public lighting	55.2	49.2	12.4%
Interruptibility discounts	-14.3	-12.9	-10.9%
Tariff correction discounts	-0.2	-0.8	68.4%
Invoiced Sales - BES	1,786.9	1,737.8	2.8%
Invoiced Sales - NBES	58.3	26.1	123.0%
Distribution 1H01 Reposition	-	-3.4	-
Distribution 1H02 Reposition	-28.8	-5.1	-
Distribution 2002	-10.6	-	-
Distribution 1H03	-	17.8	-
Distribution 1H03 Reposition	-	5.5	-
Distribution 1H04	-78.9	-	-
Tariff Adjustments	-118.3	15.0	-
Electricity Revenues	1,726.8	1,778.8	-2.9%
(-) Tariff adjustments’ reposition	-39.5	9.4	-
Sales to customers before reposition	1,766.3	1,769.4	-0.2%
Electricity purchases	1,133.4	1,182.2	-4.1%
Electricity Gross Profit	632.9	587.2	7.8%

* Allowed Revenues for the 1H2003 were calculated on the basis of an estimated Energy Balance.

• EDP Distribuição’s “Electricity Gross Profit” (Regulated Revenues) increased 7.8% year-on-year, from €587.2 million in the first half of 2003 to €632.9 million in the first half of 2004. This is the result of: (i) a 2.0% increase in allowed revenues for the Use of the Distribution Grid Activity (UDGr), which accounted for 73% of EDPD’s total allowed revenues for the first six months of 2004; (ii) a 1.4% increase in allowed revenues for the Network Services’ Activity (NS); (iii) a 10.2% increase in allowed revenues for the Supply in the Public System Activity (SPS) ; (iv) a €7.5 million decrease in t-2 tariff adjustments for UDGr, NS and SPS activities; and (v) a €38.6 million increase in tariff adjustments for Energy Acquisition Activity.

• Allowed Revenues for the UDGr reflect: (i) a 3.7% and 2.8% decrease, from 2003 to 2004, in unit revenues for HV/MV and LV segments, respectively (in accordance with the ‘CPI – X’ formula) and (ii) a 5.2% increase in consumption.

• Electricity Purchases, which are a pass-through to final tariffs, reflect the decrease in energy sales to the BES and lower estimated fuel costs used by ERSE when establishing 2004 tariffs.

Operational Profit and Loss Account

(€ m)	1H2004	1H2003	Var %
Electricity sales - Group	33.7	15.8	-
Electricity sales - Non-Group	1,693.1	1,763.1	-4.0%
Services provided	10.7	8.6	24.0%
Other sales	1.3	0.8	59.3%
Operating Revenues	1,738.8	1,788.3	-2.8%
Direct Activity Costs	1,133.4	1,182.2	-4.1%
Sundry materials and goods for resale	53.4	51.3	4.0%
Supplies and services	105.5	95.5	10.5%
Personnel costs	187.7	202.5	-7.3%
Concession fees	92.7	85.5	8.4%
Other operating costs (or revenues)	-5.7	-5.8	2.3%
Own work capitalised	-90.4	-88.1	-2.6%
Depreciation and amortisation	174.2	173.1	0.7%
Comp. of subsidised assets' depreciation	-36.9	(34.4) ⁽¹⁾	-7.3%
Provisions	23.2	42.0	-44.7%
Operating Costs	1,637.3	1,703.80	-3.9%
EBIT	101.6	84.5⁽¹⁾	20.2%

(1) The "Compensation of depreciation of partly-funded fixed assets" amounted to €34.4 million in the first half of 2004 and €36.9 million in the first half of 2003. Prior to 2004 this item was presented as an "other non-operating income". In the first six months of 2004, the "Compensation of depreciation of partly-funded fixed assets" is presented as an operating item. As such, first half of 2003 EBIT - that otherwise would have been €50.1 million - has been restated accordingly. This presentation change has no impact on the company's "Profit before taxes and minorities" or "Net profit".

- Concession fees, (based on the previous year's LV sales, up 7.4%) reflect a 0.25 p.p. increase in the average rate paid to municipalities, to 7.5%.
- Provisions for the period totalled €23.2 million, down 44.7% year-on-year in an improved economic climate. Provisions in 2003 were abnormally high due to the creation of: (i) a €7.3 million provision regarding interests charged on overdue electricity bills from municipalities and (ii) a €7.2 million provision for bad debts due to the Portuguese economic slowdown. Note that in the first half of 2004 the constitution of provisions for doubtful clients was netted off against extraordinary gains resulting from the reversal of this kind of provisions (€1.2 million).

Personnel costs	1S2004	1S2003	Var %
Personnel costs (€ m)	187.7	202.5	-7.3%
Number of employees	6,176	6,807	-9.3%
Average employee cost (€ th)	30.4	29.8	2.2%

- Personnel costs decreased 7.3% during the period, reflecting the HR Restructuring Program implemented last year. Remunerations paid to early retirees within the scope of the HR Restructuring Program amounted to €6.9 million in the first half of 2004. Nevertheless, this cost was compensated with the amortisation of the Deferred Income created for this purpose.
- During the first semester of 2004, EDP Distribuição reduced its workforce by 158 employees, out of whom 149 were part of the HR Restructuring Program – 21 negotiated dismissals and 128 early retirements. Apart

from these 149 employees, EDP Distribuição negotiated for other 2 anticipations to retirement age, 7 dismissals and 60 early retirements that will occur until the end of 2004. As such, from January to June 2004, the HR Restructuring Program resulted in a total of 2 anticipations to retirement age, 28 dismissals and 188 early retirements that will cost some €75.0 million (€6.6 million with negotiated dismissals and €63.4 million with early retirements). These costs were added to the Regulatory Asset which currently amounts to €223.3 million (relative to a decrease of a total 718 employees: 500 in 2003 and 218 in the first half of 2004). EDP Distribuição's HR Restructuring Program for the first half of 2004 should enable total savings of approximately €123 million (or €4.7 million on average for the next 26 years).

Investment (€ m)	1H2004	1H2003	Var %
Distribution Grid	161.2	132.6	21.6%
Other Investments	27.3	35.2	-22.3%
Operating investment⁽¹⁾	188.5	167.7	12.4%
(-) Investment Subsidies	65.7	55.0	19.5%
Operating investment excl. subsidies	122.8	112.7	8.9%

⁽¹⁾ Includes cash subsidies.

- EDP Distribuição's total operating investment increased 12.4% year-on-year to €188.5 million in the first semester of 2004, of which 86% were invested in the distribution grid to improve the quality of service. Investment in the distribution grid was up 21.6% and allowed for an improvement of the equivalent interruption time at the MV grid (100 min in the first six months of 2004, down from 161 minutes in the first six months of 2003).

HidroCantábrico

Generation and Supply

Spain Energy Balance (GWh)	1H2004	1H2003	Var %
Generation	95,404	89,495	6.6%
Special Regime	23,016	20,184	14.0%
Imports	3,698	4,261	-13.2%
Market Sales & Purchases	122,118	113,940	7.2%
Regulated Distribution	78,903	79,082	-0.2%
Supply	37,291	31,342	19.0%
Exports	5,924	3,515	68.5%

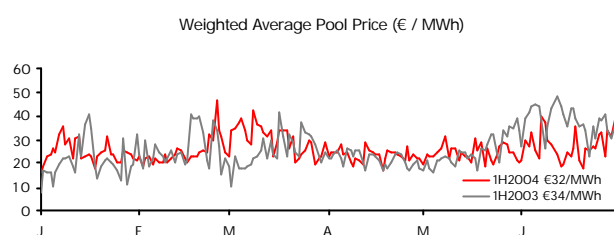
Source: OMEL

- Demand in the Spanish electricity market grew 4.1% versus the first half of 2003, or 3.3% adjusted for working days and temperature effects. Due to a dry first half the hydrological coefficient dropped from 1.11 in the first half of 2003 to 0.83.

Generation - Selling Price & Fuel Costs	1H2004	1H2003	Var %
Avg. HC Selling Price to the Pool ⁽¹⁾ (€/MWh)	30.6	32.3	-5.4%
Avg. HC Fuel Cost (€/MWh) ⁽²⁾	19.7	15.3	28.5%

⁽¹⁾ Includes wholesale market, ancillary services and capacity payment.

⁽²⁾ Excluding hydroelectric emission.



- To compensate for the low pool prices Hidrocantábrico was able to account as a receivable €14.6 million of CTCs for differences (balance between system's revenues and costs).

- The increase in the average fuel costs due to a hike in imported coal prices continues to put pressure on Hidrocantábrico's generation margins.

Supply - Electricity Sales to Clients	1H2004	1H2003	Var %
Electricity Supplied (GWh)	2,220	2,168	2.4%
Sales of the Electricity Supplied (€ m)	126.7	120.3	5.3%
Number of Clients	3,970	2,614	51.9%

Gross Profit (Generation + Supply) - 40% (€ m)	1H2004	1H2003	Var %
Revenues	150.8	165.8	-9.0%
Direct Activity Costs	97.5	105.3	-7.4%
Gross Profit	53.3	60.5	-11.9%

- Regarding the supply of electricity to liberalised clients, this activity was able improve its gross margin in the first half of 2004 through: i) a 3.3% increase of its average selling price; and ii) lower pool prices.

HC's Net Electricity Generation (GWh)	1H2004	1H2003	Var %
Hydroelectric	544	536	1.4%
Nuclear	568	578	-1.8%
Aboño	3,432	3,068	11.9%
Soto de Ribera	1,620	1,770	-8.5%
Coal	5,052	4,839	4.4%
Castejón CCGT	905	493	83.5%
Total Generation	7,068	6,446	9.7%
Pumping	-32	-63	-49.4%
Energy delivered to the Pool	7,036	6,383	10.2%
HC's market share in wholesale market	7.40%	7.10%	0.3 p.p.

- Hidrocantábrico was able to increase its net emission by 9.7% in the first half of 2004 because of: i) a lower hydrological coefficient ii) a higher net emission at the Aboño power plant due to higher availability (in the first quarter of 2003 Aboño 1 stopped for maintenance works); and iii) a higher net emission at CCGT Castejón as a result of a lower variable cost in the first half of 2004 vis-à-vis the first half of 2003. Emission at the Soto de Ribera power plant decreased 8.5% as a result of the triennial maintenance works last April at Soto de Ribera III.

- Overall, Gross Profit of the Generation and Supply activities decreased 11.9% mostly explained by the increase of the average fuel costs and the lower average selling price to the pool, which had a negative

impact of €28.8 million and €12.3 million, respectively. Nonetheless, this negative impact was partly offset by the increase in net emission (+€11.9 million) and a better performance of the supply activity due to a higher selling price to customers and lower electricity acquisition costs (+€4.5 million).

Distribution of Electricity and Gas

Elect. Distribution (GWh)	1H2004	1H2003	Var %
Low Voltage	1,167	1,077	8.4%
Medium Voltage	512	434	18.0%
High Voltage	2,846	2,677	6.3%
Electricity Distributed	4,525	4,188	8.0%
of which: access clients	693	551	25.8%

Elect. Distribution - 40% (€ m)	1H2004	1H2003	Var %
Transmission	1.5	1.2	24.1%
Distribution	18.8	18.1	3.5%
Commercialisation	1.4	1.5	-6.0%
Elect. Regulated Revenues	21.7	20.9	4.0%

- According to the Decree Law (Real Decreto 1802/2003) that sets the revenues for the Spanish regulated electricity activities for 2004, out of the €2,823.4 million attributed to the Spanish electricity distribution activity, €90.1 million (+2.5% compared to 2003) or 3.2% were allocated to Hidrocantábrico. While the distribution revenues reflect the allowed revenue agreed for 2004, the rise in the transmission revenue is related with the new transmission grid that was put into service, whose remuneration is based in the return on the invested capital (10-year Spanish Treasury Bond plus 150 bps).

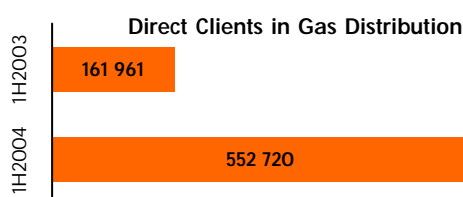
Direct Clients in Elect. Distribution	
1H2003	555 072
1H2004	565 561

Gas Distribution (GWh) ⁽¹⁾	1H2004	1H2003	Var %
Gas Distributed to direct clients	5,034	822	-
Gas Distributed to access clients	7,547	258	-
Total Gas Distributed	12,581	1,080	-

Gas Distribution - 40% (€ m)	1H2004	1H2003	Var %
Transmission	2.2	0.5	-
Distribution	19.2	6.3	-
Commercialisation	2.8	0.7	-
Gas Regulated Revenues	24.2	7.5	-

⁽¹⁾ Operating data considers 100% of Naturcorp's gas distribution subsidiaries' figures, while all financial data considers the consolidation method.

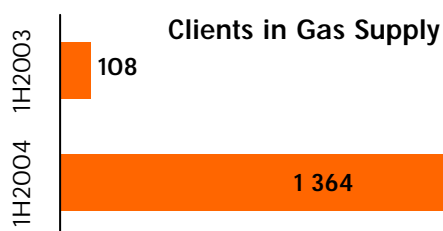
• The inclusion of Naturcorp in Hidrocantábrico since August 1st 2003 contributed to the 11,501 GWh increase in gas distributed in the first half of 2004 against the first half of 2003. After the acquisition of Naturcorp, Hidrocantábrico was able to reach a 7.9% market share of gas distributed in Spain in the first semester of 2004 against a 0.8% market share in the first semester of 2003. According to the Law (Orden Eco/31/2004) that sets the revenues for the Spanish regulated gas activities for 2004, of the €1,091.6 million attributed to the Spanish gas distribution companies, €107.8 or 10% were allocated to Naturcorp and its subsidiaries (note: €96.6 million considering the consolidation method of Naturcorp and its subsidiaries in Hidrocantábrico). In terms of regulated revenues for gas transport, €8.9 million were allocated to Naturcorp and its subsidiaries.



Gas Supply (GWh)	1H2004	1H2003	Var %
Basque Country	4,118	-	-
Rest of Spain	1,031	1,493	-
Gas Supplied	5,149	1,493	-

Gas Supply - 40% (€ m)	1H2004	1H2003	Var %
Basque Country	21.6	-	-
Rest of Spain	5.6	9.2	-
Gas Sales	27.2	9.2	-

• The inclusion of Naturcorp also had an important impact on the gas supplied to liberalised clients. In the 1H2004 Hidrocantábrico achieved a 5.2% share of the liberalised market (excluding supply to the electricity sector) against 1.9% in the first six months of 2003. As for the total Spanish gas market, both regulated and non-regulated, Hidrocantábrico sold 10,183 GWh of gas, corresponding to a 7.7% market share (excluding supply to the electricity sector).



• In the first half of 2004 the consumption in the Spanish gas sector increased 17%, explained mostly by the increase in electricity generation based on CCGT technology. In addition, the low temperatures during the last winter and the increase of the number

of clients, particularly in the liberalised segment, also contributed to this growth.

Profit and Loss Account

Income Statement - 40% (€ m)	1H2004	1H2003	Var %
Revenues	351.8	280.1	25.6%
Direct Costs	234.8	187.9	24.9%
Supplies and services	17.4	14.6	19.5%
Personnel costs	19.6	16.8	16.6%
Other operating costs (or revenues)	4.6	1.1	-
Own work capitalised	-1.6	-2.1	23.9%
Depreciation	33.7	27.9	21.0%
Compensation of subsidised assets' depr.	-0.6	-0.5	-
Provision	0.3	0.6	-51.4%
Operating Costs	308.1	246.3	25.1%
EBIT	43.6	33.9	28.8%
Financial Results	-31.2	-29.0	-7.7%
Extraordinary Results	0.7	1.9	-62.4%
Income Before Taxes	13.1	6.8	93.9%
Income taxes	5.3	-6.2	-
Minority interests	3.5	0.8	-
Net Profit	4.4	12.2	-64.2%

(1) The "Compensation of depreciation of partly-funded fixed assets" amounted to €0.6 million in the first half of 2004 and €0.5 million in the first half of 2003. Prior to 2004 this item was presented as an "other non-operating income". Since the first half of 2004, the "Compensation of depreciation of partly-funded fixed assets" is presented as an operating item. As such, 1H2003 EBIT - that otherwise would have been €33.4 million - and first half of 2003 Extraordinary results - that otherwise would have been €2.3 million - have been restated accordingly. This presentation change has no impact on the company's "Profit before taxes and minorities" or "Net profit"

Note: HidroCantábrico was proportionally consolidated in accordance with EDP's stake in HidroCantábrico (40%).

EBIT in 2004 was affected by:

- the inclusion of Naturcorp;
- higher fuel costs at the generation activity due to a rise of the imported coal prices;
- the increase in electricity distribution regulated revenues and by higher revenues from rentals of underground network infrastructure and maintenance works provided in wind farms;
- the increase in special regime net emission, as a result of a higher wind-power capacity.
- 2004's Net Profit is not directly comparable with the first half of 2003 since at the beginning of last year Hidrocantábrico accounted €25 million related to the tax benefit on the investment made in Castejón CCGT. In the fourth quarter of 2003, pursuant to IAS rules, the tax benefit accounted in the first quarter of 2003 was reverted and will be accounted during the Castejón CCGT plant's useful life. Excluding the €25 million effect, net profit would have raised €5 million in the first half of 2004.

Number of employees	1H2004	1H2003	Var %
Number of employees	1,590	1,383	15.0%

Capex - 40% (€ m)	1H2004	1H2003	Var %
Recurring investment	20.9	15.7	32.7%
Non-recurring investment	32.9	17.5	87.9%
(-) Subsidies	3.0	3.9	-22.0%
Capex	50.8	29.4	72.8%

• Hidrocantábrico invested €65.6 million in the Albacete wind farm (124 MW), which should be operational in the 4Q2004. Total investment in this project is estimated at €117 million, of which €83 million were already invested. The expected IRR for this project is 10.6%.

Brazil

Distribution

Energy Sales (GWh)	Bandeirante			Escelsa			Enersul		
	1H2004	1H2003	Var %	1H2004	1H2003	Var %	1H2004	1H2003	Var %
Electricity Purchases & Self Generation	5,232	5,594	-6.5%	3,428	3,624	-5.4%	1,757	1,691	3.9%
Electricity delivered to distribution	6,326	5,904	7.1%	4,049	4,084	-0.8%	1,795	1,666	7.7%
Distribution losses	-521	-498	4.7%	-494	-481	2.8%	-277	-230	20.9%
Residential	1,211	1,079	12.3%	619	636	-2.8%	461	447	3.1%
Industrial	2,228	2,623	-15.1%	1,222	1,335	-8.5%	290	319	-9.1%
Commercial	633	605	4.6%	397	394	0.8%	291	278	4.8%
Other	499	501	-0.5%	561	592	-5.1%	393	372	5.7%
Electricity sales to customers	4,871	4,807	1.4%	2,800	2,957	-5.3%	1,437	1,417	1.4%
Electricity distributed to access clients	1,234	4,000	109.7%	755	646	17.0%	81	20	305.0%
Total Electricity Distributed	5,805	5,408	7.3%	3,555	3,603	-1.3%	1,518	1,437	5.6%

• Total electricity distributed by EDP's subsidiaries in the Brazilian market increased 4.1%, reflecting the increase in demand of 7% in Bandeirante and 6% in Enersul's regions, and the drop in consumption in Escelsa's concession area. The significant rise in consumption in Bandeirante's region reflects an improvement of the economic environment. The drop in consumption in Escelsa's concession area was mainly due to the mild temperatures during the first half of 2004 that affected the residential segment and also due to a wet period, which affected the rural segment (included in 'other') by reducing the use of irrigation systems. Regarding Enersul, the strong consumption increase is explained by: i) the unusual high temperatures and dry weather during the first half of 2004, which resulted in a higher use of the air conditioning and of the irrigation systems; and ii) economic growth in the region (commercial).

• The decrease in the industrial segment at the three distribution companies reflects the switch of some industrial consumers to the free market. Nevertheless, these consumers continue to pay for the use of the distribution grid.

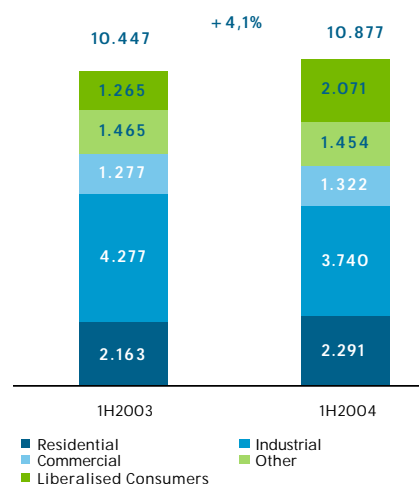
Gross Profit (R\$ m)	Bandeirante			Escelsa			Enersul		
	1H2004	1H2003	Var %	1H2004	1H2003	Var %	1H2004	1H2003	Var %
Residential	356.8	298.1	19.7%	171.5	161.9	5.9%	132.6	107.4	23.5%
Industrial	357.2	365.9	-2.4%	158.8	144.3	10.0%	53.4	46.8	14.1%
Commercial	144.9	142.4	1.8%	98.4	85.6	14.9%	81.5	63.5	28.3%
Other	90.9	79.5	14.2%	85.9	77.4	11.0%	71.2	64.0	11.3%
Electricity sales to customers	949.7	886.0	7.2%	514.5	469.2	11.8%	338.7	281.6	20.3%
Electricity distributed to access clients	50.5	2.3	21.3%	32.8	13.9	13.6%	3.4	0.9	277.8%
Other Revenues	63.1	89.8	-30.1%	47.7	60.2	-20.8%	8.3	20.4	-59.3%
Total Revenues	937.7	799.4	17.3%	694.5	642.9	8.0%	333.8	253.1	31.9%
(-) Direct activity costs	618.0	607.9	1.7%	305.5	265.9	14.9%	171.7	122.3	29.8%
Gross Profit	319.7	191.5	66.6%	194.1	176.9	9.7%	162.1	120.9	34.1%
Average tariff to customers (R\$/MWh)	212.2	194.3	9.2%	183.8	158.7	15.8%	235.8	198.7	18.6%

⁽¹⁾ Includes the Regulatory Tariff Revisions, Taxes over Revenues, Non-Invoiced Electricity and other revenues.

• Regarding gross profit, the three subsidiaries had good performances on the back of 2003's tariff

revisions and tariff adjustments. The 67% increase in gross profit was more evident in Bandeirante as a result of the significant increase in consumption and the 18.08% average tariff increase granted in the last tariff revision in October 2003. (note: ANEEL established that 14.68% would be applied to October 2003 tariffs and the 3.40% gap, which is already being accrued, would be recognised between 2004 and 2006 in the annual tariff adjustments). Escelsa was able to post a 9.7% increase at the gross profit level, thanks to the 17.30% tariff increase in August 2003, which compensated for the slight decrease in consumption. Enersul's 34.1% increase in gross profit reflects the 42.26% average tariff increase agreed in the last tariff revision in April 2003, out of which 32.59% were applied to 2003 tariffs and the 9.67% gap that is already being accrued will be recovered until 2007 in the annual tariff adjustments. There was a further 133 b.p. increase on top of the tariff granted by ANEEL in April 2003 amounting to R\$7 million booked as 'other revenues' in the Enersul accounts. Enersul's gross profit also benefited from April 2004's 17.02% average tariff increase.

Total Electricity Distributed by Brazilian Subsidiaries (GWh)



Profit and Loss Account

Income Statement	R\$ m			€ m		
	1H2004	1H2003	Var %	1H2004	1H2003	Var %
Revenues	1,867.3	1,585.5	17.8%	513.5	449.2	14.3%
Direct Activity Costs	1,137.0	1,047.2	8.6%	312.6	295.4	5.8%
Supplies and services	120.1	118.8	1.1%	33.0	34.0	-2.8%
Personnel costs	122.3	110.3	10.9%	33.6	31.3	7.6%
Other operating costs (or revenues)	16.3	4.7	-	4.5	1.8	-
Depreciation	106.2	101.5	4.7%	29.2	28.7	1.8%
Provision	31.5	37.1	-15.3%	8.6	10.7	-19.0%
Operating Costs	1,533.4	1,419.5	8.0%	421.6	401.8	4.9%
EBIT	333.9	166.0	101.2%	91.8	47.4	93.7%
Financial Results	-216.0	85.1	-	-59.4	29.2	-
Extraordinary Results	-16.6	43.1	-	-4.6	12.0	-
Income Before Taxes	101.3	294.1	-65.6%	27.9	88.6	-68.6%
Income taxes	57.5	124.6	-53.9%	15.8	36.5	-56.6%
Minority Interests	-13.5	75.2	-	-3.7	22.6	-
Net Profit	57.3	94.3	-39.2%	15.8	29.5	-46.5%

• The tariff revisions and the increase in electricity demand in Bandeirante and Enersul's regions were the engine behind the Brazilian operations' remarkable performance at the Operating margin level.

- Escelsa will have its next tariff revision in August 2004 and a marked improvement in results is expected from then on.

- EDP in Brazil is focused on reducing controllable costs, namely through the reduction in the number of employees. Total headcount was down by 157 between the first half of 2003 and 2004. However annual salary increases of more than 10% in the middle of 2003 took their toll but please note that inflation has gone from above 20% in the middle of 2003 to 9.6% in June 2004.

- The depreciation of the Real against the US Dollar (-7.0% in the first six months of 2004) had a negative impact in the dollar denominated debt of R\$115.2 million in the financial results, of which R\$95.1 million is related to Escelsa's Senior Notes. It is important to note that the forex differences in Escelsa Senior Notes are offset in EDP Group's consolidation since EDP holds approximately 83% of this US Dollar debt issue (US\$431 million). Regarding financial charges, local currency denominated debt benefited from the fall in benchmark interest rates.

Financial Results

Financial Results (€ m)	1H2004	1H2003	Var %
Income from group&associated cos.	20.1	7.2	-
Investment income	9.0	31.5	-71.5%
Goodwill amortisation	-46.8	-48.0	2.5%
Financial Investments Gains/(Losses)	-17.7	-9.3	-90.3%
Net Financial Interest paid	-151.7	-158.0	4.0%
Net foreign exchange differences	-18.0	2.5	-
Other	5.9	-17.7	-
Financing Gains/(Losses)	-163.8	-173.2	5.5%
Financial results	-181.5	-182.5	0.6%

“Interest and related income / (expenses)” were influenced by:

- A €12.9 million increase in “Income on application of the equity method” since last year's results were depressed by €7.2 million accumulated losses from Electra. This investment was fully provisioned by EDP in year-end 2003.

- Lower “Investment Income” following: i) the sale of the Iberdrola stake in the second half of 2003 (€18.6 million in the first half of 2003); ii) €1.6 million less in dividends from BCP (4.36% stake) which this year amounted to €8.5 million; iii) dividends from Tejo Energia (€3.0 million in 2003) to be paid in the second half rather than six-monthly.

- “Amortization of investments (Goodwill)” decreased overall, despite the Naturcorp acquisition in the third quarter of 2003 because of the revaluation of Escelsa and Enersul's fixed assets in late 2003.

- “Interest income / (expenses)” in the first six months of 2003 include a one-off receivable (€16.9

million) from the Escelsa Senior Notes' semi-annual coupon. The coupons are currently being accrued monthly as an interest receivable and eliminated in Group consolidation against the corresponding expense in Escelsa.

- “Favourable / (Unfavourable) exchange differences” were €20.5 million higher mainly due to the 7% Real depreciation against the US Dollar in the first semester of 2004, affecting the dollar denominated debt of the Brazilian subsidiaries (note: Escelsa's Senior Notes forex differences are offset in Group consolidation).

Income from Equity Method (€ m)	1H2004	1H2003	Var %
REN (30%)	9.0	10.9	-17.5%
CEM (22%)	3.8	2.5	48.9%
Electra (30.6%)	-	-7.2	-
Turbogás (20%)	3.5	0.5	-
DECA II (EEGSA (21%))	1.2	0.0	-
Other	2.6	0.5	-
Total	20.1	7.2	179.8%

Goodwill amortisation (€ m)	1H2004	1H2003	Var %
Hidrocarbónico	19.3	15.2	27.0%
EBE	4.4	4.2	4.8%
IVEN	10.8	18.8	-42.4%
ACE Holding	2.3	1.9	22.4%
Comunitel	6.3	5.4	18.6%
Other	3.6	2.5	40.8%
Total	46.8	48.0	-2.5%

Extraordinary Results

Extraordinary Results (€ m)	1H2004	1H2003	Var %
Fixed assets gains / (losses)	-4.6	6.4	-
Increase/(decrease) in deprec. & provisions	4.4	23.3	-81.3%
Prior year adjustment (net)	-4.9	-2.4	-105.5%
Hydrological correction	-	-	-
Compensation of subsidised assets' deprec.	-	-	-
Bad debts	-2.4	-0.3	-
Inventory gains / (losses)	-1.3	-0.6	109.7%
Other gains / (losses)	-11.2	-4.2	165.9%
Extraordinary Results	-20.1	22.2	-

(1) The “Compensation of depreciation of partly-funded fixed assets” amounted to €38.0 million in the first half of 2004 and €37.2 million in the first half of 2003. Prior to 2004 this item was presented as an other non-operating income. Since the first half of 2004, the “Compensation of depreciation of partly-funded fixed assets” is presented as an operating item. As such, first half of 2003 extraordinary results - that otherwise would have been €59.4 million - have been restated accordingly. This presentation change has no impact on the company's “Profit before taxes and minorities” or “Net profit”.

The swing in extraordinary results is explained by:

- The item “Decrease in depreciation and provisions” in the first half of 2003 is mainly due to the reduction of a provision that had been created by Escelsa to mitigate the eventual market loss on its dollar denominated assets (NBCE's).

- “Other gains/(losses)” in the first semester of 2004 include a €10.9 million cost with compensations paid

to early retirees that accepted the anticipation of the legal retirement age.

IX – OUTLOOK

EDP's primary strategic focus is the Iberian energy market. EDP is the leading electricity company in Portugal, intending to develop activities in the Portuguese gas sector by transferring the financial investment in GALP into a controlling stake in GDP. In Spain, EDP currently exercises operating control over HidroCantábrico, the fourth largest electricity operator of the country, which also develops a relevant activity in the gas sector through its subsidiary NaturCorp, where a participation of 56,8% is withheld.

In the Iberian energy market EDP's strategic objectives are:

- preserving the value of EDP's business in the Portuguese energy sector in light of the liberalization of the Portuguese electricity market and the creation of an integrated Iberian market;
- growing the electricity Iberian platform through HidroCantábrico; and
- developing an Iberian gas business by leveraging the existing assets.

Preserving the value of EDP's business in the Portuguese energy sector

In the Portuguese energy sector, EDP faces increasing competition arising from the liberalization of the electricity market in Portugal, in the Iberian Peninsula and throughout the European Union.

In response to these challenges, EDP plans to:

- continue efforts to enhance earnings and maintain the leading market share of generation and distribution in the liberalized and growing Portuguese electricity market, while also capitalizing on growth opportunities created by increasing liberalization within the EU, particularly in the Iberian electricity market; and
- continue the program to increase the efficiency of the operations in the Portuguese energy sector, reduce related costs with the goal of achieving international best practice standards, and minimize the impact of tariff reductions in the current regulatory period on operating margins of electricity's distribution business.

In pursuing these objectives, EDP intends to:

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

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

- further centralize the corporate structure, as done with the merger of the four distribution companies into EDP Distribuição and the centralization of most of the generation companies in EDP Produção;

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

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

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

Growing the Iberian electricity platform

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

EDP's Iberian platform in the sector of the electric energy was strengthened by means of the increase of the position of control in HidroCantábrico, through the acquisition of a representative participation of 56,2% of the share capital, that will allow the Group to maximize the management flexibility, to optimize the enterprise integration and to use to advantage the synergies between EDP and HidroCantábrico.

Accordingly, EDP intends to:

- position itself to benefit from the creation of an Iberian electricity market and pursue growth opportunities in Spain by leveraging on the investment in HidroCantábrico;

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

- take advantage of a combined electricity and gas service, offered in Spain through the activities of both

HidroCantábrico and Naturcorp and in Portugal through the activities of EDP and GDP; and

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

Developing an Iberian gas business

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

Since new gas-fired generation capacity is expected to be added to the Iberian electricity system, power generators, which are already among the largest gas consumers in the Iberian Peninsula, are and will continue to be the facilitators of the development and sustainability of the gas business here, although the competitive position will increasingly depend on gas prices and the flexibility of gas contracts. The natural gas market is characterized by the existence of long-term contracts. For electricity generators, long-term contracts in the natural gas market are usually indexed to the price of oil, are of a take-or-pay nature and restrict the final destination of contracted gas. Since gas represents a substantial portion of gas-fired power plants' total costs, access to flexible and competitive gas contracts is of paramount importance to increase the efficiency of CCGT power plants.

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

- to increase the competitiveness and efficiency of the gas-fired power plants. By being involved in both gas distribution and electricity generation EDP expects to be able to mitigate the risk presented by variable gas prices while increasing the flexibility of gas sourcing and placing; and
- to capture synergies from distributing both gas and electricity to final consumers, leveraging on the existing electricity customer base and on the sharing of infrastructure and system costs.

Although EDP already has a significant position in the gas sector in Spain, having a significant position in the Portuguese gas sector depends on the closing of the acquisition provided for in the agreement entered in March 2004 to purchase, together with Eni and REN,

the entire share capital of GDP, which operates in the Portuguese gas sector and owns assets for the transport and distribution of gas. The completion of the agreement and related transactions is subject to specified conditions, including approval of the relevant competition authorities, which has been requested.

REN will exchange its stake in GDP for GDP's high pressure gas network assets. Following the exit of REN, EDP and Eni will own 51% and 49% of GDP, respectively.

EDP intends to translate the position of 14,27% in GALP for a the participation of 51% in GDP and to concentrate in the business of the gas in detriment of the activities related with the oil.

EDP has also entered into agreements to acquire stakes in two of the main Portuguese regional gas distribution companies: Portgás and Setgás.

International Activities

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

- corporate restructuring: integration of all activities in Brazil under the subsidiary EDP Brazil, which will consolidate not only financial results but also planning and strategic control;
- corporate governance: harmonization and alignment of the corporate governance structures and procedures of EDP Brazil's subsidiaries, with a view toward improving the efficiency and transparency of governance and the decision-making process;
- strategic positioning: introduction of the necessary adjustments to existing investments with the aim at obtaining greater added value for shareholders and the establishment of strategic platforms for the development of future businesses; and
- generation of synergies: ensuring that EDP Brazil is worth more than the sum of its parts, thus providing adequate remuneration of capital employed, through initiatives such as the re-launch of an efficiency program and analysis of the feasibility of shared services.

Telecommunications

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

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

- fixed line operations, using ONI's fixed line voice and data operations as a platform; and
- internet access services, building on ONI's internet service provider activities.

Information Technology

EDP is involved in the information technology market mainly through EDINFOR. During the second half of 2003, and following a decision to allow participation of a strategic partner in EDINFOR's share capital, several initiatives that should facilitate the success of a future partnership have been implementing. Such initiatives include concentrating on the improvement of the relationship with the EDP Group, the increase of sales outside the EDP Group and the winding up and/or merging of 17 companies within the EDINFOR group. During the next months, we hope to find a strategic partner for EDINFOR that will bring technological expertise. In any partnership that eventually comes to celebrate, EDP will look for ensure that core information technology systems continue to be run by EDINFOR. With such a partnership in place, EDP expects to be better able to focus on the core business, while maintaining the availability and security of key systems, and enhancing EDINFOR's growth potential.

X – BOARD OF DIRECTORS

Francisco de la Fuente Sánchez
Chairman

João Luís Ramalho de Carvalho Talone
Chief Executive Officer

António Afonso de Pinto Galvão Lucas
Member of the Audit Committee

Arnaldo Pedro Figueirôa Navarro Machado
Member of the Executive Committee

Jorge Manuel de Oliveira Godinho
Member of the Executive Committee

José Manuel Gonçalves de Moraes Cabral
Non-executive Director

José Manuel Trindade Neves Adelino
Chairman of the Audit Committee

Luís Fernando de Mira Amaral
Non-executive Director

Luís Filipe Rolim de Azevedo Coutinho
Member of the Audit Committee

Paulo Azevedo Pereira da Silva
Non-executive Director

Pedro Manuel Bastos Mendes Rezende
Member of the Executive Committee

Rui Miguel de Oliveira Horta e Costa
Chief Financial Officer

Vítor Ângelo Mendes da Costa Martins
Non-executive Director

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Financial Report

1st Half 2004

2nd Part
Financial Statements

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III. FINANCIAL STATEMENTS
June 30, 2004

EDP - Electricidade de Portugal, S.A.

Consolidated Balance Sheet as at June 30, 2004 and December 31, 2003

	Notes	2004	2003
		(Thousands of Euros)	
Assets			
Tangible fixed assets	4	11 706 053	11 651 599
Intangible fixed assets	5	933 715	950 182
Goodwill	6	873 849	899 514
Investments	7	1 701 180	1 582 784
Deferred taxes	8	546 683	609 338
Customers	10	110 523	85 797
Debtors and other sundry assets	11	467 118	350 045
Total Non-Current Assets		16 339 121	16 129 259
Inventories	9	144 016	159 236
Customers	10	1 031 816	1 022 871
Debtors and other sundry assets	11	407 436	429 390
Accrued income and deferred costs	12	664 078	622 417
Trading securities	13	89 115	143 953
Cash and banks deposits	13	114 418	143 543
Total Current Assets		2 450 879	2 521 410
		18 790 000	18 650 669
Shareholders' Equity			
Share capital	14	3 000 000	3 000 000
Treasury stock	16	(55 577)	(49 020)
Reserves and retained earnings	17	2 144 946	1 965 918
Consolidated net profit	17	274 852	381 109
Total Shareholders' Equity		5 364 221	5 298 007
Minority interests		233 836	236 485
Hydrological correction account	18	375 201	387 506
Liabilities			
Long term debt	19	5 810 866	5 913 579
Provisions for liabilities and charges	20	804 818	819 574
Deferred taxes	8	532 226	616 056
Creditors and other liabilities	21	595 109	542 942
Total Non-Current Liabilities		7 743 019	7 892 151
Short term debt	19	1 649 066	1 579 130
Creditors and other liabilities	21	1 123 250	1 238 991
Accrued costs and deferred income	22	2 301 407	2 018 399
Total Current Liabilities		5 073 723	4 836 520
Total Liabilities		12 816 742	12 728 671
		18 790 000	18 650 669

THE OFFICIAL
ACCOUNTANT N.º 17.713

THE PLANNING, CONTROL
AND CONSOLIDATION MANAGER

THE BOARD OF DIRECTORS

See accompanying to the Financial Statements

EDP - Electricidade de Portugal, S.A.

Consolidated Profit and Loss Account for the six-months ended June 30, 2004 and 2003

	Notes	2004	2003
		(Thousands of Euros)	
Sales	23	3 264 877	3 146 515
Cost of sales	23	(1 920 487)	(1 841 065)
Gross Margin		1 344 390	1 305 450
<i>Other operating income</i>			
Services rendered	23	267 105	199 176
Own work capitalised	24	104 176	116 660
Other operating income	25	7 996	9 490
		379 277	325 326
		1 723 667	1 630 776
<i>Other operating costs</i>			
Supplies and services	26	302 044	310 239
Personnel costs	27	324 735	345 273
Other operating costs	28	110 287	97 556
		737 066	753 068
Gross Operating Margin		986 601	877 708
Provisions	29	(46 237)	(62 523)
Depreciation and amortisation	30	(388 797)	(408 346)
Operating Margin		551 567	406 839
Financial income / (expense)	31	(134 683)	(133 849)
Amortisation of goodwill and concession right	31	(46 773)	(48 682)
Currents Results		370 111	224 308
Extraordinary gains / (losses)	32	(20 075)	59 379
Profit before tax		350 036	283 687
Provision for income taxes	33	(103 392)	(110 640)
Profit after tax		246 644	173 047
Minority interests		28 208	8 997
Consolidated Net Profit		274 852	182 044
Net Profit per share - Basic - Euros	14	0,09 euros	0,06 euros

See accompanying to the Financial Statements

EDP - Electricidade de Portugal, S.A.

Individual Balance Sheet as at June 30, 2004 and December 31, 2003

	Notes	2004	2003
(Thousands of Euros)			
<i>Assets</i>			
Tangible fixed assets	4	119 520	117 547
Intangible fixed assets	5	201 529	207 356
Goodwill	6	105 989	106 738
Investments	7	6 921 020	7 195 266
Deferred taxes	8	284 231	336 924
Debtors and other sundry assets	11	3 532 758	2 431 736
Total Non-Current Assets		11 165 047	10 395 567
Customers	10	3 280	4 171
Debtors and other sundry assets	11	596 555	1 692 895
Accrued income and deferred costs	12	433 187	432 841
Trading securities	13	15 841	85 641
Cash and banks deposits	13	5 715	8 332
Total Current Assets		1 054 578	2 223 880
		12 219 625	12 619 447
<i>Shareholders' Equity</i>			
Share capital	14	3 000 000	3 000 000
Treasury stock	16	(55 577)	(49 020)
Reserves and retained earnings	17	2 144 946	1 965 918
Net profit	17	274 852	381 109
Total Shareholders' Equity		5 364 221	5 298 007
Hydrological correction account	18	375 201	387 506
<i>Liabilities</i>			
Long term debt	19	3 158 456	3 207 572
Provisions for liabilities and charges	20	226 356	383 608
Deferred taxes	8	376 967	474 839
Creditors and other liabilities	21	315 564	315 646
Total Non-Current Liabilities		4 077 343	4 381 665
Short term debt	19	2 178 630	2 176 932
Creditors and other liabilities	21	103 288	266 465
Accrued costs and deferred income	22	120 942	108 872
Total Current Liabilities		2 402 860	2 552 269
Total Liabilities		6 480 203	6 933 934
		12 219 625	12 619 447

THE OFFICIAL
ACCOUNTANT N.º 17.713

THE PLANNING, CONTROL
AND CONSOLIDATION MANAGER

THE BOARD OF DIRECTORS

See accompanying to the Financial Statements

EDP - Electricidade de Portugal, S.A.

Individual Profit and Loss Account for the six-months ended June 30, 2004 and 2003

	Notes	2004	2003
		(Thousands of Euros)	
Sales		-	-
Cost of sales		-	-
Gross Margin		-	-
<i>Other operating income</i>			
Services rendered	23	12 194	4 987
Own work capitalised	24	-	-
Other operating income	25	88	479
		12 282	5 466
		12 282	5 466
<i>Other operating costs</i>			
Supplies and services	26	35 809	22 659
Personnel costs	27	2 429	2 296
Other operating costs	28	3 087	1 612
		41 325	26 567
Gross Operating Margin		(29 043)	(21 101)
Provisions	29	(5 244)	(286)
Depreciation and amortisation	30	(4 464)	(3 685)
Operating Margin		(38 751)	(25 072)
Financial income / (expense)	31	192 794	171 284
Amortisation of goodwill and concession right	31	(6 790)	(6 770)
Currents Results		147 253	139 442
Extraordinary gains / (losses)	32	34 971	57 905
Profit before tax		182 224	197 347
Provision for income taxes	33	92 628	(15 303)
Net Profit		274 852	182 044
Net Profit per share - Basic - Euros	14	0,09 euros	0,06 euros

EDP - Electricidade de Portugal, S.A.

Consolidated and Individual Cash-flow Statements for the six-months ended June 30, 2004 and 2003

(Thousands of Euros)

	Consolidated		Individual	
	2004	2003	2004	2003
Operating Activities				
Cash receipts from customers	3 597 551	3 270 124	10 667	67 230
Cash paid to suppliers	(2 281 568)	(2 171 203)	(77 013)	(36 568)
Cash paid to staff	(381 188)	(391 511)	(2 690)	(2 991)
Concession rents paid	(93 454)	(87 948)	-	-
Cash flow from operating activities	841 341	619 462	(69 036)	27 671
Income tax received / (paid)	(68 813)	(93 031)	131 354	190 545
Other variations of operating assets and liabilities	102 593	275 411	1 816	(302 952)
	33 780	182 380	133 170	(112 407)
Cash flow before extraordinary items	875 121	801 842	64 134	(84 736)
Proceeds / (payments) in respect of extraordinary items	(23 164)	(10 467)	(3 332)	10 471
	(23 164)	(10 467)	(3 332)	10 471
Cash flow from operating activities	851 957	791 375	60 802	(74 265)
Investing Activities				
<i>Cash receipts resulting from:</i>				
Investments and long term-receivables	3 164	20 677	251 995	91 272
Tangible and intangible fixed assets	7 413	122 916	94	5 197
Fixed assets subsidies	37 260	28 074	-	-
Interest	7 570	881	85 960	112 210
Dividends	8 975	31 481	417 494	375 952
	64 382	204 029	755 543	584 631
Payments:				
Investments	(9 358)	(52 207)	(224 000)	-
Tangible and intangible fixed assets	(559 291)	(422 045)	(8 140)	(3 647)
	(568 649)	(474 252)	(232 140)	(3 647)
Cash flow from investing activities	(504 267)	(270 223)	523 403	580 984
Financing Activities				
Loans repaid	(62 759)	(96 256)	(335 389)	(44 594)
Interest and similar costs	(148 410)	(154 896)	(91 192)	(213 819)
Dividends	(268 008)	(258 895)	(268 008)	(255 329)
Acquisition of treasury stock	(6 557)	(1 871)	(6 557)	(1 871)
	(485 734)	(511 918)	(701 146)	(515 613)
Cash flow from financing activities	(485 734)	(511 918)	(701 146)	(515 613)
Variation of cash and cash equivalents	(138 044)	9 234	(116 941)	(8 894)
Effect of currency exchange differences	24 099	(65 732)	24 099	301
Cash and cash equivalents at the beginning of the period	(308 410)	(407 258)	93 974	48 956
Cash and cash equivalents at the end of the period (*)	(422 355)	(463 756)	1 132	40 363

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

EDP - Electricidade de Portugal, S.A.

Statement of Changes in Consolidated and Individual Shareholders' Equity for the six-months ended June 30, 2004 and year ended December 31, 2003

(Thousands of Euros)

	Total Shareholders' Equity	Share capital	Legal and special reserve	Reserves and retained earnings	Fair value reserves and other valuation	Treasury stock
Balances as at December, 31 2002	5 494 182	3 000 000	309 631	2 497 020	(268 975)	(43 494)
Transfer to reserves:						
Legal and special reserves	-	-	16 760	(16 760)	-	-
Bonus to employees	(25 062)	-	-	(25 062)	-	-
Dividends paid	(268 275)	-	-	(268 275)	-	-
Purchase and sale of treasury stock	(5 526)	-	-	-	-	(5 526)
Net profit for the year	381 109	-	-	381 109	-	-
Deferred taxes	(252 296)	-	-	(252 296)	-	-
Effects of implementation of IAS 36 and 39:						
- Financial derivatives instruments	131 181	-	-	131 181	-	-
- Impairment reclassification on BCP in 2002	-	-	-	(247 750)	247 750	-
- Fair value of investments available for sale	10 758	-	-	-	10 758	-
- Reversion of Fair value Iberdrola in 2002	21 223	-	-	-	21 223	-
Exchange differences arising on consolidation	(193 032)	-	-	(193 032)	-	-
Other reserves arising on consolidation	3 745	-	-	3 745	-	-
Balances as at December, 31 2003	5 298 007	3 000 000	326 391	2 009 880	10 756	(49 020)
Transfer to reserves:						
Legal and special reserves	-	-	19 055	(19 055)	-	-
Bonus to employees	(20 722)	-	-	(20 722)	-	-
Dividends paid	(268 008)	-	-	(268 008)	-	-
Purchase and sale of treasury stock	(6 557)	-	-	-	-	(6 557)
Net profit for the year	274 852	-	-	274 852	-	-
Deferred taxes	(31 256)	-	-	(31 256)	-	-
Effects of implementation of IAS 36 and 39:						
- Financial derivatives instruments	(2 147)	-	-	(2 147)	-	-
- Fair value of investments available for sale	149 633	-	-	-	149 633	-
Exchange differences arising on consolidation	(12 952)	-	-	(12 952)	-	-
Other reserves arising on consolidation	(16 629)	-	-	(16 629)	-	-
Balances as at June 30, 2004	<u>5 364 221</u>	<u>3 000 000</u>	<u>345 446</u>	<u>1 913 963</u>	<u>160 389</u>	<u>(55 577)</u>

See accompanying to the Financial Statements

EDP - Electricidade de Portugal, S.A. and Subsidiaries
Notes to the Financial Statements
June 30, 2004, December 31, 2003 and June 30, 2003

1. The business operations of the EDP Group

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

Activity in the Energy Sector on the Iberian Peninsula

In Portugal, the National Electricity System (SEN) is based on the coexistence of a Public Service Electricity System (SEP) and of an Independent Electricity System (SEI), the latter comprising the Non-binding Electricity System (SENV) and the Special Regime Producers (PRE).

The SEP comprises the National Transport Network (RNT), Binding Producers, Binding Distributors and Binding Customers. The RNT, under concession to REN - Rede Eléctrica Nacional, S.A., is in charge with providing electricity transport and with the overall technical management of the SEP. Binding Producers are tied to RNT by long-term exclusive supply contracts. Binding Distributors are obliged to supply their customers in accordance with fixed prices, under the law, by the Energy Services Regulatory Entity (ERSE). Binding Customers are entities and individuals that cannot opt for a SENV supplier (currently low-tension consumers), or either those that are able to do so but opt to acquire electricity from their respective binding distributor under conditions determined by the ERSE.

The SENV essentially comprises Non-binding Producers and Non-binding Customers, the latter being entitled to use the SEP networks using fixed tariffs determined by ERSE under the terms of the law. Special Regime Producers operate in the renewable energies and cogeneration areas, delivering their electricity to the SEP networks under special legislation. In accordance with the law, the ERSE is in charge with exercising the regulation of the sector, through the preparation, issue, and application of regulations, and also through the definition of the tariffs both for the use of infrastructure and for the supply of electricity to SEP customers. Through the generation and distribution companies, the EDP Group plays a fundamental role in the entire SEN, and has a relevant position within the SEP, and also owns generation companies that operate within the SEI both at the level of the SENV and at the level of the PREs.

In Spain, the EDP Group has a 40% shareholding in Grupo Hidroeléctrico del Cantábrico, S.A. (Hidrocantábrico), a company in which it undertakes a joint operational management. Hidrocantábrico is the parent company that carries on the business in the electricity (generation, transport, distribution and supply), gas (distribution and supply) and telecommunications sectors. This EDP shareholding in Hidrocantábrico constitutes part of a strategy for the integration and consolidation of the Iberian energy market.

Activity in the Energy Sector in Brazil

In Brazil, the EDP Group operates in the electricity sector namely in generation, distribution and supply. In distribution it has a 96.5% shareholding in Bandeirante Energia S.A., 99.97% of IVEN, S.A., which controls Escelsa Espírito Santo Centrais Elétricas, S.A., and in Enersul Empresa Energética do Mato Grosso do Sul S.A.

In the electricity generation sector, the EDP Group has holdings in Usina Hidroeléctrica (UHE), Lajeado (27.65%), Usina Termoeléctrica (UTE) and Fafen (79.6%); in partnership with the Rede Group of Brazil, it was successful in the auctions for the concession of the construction and operation of the Peixe Angical and Couto Magalhães hydroelectric power stations.

In the supply business, in addition to the business carried on by the distribution companies, the EDP Group operates in the electricity trading market through Enertrade, a wholly owned Group company.

Activity in the Telecommunications Sector

In the telecommunications sector, the EDP Group holds 56.03% of the share capital of ONI SGPS (ONI), the remaining capital is held by BCP, GALP Energia and Brisa. ONI operates in fixed telecommunications, providing voice and data services in the Portuguese market (both corporate and residential customers) and in the Spanish market (in the corporate segment).

Activity in the Information Technologies Sector

The EDP Group operates in information technologies through EDINFOR - Sistemas Informáticos S.A., a wholly owned subsidiary, which holds 57.8% of ACE, engaged namely in consultancy, systems Integration, process and application outsourcing, IT infrastructure, georeferenced solutions, printing solutions and finishing.

Price regime of Electric Energy

According with Portuguese law, ERSE is responsible for the sector regulation, through the preparation, emission and application of the rules, as well as tariff definition of infrastructure utilisation and electric energy supply to SEP clients. In Brazil these functions are also assumed by a regulator entity - "Agência Nacional de Energia eléctrica" (Aneel). In Spain, electric energy prices are established by the government after opinion or proposal of their regulator entity - "Comisión Nacional de Energía".

Low-tension Electricity Distribution Concession Regime

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

EDP - Electricidade de Portugal, S.A. and Subsidiaries
Notes to the Financial Statements
June 30, 2004, December 31, 2003 and June 30, 2003

Public Domain Assets

In Portugal some fixed assets allocated to electricity generation and distribution within the SEP are subject to the public domain regime. In Brazil the fixed assets used in the distribution and supply of electricity are tied to those services and cannot be withdrawn, sold, assigned or mortgaged without the prior express consent of the Regulator. ANEEL has already created regulations releasing the assets of the Public Electricity Service concessions, granting prior authorisation for the release of assets of no use to the concession, provided they are to be sold, further determining that the product of the sale be deposited in a tied bank account, to be used in the concession.

2. Accounting policies

The accounting standards are as described in Note 2 of Part III – Financial Statements, from EDP Group Financial Report as at December 31, 2003.

The accounting standards used in preparation of financial statements for the Group and on an Individual basis for the period ended in June 30, 2004, are consistent with those applied in the EDP Group for the first half of 2003, with the exception to:

- a) The Group decided in the second half of 2003, with retroactive effects in January 1, 2003, the early adoption of "International Accounting Standards" IAS 32, IAS 36 and IAS 39. Thereby the consolidated financial statements for the group and on an individual basis of the 1st half of 2003 don't reflect the effect of that anticipation. The effect after taxation resulting from this adoption as at June 30, 2003 is as follows:

	Assets	Liabilities	Shareholders' Equity	Profit before tax for the period
	DR / (CR)	DR / (CR)	DR / (CR)	DR / (CR)
	Euro'000	Euro'000	Euro'000	Euro'000
Derivatives	294 309	(82 116)	(131 181)	(81 102)
Investments	311 058	(272 697)	(38 361)	-

Additionally and accordingly with Group EDP policy, since January 2004, the Group implemented hedge accounting for derivate financial instruments (Note 35).

- b) Compensation of depreciation of portion funded by clients of fixed assets is presented in 2004 as a deduction to the amortisations instead of being recognized as other non-operating income.

3. Financial-risk management policies

Financial-risk management policies are described in Note 3, Part III - Financial Statements as at December, 2003 for EDP Group.

4. Tangible fixed assets

This balance is analysed as follows:

	Group		Individual	
	Jun 2004	Dec 2003	Jun 2004	Dec 2003
	Euro'000	Euro'000	Euro'000	Euro'000
Cost:				
Fixed assets under the Decree Law 344-B/82 regime	240 607	240 607	-	-
Land and natural resources	128 051	128 169	55 838	55 838
Buildings and other constructions	393 047	410 982	66 355	81 413
Plant and machinery:				
Hydroelectric generation	6 937 749	6 952 258	-	-
Thermoelectric generation	3 602 883	3 405 254	-	-
Renewables generation	61 245	42 795	-	-
Electricity distribution	12 857 159	12 675 981	-	-
Other plant and machinery	721 166	714 415	-	-
Transport equipment	74 845	75 761	1 895	2 032
Office equipment and utensils	357 498	344 250	60 990	59 511
Other tangible fixed assets	36 243	22 393	13 545	23
Fixed assets in progress	1 183 812	1 187 302	8 438	4 427
	<u>26 594 305</u>	<u>26 200 167</u>	<u>207 061</u>	<u>203 244</u>
Accumulated depreciation				
Depreciation charges for the year	(404 757)	(803 091)	(2 752)	(4 930)
Other accumulated depreciation	(14 483 495)	(13 745 477)	(84 789)	(80 767)
	<u>(14 888 252)</u>	<u>(14 548 568)</u>	<u>(87 541)</u>	<u>(85 697)</u>
	<u>11 706 053</u>	<u>11 651 599</u>	<u>119 520</u>	<u>117 547</u>

EDP - Electricidade de Portugal, S.A. and Subsidiaries
Notes to the Financial Statements
June 30, 2004, December 31, 2003 and June 30, 2003

The **Tangible fixed assets** movements for the **Group** during the 1st half of 2004 are analysed as follows:

	Balance January 1st Euro'000	Acquisitions / Charge year Euro'000	Disposals Euro'000	Transfers Euro'000	Changes in Subsidiaries / Other Euro'000	Balance June 30 Euro'000
<i>Cost:</i>						
Fixed assets under the DL 344-B/82 regime	240 607	-	-	-	-	240 607
Land and natural resources	128 169	717	(419)	462	(878)	128 051
Buildings and other constructions	410 982	2 054	(3 117)	(12 487)	(4 385)	393 047
Plant and machinery	23 790 703	76 995	(32 286)	402 044	(57 254)	24 180 202
Transport equipment	75 761	2 052	(3 576)	990	(382)	74 845
Office equipment and utensils	344 250	4 672	(982)	10 006	(448)	357 498
Other tangible fixed assets	22 393	44 032	-	13 599	(43 781)	36 243
Fixed assets in progress	1 187 302	377 588	(116)	(414 614)	33 652	1 183 812
	<u>26 200 167</u>	<u>508 110</u>	<u>(40 496)</u>	<u>-</u>	<u>(73 476)</u>	<u>26 594 305</u>
<i>Accumulated depreciation :</i>						
Fixed assets under the DL 344-B/82 regime	231 528	1 303	-	-	-	232 831
Buildings and other constructions	166 403	4 658	(1 153)	-	(1 518)	168 390
Plant and machinery	13 911 573	368 789	(29 753)	-	(20 828)	14 229 781
Transport equipment	54 532	4 815	(2 875)	-	(230)	56 242
Office equipment and utensils	180 109	23 276	(905)	-	(7 308)	195 172
Other tangible fixed assets	4 423	1 916	-	-	(503)	5 836
	<u>14 548 568</u>	<u>404 757</u>	<u>(34 686)</u>	<u>-</u>	<u>(30 387)</u>	<u>14 888 252</u>

As at June 30, 2004, for the Group, the cost of tangible fixed assets financed by leasing is in the amount of Eur 39.3 million (accumulated depreciation in the amount of Eur 8.5 million) and the respective falling due in the amount of Eur 28.6 million.

The **Tangible assets** movements on an **Individual** basis during the 1st Half of 2004 are analysed as follows:

	Balance January 1st Euro'000	Acquisitions / Charge year Euro'000	Disposals Euro'000	Transfers Euro'000	Changes in Subsidiaries / Other Euro'000	Balance June 30 Euro'000
<i>Cost:</i>						
Land and natural resources	55 838	-	-	-	-	55 838
Buildings and other constructions	81 413	-	(1 542)	(13 516)	-	66 355
Transport equipment	2 032	128	(265)	-	-	1 895
Office equipment and utensils	59 511	1 479	-	-	-	60 990
Other tangible fixed assets	23	-	-	13 522	-	13 545
Fixed assets in progress	4 427	4 017	-	(6)	-	8 438
	<u>203 244</u>	<u>5 624</u>	<u>(1 807)</u>	<u>-</u>	<u>-</u>	<u>207 061</u>
<i>Accumulated depreciation :</i>						
Buildings and other constructions	31 929	692	(758)	(158)	-	31 705
Transport equipment	884	161	(150)	-	-	895
Ferramentas e utensílios	52	5	-	-	-	57
Office equipment and utensils	52 826	1 217	-	-	-	54 043
Other tangible fixed assets	6	677	-	158	-	841
	<u>85 697</u>	<u>2 752</u>	<u>(908)</u>	<u>-</u>	<u>-</u>	<u>87 541</u>

As at June 30, 2004, on an individual basis, the cost of tangible fixed assets financed by leasing is in the amount of Eur 1.1 million (accumulated depreciation in the amount of Eur 0.4 million) and the respective falling due in the amount of Eur 1 million.

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5. Intangible fixed assets

The balance is analysed as follows:

	Group		Individual	
	Jun 2004	Dec 2003	Jun 2004	Dec 2003
	Euro'000	Euro'000	Euro'000	Euro'000
<i>Cost:</i>				
Set-up costs	85 455	85 157	7 085	7 085
Research and development costs	98 129	103 302	15 193	15 193
Industrial property and other rights	176 775	158 057	50	50
Fixed assets in progress and other fixed assets	13 148	21 944	3 310	3 277
Other intangible assets on telecommunications business	40 209	40 209	-	-
Concession rights in Brazil and Spain	835 583	835 366	242 831	242 831
	<u>1 249 299</u>	<u>1 244 035</u>	<u>268 469</u>	<u>268 436</u>
<i>Accumulated amortisation</i>				
Amortisation of concession rights during the year	(15 220)	(30 439)	(3 874)	(7 745)
Amortisation of intangible fixed assets during the year	(22 015)	(42 501)	(1 986)	(3 183)
Other accumulated amortisation	(278 349)	(220 913)	(61 080)	(50 152)
	<u>(315 584)</u>	<u>(293 853)</u>	<u>(66 940)</u>	<u>(61 080)</u>
	<u>933 715</u>	<u>950 182</u>	<u>201 529</u>	<u>207 356</u>

Intangible assets movements for the **Group** during the 1st half of 2004 are analysed as follows:

	Balance	Acquisitions	Disposals	Transfers	Changes in	Balance
	January 1st	/ Charge year			Subsidiaries	June 30
	Euro'000	Euro'000	Euro'000	Euro'000	/ Other	Euro'000
<i>Cost:</i>						
Set-up costs	85 157	308	(133)	(74)	197	85 455
Research and development costs	103 302	190	(5 946)	323	260	98 129
Industrial property and other rights	158 057	269	(4)	20 030	(1 577)	176 775
Fixed assets in progress and other fixed assets	21 944	4 040	(179)	(14 568)	1 911	13 148
Other intangible assets on telecommunications business	40 209	-	-	-	-	40 209
Concession rights in Brazil and Spain	835 366	2 167	-	(5 711)	3 761	835 583
	<u>1 244 035</u>	<u>6 974</u>	<u>(6 262)</u>	<u>-</u>	<u>4 552</u>	<u>1 249 299</u>
<i>Accumulated amortisation:</i>						
Set-up costs	64 855	7 785	(39)	-	(6 391)	66 210
Research and development costs	44 606	8 879	(2 342)	-	(95)	51 048
Industrial property and other rights	32 376	4 243	17	-	(8 086)	28 550
Other intangible assets on telecommunications business	14 571	1 108	-	-	1 459	17 138
Concession rights in Brazil and Spain	137 445	15 220	-	-	(27)	152 638
	<u>293 853</u>	<u>37 235</u>	<u>(2 364)</u>	<u>-</u>	<u>(13 140)</u>	<u>315 584</u>

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Intangible assets movements for **on an Individual basis** during the 1st half of 2004 are analysed as follows:

	Balance January 1st Euro'000	Acquisitions / Charge year Euro'000	Disposals Euro'000	Transfers Euro'000	Changes in Subsidiaries / Other Euro'000	Balance June 30 Euro'000
<i>Cost:</i>						
Set-up costs	7 085	-	-	-	-	7 085
Research and development costs	15 193	-	-	-	-	15 193
Industrial property and other rights	50	-	-	-	-	50
Fixed assets in progress and other fixed assets	3 277	33	-	-	-	3 310
Concession rights in Brazil and Spain	242 831	-	-	-	-	242 831
	<u>268 436</u>	<u>33</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>268 469</u>

	Balance January 1st Euro'000	Acquisitions / Charge year Euro'000	Disposals Euro'000	Transfers Euro'000	Changes in Subsidiaries / Other Euro'000	Balance June 30 Euro'000
<i>Accumulated amortisation:</i>						
Set-up costs	5 228	708	-	-	-	5 936
Research and development costs	6 715	1 273	-	-	-	7 988
Industrial property and other rights	10	4	-	-	-	14
Concession rights in Brazil and Spain	49 127	3 875	-	-	-	53 002
	<u>61 080</u>	<u>5 860</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66 940</u>

In the **Group**, and on an **Individual Basis**, the **Concession rights** heading, resulting from the difference between cost and the proportional fair value of the company's assets on the date of acquisition, is analysed as follows for the following acquisitions realised in Brazil to date:

	Jun 2004			Dec 2003		
	Concession rights Euro'000	Accumulated amortisation Euro'000	Net Amount Euro'000	Concession rights Euro'000	Accumulated amortisation Euro'000	Net Amount Euro'000
<i>Electricity Business - Brazil</i>						
<i>Consolidated - Group</i>						
Bandeirante Energia	274 949	(58 876)	216 073	275 279	(54 483)	220 796
Escelsa / Enersul	560 634	(93 764)	466 870	560 087	(82 962)	477 125
	<u>835 583</u>	<u>(152 640)</u>	<u>682 943</u>	<u>835 366</u>	<u>(137 445)</u>	<u>697 921</u>
Amortisation changes for the year		<u>(15 220)</u>			<u>(30 439)</u>	
<i>Individual basis</i>						
Bandeirante Energia	242 831	(53 001)	189 830	242 831	(49 127)	193 704
	<u>242 831</u>	<u>(53 001)</u>	<u>189 830</u>	<u>242 831</u>	<u>(49 127)</u>	<u>193 704</u>
Amortisation changes for the year		<u>(3 874)</u>			<u>(7 745)</u>	

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

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As at June 30, 2004, at the **Group**, by business area, the main **Research and development** projects are as follows:

	Amount invested Euro'000	Accumulated amortisation Euro'000	Net Amount Euro'000
<i>Development projects by business area:</i>			
Electricity generation	18 498	(12 167)	6 331
Information technologies	8 751	(5 544)	3 207
Telecommunications	67 254	(32 387)	34 867
Other	3 626	(950)	2 676
	<u>98 129</u>	<u>(51 048)</u>	<u>47 081</u>

As at June 30, 2004, at the **Group**, the breakdown of the main **Industrial property and other rights** assets, is as follows:

	EDP Group Company	Amount invested Euro'000	Accumulated amortisation Euro'000	Net Amount Euro'000
Software licensing	Brazil and Hidrocantábrico	66 093	(19 516)	46 577
Optic fibre usage rights	Oni Telecom	108 932	(8 071)	100 861
Other	Other companies	1 750	(963)	787
		<u>176 775</u>	<u>(28 550)</u>	<u>148 225</u>

6. Goodwill

In the **Group**, the breakdown of **Goodwill** assets resulting from the difference between the cost and the proportional fair value of the company's shareholders' equity on the date of acquisition is as follows:

	Jun 2004			Dec 2003		
	Goodwill Euro'000	Accumulated amortisation Euro'000	Net Amount Euro'000	Goodwill Euro'000	Accumulated amortisation Euro'000	Net Amount Euro'000
<i>Electricity Business</i>						
Hidrocantábrico Group	758 014	(78 488)	679 526	752 676	(46 319)	706 357
Investco	2 108	(158)	1 950	2 177	(127)	2 050
Enerpeixe	1 014	(28)	986	1 629	(4)	1 625
	<u>761 136</u>	<u>(78 674)</u>	<u>682 462</u>	<u>756 482</u>	<u>(46 450)</u>	<u>710 032</u>
<i>Telecommunications Business</i>						
Oni Solutions	21 103	(9 454)	11 649	21 103	(8 399)	12 704
Comunitel Global	91 393	(27 266)	64 127	86 157	(22 889)	63 268
Other	12 782	(2 024)	10 758	12 779	(1 385)	11 394
	<u>125 278</u>	<u>(38 744)</u>	<u>86 534</u>	<u>120 039</u>	<u>(32 673)</u>	<u>87 366</u>
<i>Information Technology Business</i>						
ACE, SGPS	58 844	(10 298)	48 546	58 844	(8 827)	50 017
Case	3 612	(1 264)	2 348	3 612	(1 084)	2 528
Copidata, SA	4 064	(4 064)	-	4 064	(3 861)	203
S-Tecno	3 926	(1 374)	2 552	3 926	(1 178)	2 748
Other	8 660	(2 742)	5 918	8 827	(2 428)	6 399
	<u>79 106</u>	<u>(19 742)</u>	<u>59 364</u>	<u>79 273</u>	<u>(17 378)</u>	<u>61 895</u>
<i>Other Businesses</i>						
Affinis	12 725	(1 007)	11 718	12 725	(689)	12 036
Turbogás	18 174	(1 363)	16 811	18 174	(908)	17 266
Companhia Electricidade Macau	17 110	(7 842)	9 268	16 543	(6 893)	9 650
Other	9 254	(1 562)	7 692	2 127	(858)	1 269
	<u>57 263</u>	<u>(11 774)</u>	<u>45 489</u>	<u>49 569</u>	<u>(9 348)</u>	<u>40 221</u>
	<u>1 022 783</u>	<u>(148 934)</u>	<u>873 849</u>	<u>1 005 363</u>	<u>(105 849)</u>	<u>899 514</u>
<i>Amortisation charges for the period</i>		<u>(29 644)</u>			<u>(54 439)</u>	

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

	Jun 2004			Dec 2003		
	Goodwill Euro'000	Accumulated amortisation Euro'000	Net Amount Euro'000	Goodwill Euro'000	Accumulated amortisation Euro'000	Net Amount Euro'000
<i>Electricity Business - Spain</i>						
Hidrocantábrico group	115 915	(12 075)	103 840	115 915	(9 177)	106 738
<i>Electricity Business - Other</i>	2 167	(18)	2 149	-	-	-
	<u>118 082</u>	<u>(12 093)</u>	<u>105 989</u>	<u>115 915</u>	<u>(9 177)</u>	<u>106 738</u>
<i>Amortisation charges for the period</i>		<u>(2 916)</u>			<u>(5 796)</u>	

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

7. Investments

The breakdown of this heading is as follows:

	Group		Individual	
	Jun 2004 Euro'000	Dec 2003 Euro'000	Jun 2004 Euro'000	Dec 2003 Euro'000
<i>Shareholdings:</i>				
Subsidiary companies	65	1 305	5 608 968	5 598 313
Associate companies	431 527	441 449	998 659	998 617
Investments in other companies	1 485 224	1 351 958	317 072	317 072
	<u>1 916 816</u>	<u>1 794 712</u>	<u>6 924 699</u>	<u>6 914 002</u>
<i>Investments in properties:</i>				
Buildings and other constructions	1 390	1 417	-	-
	<u>1 390</u>	<u>1 417</u>	<u>-</u>	<u>-</u>
<i>Other financial investments:</i>				
Bank deposits	5 000	-	-	-
Public debt securities	19	19	19	19
Other securities	38 244	70 143	-	282 193
Other financial investments	6 244	4 029	-	-
	<u>49 507</u>	<u>74 191</u>	<u>19</u>	<u>282 212</u>
	<u>1 967 713</u>	<u>1 870 320</u>	<u>6 924 718</u>	<u>7 196 214</u>
<i>Provision for financial assets :</i>				
Shareholdings	(265 012)	(285 790)	(3 698)	(948)
Other financial investments	(1 161)	(1 391)	-	-
	<u>(266 173)</u>	<u>(287 181)</u>	<u>(3 698)</u>	<u>(948)</u>
<i>Amortisation of investment in properties</i>	<u>(360)</u>	<u>(355)</u>	<u>-</u>	<u>-</u>
	<u>(360)</u>	<u>(355)</u>	<u>-</u>	<u>-</u>
	<u>(266 533)</u>	<u>(287 536)</u>	<u>(3 698)</u>	<u>(948)</u>
	<u>1 701 180</u>	<u>1 582 784</u>	<u>6 921 020</u>	<u>7 195 266</u>

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The breakdown of **Shareholdings** is analysed as follows:

	Group		Individual	
	Jun 2004	Dec 2003	Jun 2004	Dec 2003
	Euro'000	Euro'000	Euro'000	Euro'000
Investment in subsidiary companies:				
SPE - Macau	-	-	-	5
EDP Distribuição de Energia, SA	-	-	1 469 828	1 566 925
EDP Energia, SA	-	-	39 814	46 665
Edinfor - Sistemas Informáticos, SA	-	-	52 718	53 963
EDP Gestão de Produção de Energia, SA	-	-	1 816 839	1 910 017
EDP-Participações, SGPS	-	-	1 170 602	1 033 566
Enernova,SA	-	-	22 300	21 235
EDP Produção Bioelétrica, SA	-	-	10 844	11 095
EDP Internacional, SA	-	-	958 071	879 478
Enercorp	-	-	6 035	6 471
EDP Valor - Gestão Integrada de Serviços, SA	-	-	7 702	7 136
EDALPRO - Imobiliária, Lda	-	-	1 431	1 728
Labelec - Est. Desenv. Activ. Laboratoriais,SA	-	-	5 546	6 481
EDP Investimentos, LDA	-	-	44 765	50 586
Other	65	1 305	2 473	2 962
	65	1 305	5 608 968	5 598 313
Investment in associated companies:				
DECA - Distribucion Eléctrica Centroamerica, SA	69 135	67 894	69 135	67 894
Companhia de Electricidade de Macau	59 649	65 129	-	-
REN - Rede Eléctrica Nacional, SA	248 694	254 223	248 694	254 223
Associated companies of Hidrocontábrico Group	36 813	39 398	-	-
Portsines - Terminal de Sines	7 501	7 501	-	-
Turbogás - Produtora Energética	7 499	5 211	-	-
Hidrocontábrico	-	-	680 546	676 213
Other	2 236	2 093	283	287
	431 527	441 449	998 658	998 617
Investment in other companies				
CERJ - Companhia Eléctrica do Estado Rio Janeiro	95 050	97 767	-	-
Galp, SGPS	457 201	328 211	-	-
BCP - Banco Comercial Português	552 789	552 789	-	-
OPTEP (Optimus)	315 000	314 750	315 000	314 749
Other	65 184	58 441	2 072	2 323
	1 485 224	1 351 958	317 072	317 072
	1 916 816	1 794 712	6 924 698	6 914 002

The group company's consolidated by purchase , proportional and equity method are presented in Note 7, part III - Financial statements of Group EDP financial report, as at December 31, 2003.

In 2003, the following changes took place to the consolidation perimeter of the EDP Group:

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

During the 1st Half of 2004, the following changes took place to the consolidation perimeter of the EDP Group:

- Constitution of EDP - Investments and Services, Limited, with head office in George Town, Cayman islands, and with a share capital of USD 10 000.
- Acquisition, by ACE, of all share capital of subsidiaries Digihotel, S.A., Digigest, S.A., Digitec, S.A., Greatplains, S.A. e Case Edinfor Ásia, Lda.
- Alienation, by ONI, total share capital of ONI WAY to Vodafone.
- Dissolution of EDP Águas, S.A. and Valorágua, S.A.
- Changes in control of Naturcorp Group by HC, from 62,0% to 56,8%, as a result of Gas Natural company abdication of 50% control of Gas Euskadi share capital by exchange for a direct participation in Naturcorp.

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8. Deferred taxes

In respect of **Deferred tax assets**, the EDP Group records in its accounts the tax effect arising from temporary differences between the assets and liabilities determined from an accounting standpoint and from a taxation standpoint, and this is broken down by company as follows:

	Deferred taxes assets		Deferred taxes liabilities	
	Jun 2004	Dec 2003	Jun 2004	Dec 2003
	Euro'000	Euro'000	Euro'000	Euro'000
Individual - EDP, SA	284 231	336 924	376 967	474 839
ONI Group	101 915	107 831	719	719
EDP Produção Group	1 037	1 037	-	-
EDP Brazil Group	131 313	131 707	114 657	103 066
Hidrocontábrico Group	9 162	12 814	39 878	37 432
EDP Finance BV	18 510	18 510	-	-
Other	515	515	5	-
EDP Group	546 683	609 338	532 226	616 056

9. Inventories

This balance is analysed as follows:

	Group		Individual	
	Jun 2004	Dec 2003	Jun 2004	Dec 2003
	Euro'000	Euro'000	Euro'000	Euro'000
Merchandise	13 498	15 794	-	-
Purchases and advances on account of purchases	5 834	2 291	-	-
Finished and intermediate products	619	569	-	-
Products and work in progress	3 998	3 648	-	-
Sub-products, waste, residues and scrap	2 188	1 989	-	-
Raw and subsidiary materials and consumables:				
Coal	19 833	24 920	-	-
Fuel	29 919	47 530	-	-
Other consumables	68 137	62 495	-	-
	144 026	159 236	-	-
Provision for inventories	(10)	-	-	-
	144 016	159 236	-	-

10. Customers

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

	Group		Individual	
	Jun 2004	Dec 2003	Jun 2004	Dec 2003
	Euro'000	Euro'000	Euro'000	Euro'000
Trade accounts receivable -Short term:				
<i>Resident customers:</i>				
State and official entities	43 853	36 234	8	-
Local authorities	30 689	31 041	1	-
Corporate sector and individuals	767 297	789 986	3 271	4 171
Trade accounts - bills receivable	1	46	-	-
	841 840	857 307	3 280	4 171
<i>Non-resident customers:</i>				
Corporate sector and individuals	187 312	158 490	-	-
	187 312	158 490	-	-
	1 029 152	1 015 797	3 280	4 171
Doubtful debt	191 977	188 689	10 917	9 119
Provision for doubtful debt	(189 313)	(181 615)	(10 917)	(9 119)
	1 031 816	1 022 871	3 280	4 171

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	Group		Individual	
	Jun 2004	Dec 2003	Jun 2004	Dec 2003
	Euro'000	Euro'000	Euro'000	Euro'000
Trade accounts receivable - Medium and long-term / Non Current:				
<i>Resident customers:</i>				
Customers - Local government - Debt at December 31, 1988 (i)	180 452	181 689	-	-
Corporate sector and individuals	17 885	5 017	-	-
Trade accounts - bills receivable	414	413	-	-
	198 751	187 119	-	-
Provision for local government customers at December 31, 1988	(88 228)	(101 322)	-	-
	110 523	85 797	-	-
	1 142 339	1 108 668	3 280	4 171

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

11. Debtors and other sundry assets

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

	Group		Individual	
	Jun 2004	Dec 2003	Jun 2004	Dec 2003
	Euro'000	Euro'000	Euro'000	Euro'000
Trade accounts receivable-current				
State and other public entities:				
- Income tax	3 972	73 398	468	194 725
- Value added tax	85 937	100 730	16 403	11 872
- Other taxes	14 550	5 647	-	-
Loans to subsidiaries	-	-	9 026	842 244
Other related companies	3 948	1 178	1 961	-
Advances to suppliers	3 408	2 478	-	480
Other debtors:				
- Current account with the Pension Fund	12 120	12 120	12 120	12 120
- Amounts owed to staff	2 863	8 536	36	1 418
- Amounts recoverable from the sale of ONI Way	90 339	39 667	-	-
- Amounts owed by the State and Concessors	10 697	6 879	119 222	5 832
- Debtors in respect of other goods and services	90 721	94 437	21 879	4 890
- Regulatory assets	27 269	51 732	-	-
- Other debtors - Subsidiaries	-	-	379 310	585 018
- INAG/EDP Protocol - Alqueva	26 082	26 082	26 082	26 082
- Advances to pensioners	17 024	8 497	-	-
- Other debtors and sundry operations	29 152	7 344	10 048	8 214
	418 082	438 725	596 555	1 692 895
Provision for short-term debtors	(10 646)	(9 335)	-	-
	407 436	429 390	596 555	1 692 895

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	Group		Individual	
	Jun 2004 Euro'000	Dec 2003 Euro'000	Jun 2004 Euro'000	Dec 2003 Euro'000
<i>Trade accounts receivable, Medium/long-term - Non-Current:</i>				
Other related companies	10 934	-	3 090	90
Loans to subsidiaries	-	-	3 529 665	2 431 644
Other debtors:				
- Fixed assets in compensated integration (i)	9 270	9 270	-	-
- Regulatory assets:				
Portugal (ii)	223 328	148 352	-	-
Brazil	128 138	127 256	-	-
- Performance bonds and tied deposits	49 776	44 991	3	2
- Other debtors and sundry operations	53 214	20 176	-	-
	<u>474 660</u>	<u>350 045</u>	<u>3 532 758</u>	<u>2 431 736</u>
Provision for medium/long-term debtors - Non current	(7 542)	-	-	-
	<u>467 118</u>	<u>350 045</u>	<u>3 532 758</u>	<u>2 431 736</u>
	<u>874 554</u>	<u>779 435</u>	<u>4 129 313</u>	<u>4 124 631</u>

- (i) Compensated fixed assets undergoing integration correspond to the net amounts, on integration date, of the debts of local authorities debits up to December 31, 1988, compensated by means of the respective assets undergoing integration (Tangible Fixed Assets under the regime of Decree law 344-B/82). The transfer of these amounts to tangible fixed assets is awaiting formalisation of the concession contracts or debt regularisation protocols to be entered into by EDP and the local authorities.
- (ii) The regulatory assets Portugal heading shows the costs associated with the 2003 Human Resources Rationalisation Plan in EDP Distribuição, which were accepted by the Energy Services Regulatory Entity as an investment amortisable over a period of 20 years, beginning in 2005.

12. Accrued income and deferred costs

Accrued income and deferred costs balance are analysed as follows:

	Group		Individual	
	Jun 2004 Euro'000	Dec 2003 Euro'000	Jun 2004 Euro'000	Dec 2003 Euro'000
<i>Accrued income :</i>				
- Interest receivable	294 109	193 234	272 536	275 789
- For sales and services provided	56 233	92 561	-	4 300
- Other accrued income	17 043	61 518	11 469	16 899
	<u>367 385</u>	<u>347 313</u>	<u>284 005</u>	<u>296 988</u>
<i>Deferred costs :</i>				
- Rents	14 158	1 771	-	-
- Expenditure on concessions	11 148	11 499	-	-
- Accrued maintenance	5 970	18 172	-	-
- Compensation of fuel costs	140 455	130 502	-	-
- Inter-group losses	-	-	66 264	54 336
- Deferred retirement benefit obligation	47 991	50 993	47 991	50 993
- Advertising and propaganda costs	263	346	-	-
- Cost of negotiating loans (BEI)	22 316	24 537	22 316	24 537
- Maintenance contracts (thermoelectric production)	9 583	-	-	-
- Charge with lines construction	2 920	1 463	-	-
- Discounts on bond issues	5 959	6 434	5 335	5 762
- Other deferred costs	35 930	29 387	7 276	225
	<u>296 693</u>	<u>275 104</u>	<u>149 182</u>	<u>135 853</u>
	<u>664 078</u>	<u>622 417</u>	<u>433 187</u>	<u>432 841</u>

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13. Cash, Bank deposits and Trading securities

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

	Group		Individual	
	Jun 2004	Dec 2003	Jun 2004	Dec 2003
	Euro'000	Euro'000	Euro'000	Euro'000
Cash:				
- Cash in hand	2 889	20 375	5	-
	2 889	20 375	5	-
Bank deposits:				
- Current deposits	102 807	116 205	1 545	1 602
- Short term deposits	4 267	6 963	4 165	6 730
- Other deposits	4 455	-	-	-
	111 529	123 168	5 710	8 332
	114 418	143 543	5 715	8 332

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

	Group		Individual	
	Jun 2004	Dec 2003	Jun 2004	Dec 2003
	Euro'000	Euro'000	Euro'000	Euro'000
Negotiable securities :				
- Other securities	56 376	56 291	-	-
	56 376	56 291	-	-
Other treasury placements:				
- Financial products at domestic banks	20 300	85 300	15 500	85 300
- Financial products at foreign banks	12 445	2 368	341	341
	32 745	87 668	15 841	85 641
Provision for other treasury assets	(6)	(6)	-	-
	89 115	143 953	15 841	85 641

With reference to the consolidated statement of cash flows, for **Group** and **on in Individual basis**, the breakdown for the purpose of determination and detailing the **Cash and Cash equivalents components**, is as follows:

	Group		Individual	
	Jun 2004	Dec 2003	Jun 2004	Dec 2003
	Euro'000	Euro'000	Euro'000	Euro'000
Cash components:				
- Cash	2 889	20 375	5	-
- Bank deposits	111 529	123 168	5 710	8 332
- Negotiable securities	56 376	56 291	-	-
	170 794	199 834	5 715	8 332
Cash equivalents:				
- Other treasury securities	32 745	87 668	15 841	85 641
- Overdrafts	(625 894)	(595 912)	(20 424)	-
	(593 149)	(508 244)	(4 583)	85 641
Cash and cash equivalents	(422 355)	(308 410)	1 132	93 973

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14. Share capital

The share capital amounts to Euro 3 billion represented by 3,000,000,000 ordinary shares each of a par value of 1 euro, and is fully paid-up.

The breakdown of the earnings per share (EPS) is as follows:

	Group		Individual	
	Jun 2004	Jun 2003	Jun 2004	Jun 2003
Consolidated net profit in Euros	274 852 348	182 043 997	274 852 348	182 043 997
Average number of shares during the year	2 975 651 332	2 980 342 044	2 975 651 332	2 980 342 044
Net Profit per share - Basic - Euros	0,09 euros	0,06 euros	0,09 euros	0,06 euros

EDP, which began as a state-owned Company, was successively transformed into a *sociedade anónima* (limited liability company under Portuguese law) wholly owned by the public sector and then into a *sociedade anónima* with a majority of its share capital owned by the public sector. Currently the State and other Public Entities have a minority position in the company share capital. The privatisation process began in 1997, and the second and third stages of the privatisation took place in 1998 and the fourth stage in 2000, following which the State now holds about 30% of the share capital, directly and indirectly.

The EDP Group calculates its basic and diluted earnings per share in accordance with IAS 33, under the terms of which earnings per share are calculated using the weighted average of the shares issued during the reporting period.

15. Legal reserve

In accordance with article 295 of the "Código das Sociedades Comerciais" (Companies Code) and with the EDP articles of association, the Legal Reserve must be increased by a minimum of 5% of the annual profits until such time as its value equals 20% of the company's share capital. This reserve can only be used to cover losses or to increase share capital.

16. Treasury stock

This balance is analysed as follows:

	Group		Individual	
	Jun 2004 Euro'000	Dec 2003 Euro'000	Jun 2004 Euro'000	Dec 2003 Euro'000
Book value of EDP, SA shares	55 577	49 020	55 577	49 020
Number of shares	24.348.668 shares	21.430.964 shares	24.348.668 shares	21.430.964 shares
Market Price of EDP, SA shares	2,30 euros	2,09 euros	2,30 euros	2,09 euros
Market value of EDP, SA shares	56 002	44 791	56 002	44 791

The treasury shares held by EDP, S.A., lies within the limits established by the Company's articles of association and by the "Código das Sociedades Comerciais" (Companies Code).

17. Reserves, Retained earnings and Net profit

This balance is analysed as follows:

	Group		Individual	
	Jun 2004 Euro'000	Dec 2003 Euro'000	Jun 2004 Euro'000	Dec 2003 Euro'000
Legal reserves	345 446	326 391	345 446	326 391
Revaluation reserves	89 449	89 449	89 449	89 449
Other reserves and retained earnings	3 127 938	3 031 892	3 127 938	3 031 892
Fair-value reserves	160 389	10 756	160 389	10 756
Net profit	274 852	381 109	274 852	381 109
Currency translation arising on consolidation	(585 452)	(572 500)	(585 452)	(572 500)
Other reserves arising on consolidation	(992 824)	(920 070)	(992 824)	(920 070)
	<u>2 419 798</u>	<u>2 347 027</u>	<u>2 419 798</u>	<u>2 347 027</u>

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

Currency		Exchange rates in Jun 2004		Exchange rates in Jun 2003	
		Rates	Average	Rates	Average
		Closing	exchange-rate	Closing	exchange-rate
American dollar	USD	1,2155	1,2240	1,1427	1,1146
Brazilian Real	BRL	3,7839	3,6367	3,2888	3,5527
Macao Pataca	MOP	9,7647	9,8194	9,1000	8,8833

The Revaluation reserves balance registers the adjustments made to the headings of tangible fixed assets and financial investments in properties caused by the various revaluations undertaken, net of amounts used to increase the share capital and to cover retained losses, and the corresponding deferred taxes are carried under Revaluation Reserves. These revaluations were undertaken pursuant to the following legislation:

Decree-law no. 430/78	Decree-law no. 111/88
Decree-law no. 219/82	Decree-law no. 7/91
Decree-law no. 399-G/84	Decree-law no. 49/91
Decree-law no. 171/85	Decree-law no. 264/92
Decree-law no. 118-B/86	

Article 8 of Decree-Law 7/91, of January 8, which determined the formation of new sociedades anónimas constituted by means of the simple split of EDP, called for the valuation of EDP's assets, the valuation having been undertaken by entities selected from among those previously qualified by the Finance Ministry for the purpose and subjected to the approval of the Finance Minister. This evaluation, according with Decree-Law 22/92 of February 14, is used for tax purposes, particularly with regard to the calculation of depreciation charges for the year.

18. Hydrological correction account

This balance is analysed as follows:

	Group		Individual	
	Jun 2004	Dec 2003	Jun 2004	Dec 2003
	Euro'000	Euro'000	Euro'000	Euro'000
Opening balance on January 1	387 506	324 111	387 506	324 111
Differential for the year	(17 124)	71 916	(17 124)	71 916
Hydrological correction bonuses	-	(19 350)	-	(19 350)
Financial charges	4 819	10 829	4 819	10 829
Closing balance on June 30	375 201	387 506	375 201	387 506

The Hydrological Correction Account is a mechanism that was legally instituted (Decree-Law 338/91) to compensate variable electricity production costs. In dry years the thermoelectric system is overused and the spending on fuel or on the import of electricity increases significantly. In wet years the situation is reversed. Electricity supply tariffs for the customers of the SEP cannot be changed according to the cost fluctuations caused by the hydraulicity.

In accordance with Order-in-Council 987/2000, the hydrological correction account is assigned to the EDP accounts and, consequently, it is carried in an account under liabilities in its balance sheet, and the corresponding movements for the year are detailed in the notes to the financial statements.

The annual amount of the hydrological correction is calculated in accordance with parameters established by law, and includes: (i) The differential between the economic cost of electricity generation and the reference economic cost, which is supported by REN as the RNT concessionaire and sole manager of the hydrological correction account. EDP pays REN each month the positive differentials and receives from REN the negative differentials. These payments and revenues are recorded against a hydrological correction account; (ii) financial costs or income associated with the accumulated balance of this account constitutes an EDP cost or income; (iii) the part corresponding to the amount necessary to make the expected value of the balance, within 10 years, equal to an adequate benchmark, when it reflects a debit to the hydrological correction account, constitutes EDP income, when it reflects a credit, the REN is obliged to make the respective payment to EDP. The corresponding cost is included in the REN electricity selling tariff to the binding distribution company (EDP Distribuição), constituting a cost for the latter to be recovered through its customer selling prices. Movements under the hydrological correction account are subject to approval by ministerial order.

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19. Short term, medium and long term debt

This balance is analysed as follows:

	Group		Individual	
	Jun 2004 Euro'000	Dec 2003 Euro'000	Jun 2004 Euro'000	Dec 2003 Euro'000
Short term loans - Current				
Overdrafts :				
- EDP, SA	20 424	-	20 424	-
- ONI Group	595 100	592 298	-	-
- Edinfor Group	10 248	-	-	-
- Other	122	3 614	-	-
	<u>625 894</u>	<u>595 912</u>	<u>20 424</u>	<u>-</u>
Bank loans:				
- EDP, SA	258 231	315 711	258 231	315 711
- ONI Group	91 071	51 395	-	-
- Edinfor Group	4 947	-	-	-
- Produção Group	4 718	-	-	-
- Brazil Group	199 286	225 530	-	-
- Hidrocantábrico Group	27 623	24 360	-	-
- EDP Finance BV	93 524	93 524	-	-
- Other	33 897	46 977	-	-
	<u>713 297</u>	<u>757 497</u>	<u>258 231</u>	<u>315 711</u>
Bonds loans - Non convertible:				
- EDP, SA	9 975	10 221	9 975	10 221
- EDP Finance BV	45 500	45 500	-	-
	<u>55 475</u>	<u>55 721</u>	<u>9 975</u>	<u>10 221</u>
Commercial paper:				
- EDP, SA	220 000	170 000	1 890 000	1 851 000
- Hidrocantábrico Group	34 400	-	-	-
	<u>254 400</u>	<u>170 000</u>	<u>1 890 000</u>	<u>1 851 000</u>
	<u>1 649 066</u>	<u>1 579 130</u>	<u>2 178 630</u>	<u>2 176 932</u>
Medium/Long term loans - Non Current				
Bank loans:				
- EDP, SA	592 133	631 021	592 133	631 021
- ONI Group	-	41 732	-	-
- Edinfor Group	6 488	-	-	-
- Produção Group	30 664	-	-	-
- Brazil Group	336 101	237 662	-	-
- Hidrocantábrico Group	666 134	761 800	-	-
- EDP Finance BV	550 000	550 000	-	-
- Other	15 895	67 032	-	-
	<u>2 197 415</u>	<u>2 289 247</u>	<u>592 133</u>	<u>631 021</u>
Bonds loans - Non convertible:				
- EDP, SA	2 466 323	2 476 551	2 466 323	2 476 551
- EDP Finance BV	963 694	963 694	-	-
- Brazil Group	83 434	84 087	-	-
	<u>3 513 451</u>	<u>3 524 332</u>	<u>2 466 323</u>	<u>2 476 551</u>
Commercial paper:				
- EDP, SA	100 000	100 000	100 000	100 000
	<u>100 000</u>	<u>100 000</u>	<u>100 000</u>	<u>100 000</u>
	<u>5 810 866</u>	<u>5 913 579</u>	<u>3 158 456</u>	<u>3 207 572</u>
	<u>7 459 932</u>	<u>7 492 709</u>	<u>5 337 086</u>	<u>5 384 504</u>

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At the EDP, SA level, the Group has short-term credit facilities in the sum of Eur 797 million, indexed to the Euribor rate for the agreed period of use, with margin conditions agreed in advance, of which Eur 777 million have a firm underwriting commitment. There is also a Eur 350 million commercial paper programme with guaranteed placement. As far as medium-term credit facilities are concerned, Eur 700 million is available to EDP, SA, with a firm underwriting commitment, also indexed to Euribor under previously agreed conditions. As at June 30, 2004, no credit facilities had been used.

The bank loans in Brazil involve floating-rate interest on the real, mostly indexed to the CDI. On the other hand, bank loans in euros are associated with floating-rate interest indexed to the three- or six-month Euribor rates.

The breakdown of **Bonds loans issues** as at June 30, 2004 is analysed as follows:

Issuer		Issue date	Interest rate	Repayment/ conditions	Group Euro'000	Individual Euro'000
Issued by EDP, S.A.						
EDP, SA	22nd Issue	13/May/1996	Euribor 6 months - 0.10%	(i)	13 424	13 424
EDP, SA	23rd Issue	20/Dec/1996	Euribor 6 months - 0.125%	(ii)	10 332	10 332
EDP, SA	24th Issue	22/Dec/1997	Euribor 6 months + 0.10%	(iii)	3 263	3 263
EDP, SA	25th Issue	23/Nov/1998	Euribor 6 months + 0.225%	(iv)	299 279	299 279
EDP, SA	26th Issue	26/Mar/2003	Euribor 6 months + 0.5%	On Mar 26, 2013	150 000	150 000
					476 298	476 298
Issued by EDP, S.A. within the Euro Medium Term Notes Programme						
EDP, SA	1st Issue	29/Oct/1999	Fixed rate EUR 6.40%	On 29-Oct-2009	1 000 000	1 000 000
EDP, SA	2nd Issue	27/Mar/2001	Fixed rate EUR 5.875%	On 28-Mar-2011	1 000 000	1 000 000
EDP Finance BV	3rd Issue (*)	29/Oct/2001	JPY Libor 3 months + 0.20%	On 29-Oct-2004	45 500	-
EDP Finance BV	4th Issue	26/Nov/2001	Coupon Zero	On 26-Nov-2009	22 455	-
EDP Finance BV	5th Issue (*)	28/Nov/2001	Fixed rate JPY 0.70%	On 28-Nov-2006	27 882	-
EDP Finance BV	6th Issue (*)	9/Aug/2002	Fixed rate GBP 6.625%	On 9-Aug-2017	320 000	-
EDP Finance BV	7th Issue	16/Dec/2002	Fixed rate EUR 5.00%	On 16-Dec-2008	500 000	-
EDP Finance BV	8th Issue	23/Dec/2002	Fixed rate EUR 2.661%	On 23-Dec-2022	93 357	-
					3 009 194	2 000 000
Issued by Escelsa (Brazil) (International Bond)						
Escelsa	USD 430 Million (**)	28/Jul/1997	Fixed rate USD 10.0%	On 15-Jul-2007	58 214	-
Issued by Investco (Brazil) (Domestic bond)						
Investco	1st Issue	1/Nov/2001	IGPM + 12.80%	On 1-Nov-2011	19 096	-
Investco	(FINAM)	14/Nov/2003	TJLP + 4%	On 14-Nov-2011	6 124	-
					25 220	-
					3 568 926	2 476 298

(i) : 4 annual payments beginning in June 2, 2003. It may be repaid early at the request of bondholders.

(ii) : 4 annual payments beginning in December 20, 2008. As from December 20, 2006 it may be repaid in part or in full at the request of EDP to all the bondholders.

(iii) : 4 annual payments beginning in January 5, 2002.

(iv) : 6 semi-annual payments beginning in May 23, 2006.

(*) : These issues by EDP Finance BV have associated floating-interest-rate euro currency swaps.

(**) : The EDP Group holds 83% of the value of this issue in an intra-group portfolio, as a result of the international takeover bid launched in 2002.

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

	Jun 2004		Dec 2003	
	Carrying Value Euro'000	Market Value Euro'000	Carrying Value Euro'000	Market Value Euro'000
Short term loans - Current	1 649 066	1 649 066	1 579 130	1 579 130
Medium/Long term loans - Non current	5 810 866	6 142 875	5 913 579	6 251 355
	7 459 932	7 791 941	7 492 709	7 830 485

The market value of the medium/long-term loans is calculated on the basis of the cash flows discounted at the rates ruling on June 30, 2004. In current short-term debt, the book value is considered to be the market value.

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20. Provisions for liabilities and charges

This balance is analysed as follows:

	Group		Individual	
	Jun 2004 Euro'000	Dec 2003 Euro'000	Jun 2004 Euro'000	Dec 2003 Euro'000
Provisions for social liabilities and benefits	128 661	153 170	35 694	76 912
Provisions for healthcare liabilities	426 725	427 501	21 493	21 050
Provisions for financial assets	90 449	92 696	166 034	285 646
Provision for other liabilities and charges	158 983	146 207	3 135	-
	<u>804 818</u>	<u>819 574</u>	<u>226 356</u>	<u>383 608</u>

Provision for financial assets, for the group and on individual basis, includes a provision in the amount of Eur 30 million related to investments in Brazil and Cabo Verde and associated commitments.

EDP Brazil recognised in the same account a provision of Eur 60 million (BRL 229 million), related with impairment charges resulting from its investments in EDP Lajeado and FAFEN Energia.

In June 2004, Provisions for social liabilities and benefits included Eur 19.6 million regarding actualisations of workers pensions from HC Group.

21. Creditors and other liabilities

This balance is analysed as follows:

	Group		Individual	
	Jun 2004 Euro'000	Dec 2003 Euro'000	Jun 2004 Euro'000	Dec 2003 Euro'000
Short term creditors - Current				
Suppliers	643 475	678 741	6 346	40 924
Supplies of fixed assets	59 861	103 885	606	839
State and other public entities:				
- Income tax	104 142	173 924	93 836	59 543
- Withholding tax	9 530	11 686	105	268
- Social security contributions	12 933	11 359	15	33
- Value added tax	14 955	12 197	-	-
- Other taxes	63 074	59 937	1 523	-
Other shareholders	27 888	10 541	-	-
Advances to customers	2 908	1 204	83	89
Other creditors:				
- Employees	9 406	20 625	98	350
- Supply of other goods and services	12 138	12 946	-	-
- Concession rents	7 739	6 690	-	-
- Creditors for collections	28 544	20 115	-	-
- For interest and financial credits	77	13 960	-	-
- INAG/EDP Protocol - Alqueva	35 893	35 893	-	-
- Other	-	6	-	-
Aquisition of financial holdings:				
- Corporate income tax (IRC) - payments on account of the holding company	-	123	-	156 245
- Other creditors and sundry operations	90 687	65 159	676	8 174
	<u>1 123 250</u>	<u>1 238 991</u>	<u>103 288</u>	<u>266 465</u>
Medium/long-term creditors - current:				
Regularisation account - (Reg. DL 344-B/82)	7 775	9 079	-	-
State share in Multipurpose hydroelectric power stations	14 996	14 996	-	-
Deposits received from customers and other debtors	40 748	39 843	-	-
Recognition of liabilities on the sale of OPTOP in 2002	315 000	315 000	315 000	315 000
Supplies of fixed assets	64 659	74 618	-	-
Electricity tariff compensations in Brazil	20 035	35 013	-	-
Investco shares refund	10 862	10 862	-	-
Other creditors and sundry operations	121 034	43 531	564	646
	<u>595 109</u>	<u>542 942</u>	<u>315 564</u>	<u>315 646</u>
	<u>1 718 359</u>	<u>1 781 933</u>	<u>418 852</u>	<u>582 111</u>

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As an immediate consequence of the full application by the EDP Group for the first time of International Accounting Standard 39: Measurement and Recognition of financial instruments, the **Creditors – Medium/long-term** for the **Group** and on **Individual basis**, includes the EDP Group's liability as a result of the sale of 100% of the OPTEP/Optimus asset (see Note 7) in 2002, since there is an "Optimus/OPTEP selling price adjustment mechanism" clause with the buyer, and consequently, in accordance with the International Accounting Standards, does not meet the criteria to be considered as a sale/firm commitment. In accordance with the international standard, the asset sold in 2002 is fully recorded under assets as well as the respective liability under liabilities, while price fluctuations are recognized as 'investments available for sale' for as long as the said clause is in force up to March 22, 2005.

Creditors – Medium/long-term for the Group also includes EDP Lajeado responsibility related with Investco shares refund of BRL 41.1million (EUR 10.9 million) initially forecasted to December 31, 2003 but because subsidiary reserves and retained earnings weren't in accordance with Brazilian legislation it didn't occurred.

22. Accrued cost and deferred income

This balance is analysed as follows:

	Group		Individual	
	Jun 2004	Dec 2003	Jun 2004	Dec 2003
	Euro'000	Euro'000	Euro'000	Euro'000
Accrued costs:				
- Holiday pay, bonus and other charges	64 409	68 393	546	546
- Interest payable	226 327	121 874	102 481	91 004
- Other accrued costs	89 640	46 267	11 173	8 654
	<u>380 376</u>	<u>236 534</u>	<u>114 200</u>	<u>100 204</u>
Deferred revenue:				
- Subsidies for investment in fixed assets	1 528 910	1 546 101	6 610	8 536
- Equal Installment Account EDP Distribuição	134 744	101 096	-	-
- Other deferred income	257 377	134 668	132	132
	<u>1 921 031</u>	<u>1 781 865</u>	<u>6 742</u>	<u>8 668</u>
	<u>2 301 407</u>	<u>2 018 399</u>	<u>120 942</u>	<u>108 872</u>

23. Turnover

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

	Group		Individual	
	Jun 2004	Jun 2003	Jun 2004	Jun 2003
	Euro'000	Euro'000	Euro'000	Euro'000
<i>Sales by sector of activity/business:</i>				
Electricity	3 137 687	3 115 611	-	-
Steam and ashes	12 061	9 601	-	-
Gas	90 623	-	-	-
Information systems and technologies	8 121	9 208	-	-
Telecommunications	2 500	5 319	-	-
Other Businesses	13 885	6 776	-	-
	<u>3 264 877</u>	<u>3 146 515</u>	<u>-</u>	<u>-</u>
<i>Services rendered by sector of activity:</i>				
Associated with electricity sales	44 654	26 284	-	-
Thermo/Hydro electricity engineering services	3 877	3 485	-	-
Information systems and technologies	35 423	21 599	206	208
Telecommunications	156 044	142 642	-	-
Consultancy and services	3 191	1 251	-	3 015
Other	23 916	3 915	11 988	1 764
	<u>267 105</u>	<u>199 176</u>	<u>12 194</u>	<u>4 987</u>
<i>TOTAL TURNOVER by business:</i>				
Electricity	3 182 341	3 141 895	-	-
Steam and ashes	12 061	9 601	-	-
Gas	90 623	-	-	-
Thermo/Hydro electricity engineering services	3 877	3 485	-	-
Information systems and technologies	43 544	30 807	206	208
Telecommunications	158 544	147 961	-	-
Other	40 992	11 942	11 988	4 779
	<u>3 531 982</u>	<u>3 345 691</u>	<u>12 194</u>	<u>4 987</u>

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The balance of **Gross margin on sales** is analysed as follows:

	Group		Individual	
	Jun 2004 Euro'000	Jun 2003 Euro'000	Jun 2004 Euro'000	Jun 2003 Euro'000
Sales:				
Electricity	3 137 687	3 115 611	-	-
Steam and ashes	12 061	9 601	-	-
Gas	90 623	-	-	-
Information systems and technologies	8 121	9 208	-	-
Telecommunications	2 500	5 319	-	-
Other sales	13 885	6 776	-	-
	<u>3 264 877</u>	<u>3 146 515</u>	<u>-</u>	<u>-</u>
Cost of sales:				
Electricity	1 621 769	1 598 222	-	-
Fuel, steam and ashes	219 987	129 322	-	-
Information systems and technologies	8 342	13 095	-	-
Telecommunications	4 496	3 152	-	-
Other Costs	65 893	97 274	-	-
	<u>1 920 487</u>	<u>1 841 065</u>	<u>-</u>	<u>-</u>
	<u>1 344 390</u>	<u>1 305 450</u>	<u>-</u>	<u>-</u>

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

	Group		Individual	
	Jun 2004 Euro'000	Jun 2003 Euro'000	Jun 2004 Euro'000	Jun 2003 Euro'000
Related with electricity sales	44 654	26 284	-	-
Engineering studies and designs	3 877	3 485	-	-
IT services	35 423	21 599	206	208
Other telecommunications services	156 044	142 641	-	-
Other services provided	27 107	5 167	11 988	4 779
	<u>267 105</u>	<u>199 176</u>	<u>12 194</u>	<u>4 987</u>

24. Own work capitalised

This balance is analysed as follows:

	Group		Individual	
	Jun 2004 Euro'000	Jun 2003 Euro'000	Jun 2004 Euro'000	Jun 2003 Euro'000
Consumption of materials	47 614	46 085	-	-
Direct internal costs and overheads	40 841	42 395	-	-
Financial charges	11 833	16 360	-	-
Other own work capitalised	3 888	11 820	-	-
	<u>104 176</u>	<u>116 660</u>	<u>-</u>	<u>-</u>

25. Other income

This balance is analysed as follows:

	Group		Individual	
	Jun 2004 Euro'000	Jun 2003 Euro'000	Jun 2004 Euro'000	Jun 2003 Euro'000
Supplementary income	4 439	2 033	83	474
Operating subsidies	201	110	-	-
Other income	3 356	7 347	5	5
	<u>7 996</u>	<u>9 490</u>	<u>88</u>	<u>479</u>

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26. Supplies and services

This balance is analysed as follows:

	Group		Individual	
	Jun 2004 Euro'000	Jun 2003 Euro'000	Jun 2004 Euro'000	Jun 2003 Euro'000
<i>Subcontracts:</i>				
Subcontracts	93 839	93 892	-	-
Other subcontracts	7 887	-	-	-
<i>Supplies and services:</i>				
Water, electricity and fuel	4 638	2 678	461	67
Utensils and office material	2 441	1 808	104	102
Leases and rents	22 804	26 802	1 687	582
Communications	14 045	11 104	452	528
Insurance	10 578	9 522	419	1 275
Transport, travel, and lodging	5 842	3 633	253	268
Commissions and fees	5 065	7 424	557	1 515
Maintenance and repairs	42 708	27 805	431	346
Advertising and propaganda	6 118	6 758	2 514	987
Specialised work	75 388	92 192	19 271	11 491
Other supplies and services	10 691	26 621	9 660	5 498
	<u>302 044</u>	<u>310 239</u>	<u>35 809</u>	<u>22 659</u>

27. Personnel costs

This balance is analysed as follows:

	Group		Individual	
	Jun 2004 Euro'000	Jun 2003 Euro'000	Jun 2004 Euro'000	Jun 2003 Euro'000
Corporate officers' remuneration	6 014	6 562	1 715	1 085
Employees' remuneration	201 912	214 070	45	115
Charges on remuneration and other costs	116 809	124 641	669	1 096
	<u>324 735</u>	<u>345 273</u>	<u>2 429</u>	<u>2 296</u>

28. Other operating costs

This balance is analysed as follows:

	Group		Individual	
	Jun 2004 Euro'000	Jun 2003 Euro'000	Jun 2004 Euro'000	Jun 2003 Euro'000
Direct taxes	784	189	624	58
Indirect taxes	8 968	4 276	1 955	1 276
Rents of concessions paid to local authorities	92 751	85 544	-	-
Electricity Generating Center Rent	1 982	2 404	-	-
Other costs and losses	5 802	5 143	508	278
	<u>110 287</u>	<u>97 556</u>	<u>3 087</u>	<u>1 612</u>

29. Provisions

This balance is analysed as follows:

	Group		Individual	
	Jun 2004 Euro'000	Jun 2003 Euro'000	Jun 2004 Euro'000	Jun 2003 Euro'000
Charge for doubtful debt	13 059	37 101	1 798	-
Charge for pensions liabilities	39	-	-	-
Charge for healthcare liabilities	27 307	20 006	447	286
Charges for other liabilities and charges	5 832	5 416	2 999	-
	<u>46 237</u>	<u>62 523</u>	<u>5 244</u>	<u>286</u>

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30. Depreciation and amortisation

This balance is analysed as follows:

	Group		Individual	
	Jun 2004 Euro'000	Jun 2003 Euro'000	Jun 2004 Euro'000	Jun 2003 Euro'000
<i>Tangible fixed assets:</i>				
Fixed assets under concession the Decree-law 344-B/82	1 303	1 866	-	-
Buildings and other constructions	4 658	2 854	692	680
Plant and machinery:				
Hydroelectricity generation	59 685	62 701	-	-
Thermoelectric generation	56 259	50 811	-	-
Electricity distribution	220 392	217 801	-	-
Other plant and machinery	32 453	29 723	-	-
Transport equipment	4 815	4 325	161	167
Administrative equipment	23 041	19 527	1 217	1 648
Other tangible fixed assets	2 151	1 859	682	5
Total Depreciation	404 757	391 467	2 752	2 500
<i>Intangible fixed assets:</i>				
Set-up costs	7 785	7 680	708	656
Research and development costs	8 879	7 645	1 273	525
Industrial property and other rights	4 243	1 554	5	4
Other intangible assets on telecommunications business	1 108	-	-	-
Total Amortisation	22 015	16 879	1 986	1 185
	426 772	408 346	4 738	3 685
<i>Compensation of depreciation of part-funded fixed assets:</i>				
Compensated fixed assets	(37 975)	-	(274)	-
<i>Fixed assets, net of compensation of depreciation</i>	388 797	408 346	4 464	3 685

In June 30, 2003, 'Compensation of depreciation of part-funded fixed assets' was included in other non-operating income and amounted EUR 34.3 million (see note 32).

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

This balance is analysed as follows:

	Group		Individual	
	Jun 2004 Euro'000	Jun 2003 Euro'000	Jun 2004 Euro'000	Jun 2003 Euro'000
<i>Income arising from financial operations:</i>				
Interest income	112 075	95 629	161 107	207 608
Income on application of the equity method	21 172	17 474	281 922	294 768
Income from other equity investments	8 976	31 481	-	-
Favourable currency exchange differences	15 156	8 259	14 326	1 112
Other financial gains	35 769	42 268	7 264	18 192
Total Financial income	193 148	195 111	464 619	521 680
<i>Expenses arising from financial operations:</i>				
Interest expense	256 095	251 398	181 105	193 828
Banking services	7 525	-	1 454	-
Losses on application of the equity method	1 054	10 283	64 034	67 732
Unfavourable currency exchange differences	33 193	5 799	11 981	73 711
Other financial losses	29 964	61 480	13 251	15 125
	327 831	328 960	271 825	350 396
Amortisation of financial assets (goodwill):				
- Concession rights	15 220	15 220	3 874	3 874
- Goodwill	29 644	33 462	2 916	2 896
- Other intangible assets on telecommunications business	1 909	-	-	-
	46 773	48 682	6 790	6 770
Total Financial expenses	374 604	377 642	278 615	357 166
<i>Financial income/(expense)</i>	(181 456)	(182 531)	186 004	164 514

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32. Extraordinary Gains / (losses)

This balance is analysed as follows:

	Group		Individual	
	Jun 2004 Euro'000	Jun 2003 Euro'000	Jun 2004 Euro'000	Jun 2003 Euro'000
<i>Gains arising from extraordinary operation:</i>				
Gains on fixed assets	1 906	22 737	53	10
Debt recovery	269	232	-	-
Write-back of provisions				
- For customer debt	32	-	-	-
- For financial assets	562	-	-	-
- For other liabilities and charges	4 833	23 280	38 310	47 253
Corrections to previous years	5 321	2 639	-	40
Compensation of depreciation of part-funded fixed assets	-	34 385	-	152
Investment subsidies	3 313	4 062	-	-
Compensation of cost of human resources rationalisation	6 627	-	-	-
Other extraordinary gains	9 519	6 538	647	29 680
Total Extraordinary gains	32 382	93 873	39 010	77 135
<i>Losses arising from extraordinary operations:</i>				
Losses on stocks	1 293	616	-	-
Losses on fixed assets	6 524	16 323	61	-
Bad debt	2 420	288	-	-
Fines and penalties	41	50	-	-
Corrections to previous years	10 270	5 047	1 001	148
Extraordinary provisions:				
- For other liabilities and charges	1 066	-	-	-
Loss on 'Baixa UTE Campo Grande' (Enersul)	1 502	-	-	-
Rationalisation and restructuring costs	23 199	-	-	-
Other extraordinary losses	6 142	12 170	2 977	19 082
Total extraordinary losses	52 457	34 494	4 039	19 230
<i>Extraordinary gains/(losses)</i>	(20 075)	59 379	34 971	57 905

In 2004, Compensation of depreciation of part-funded fixed assets was reclassified to **Depreciation and amortisation**. (see note 30).

Cost of human resources rationalisation mainly includes charges with pensioners, compensation from contract rescissions and 'Flexible Retirement Program' promoted by EDP Group.

33. Provisions for income taxes

In accordance with prevailing legislation, tax returns are subject to review and correction by the tax authorities during subsequent years. In Portugal this period is four years, and 1998 was the last year considered to be definitively liquidated by the tax authorities.

Tax losses generated in each year, also subject to inspection and adjustment, may be deductible from taxable profits during subsequent years. The companies of the EDP Group are taxed, whenever possible, on a consolidated basis allowed by the tax law of the respective countries.

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

	Group		Individual	
	Jun 2004 Euro'000	Jun 2003 Euro'000	Jun 2004 Euro'000	Jun 2003 Euro'000
Charge for income taxes	174 007	141 835	(16 160)	22 308
Charge for deferred income taxes	(70 615)	(31 195)	(76 468)	(7 005)
	103 392	110 640	(92 628)	15 303

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The reconciliation between the standard and the effective income tax (IRC) rate for the **Group in June 30, 2004** is analysed as follows:

	Jun 2004		
	Tax Base Euro '000	Tax Euro '000	Rate %
Standard tax on profits	350 036	96 260	27,5 %
- <i>Main effects at taxation level:</i>			
Amortisation resulting from revaluation of fixed assets	35 979	9 894	2,8 %
Losses not deductible	36 766	10 111	2,9 %
Other adjustments to taxable income	(46 811)	(12 873)	-3,7 %
Effective rate and actual tax on profits		103 392	29,5 %

34. Segmental reporting

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

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

35. Commitments

As at June 30, 2004, the breakdown of financial commitments not shown in the balance sheet in respect of guarantees provided (no real guarantees have been provided) is analysed as follows:

Commitments	Jun 2004		Dec 2003	
	Group Euro'000	Individual Euro'000	Group Euro'000	Individual Euro'000
Guarantees of a financial nature				
Guarantees provided by Group entities - Portugal				
to domestic banks	72 674	72 674	80 672	80 672
to foreign banks	236 944	205 410	154 521	123 409
to other domestic entities	-	-	68 231	68 231
to other foreign entities	5 300	-	7 942	-
Guarantees provided by group entities - Spain	-	-	-	-
to foreign banks	37 057	-	38 363	-
to other foreign entities	9 610	-	9 198	-
Guarantees provided by group entities - Brazil	-	-	-	-
to foreign banks	149 819	-	52 211	-
	511 404	278 084	411 138	272 312
Guarantees of an operational nature				
Guarantees provided by group entities - Portugal				
to other domestic entities	54 114	30 660	59 246	38 173
to foreign banks	14 535	14 535	16 976	15 011
to other foreign entities	24 023	-	32 434	8 602
Guarantees provided by group entities - Spain				
to foreign banks	52 776	-	63 925	-
to other foreign entities	628	-	577	-
	146 076	45 195	173 158	61 786
	657 480	323 279	584 296	334 098

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

	Jun 2004		Dec 2003	
	Group Euro'000	Individual Euro'000	Group Euro'000	Individual Euro'000
Domestic banks	12 352	-	16 356	2 375
Foreign banks	76 799	-	87 757	-
	89 151	-	104 113	2 375

In June 30, 2004, discounted promissory note, for EDP Group amounted Eur 192 million .

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The financial commitments related with Swap contracts outstanding at the balance sheet date are analysed as follows:

	Group			
	Jun 2004		Dec 2003	
	Assets Euro'000	Liabilities Euro'000	Assets Euro'000	Liabilities Euro'000
Interest-rate swaps :				
EUR	2 997 445	3 339 837	3 117 287	3 510 669
GBP	200 000	-	200 000	-
JPY	8 000 000	-	8 000 000	-

On the date of the first application of IAS 32 and IAS 39, December 31, 2003, with retroactive to January 1, 2003, EDP did not have all the documents required to comply with the requirements to record these financial derivatives as hedging instruments. Therefore, all financial derivatives have been considered as trading instruments, in accordance with the report form - 20F registered with the US SEC relating to the year ended in December 31, 2002. Consequently, all variations in the fair value of these instruments have been recognised in profit and loss account for the year as from the date of the adoption.

However, owing to the process of transition to the IFRS, in which the EDP Group has been involved for some time, the preparation of the documentation required for these financial derivatives to be considered as hedging instruments had started in 2003 and was completed in the beginning of 2004. Therefore, hedge accounting was applied for those instruments in accordance with IAS 39.

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

	Group		Individual	
	Jun 2004	Dec 2003	Jun 2004	Dec 2003
	Euro'000	Euro'000	Euro'000	Euro'000
Trading derivatives	(6 530)	(3 317)	(4 861)	29 015
Foreign exchange swaps	251	-	251	-
Fair value hedge				
- Derivatives	2 805	-	4 934	-
- Covered liabilities	(2 805)	-	(4 934)	-
	(6 279)	(3 317)	(4 610)	29 015

The maturity of these derivatives instruments is as follows:

	Group Jun 2004				
	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
	Euro'000	Euro'000	Euro'000	Euro'000	Euro'000
Interest-rate contracts:					
Interest-rate swaps	-	350 000	200 000	2 422 455	2 972 455
Options purchased and sold	25 000	2 923 272	250 000	500 000	3 698 272
	25 000	3 273 272	450 000	2 922 455	6 670 727
Interest-rate and exchange-rate contracts:					
CIRS (currency interest rate swaps)	-	45 500	27 882	320 000	393 382
	25 000	3 318 772	477 882	3 242 455	7 064 109

The possible real interest rates on the various financial derivatives instruments are as follows:

	Group Jun 2004				
	Currency	EDP Pays		EDP Receives	
Interest-rate contracts:					
Interest-rate swaps	Euro	4,50%	2,17%	6,40%	2,35%
Interest-rate and exchange-rate contracts:					
CIRS (currency interest rate swaps)	EUR / JPY	2,4740%	2,4190%	0,7000%	0,2550%
CIRS (currency interest rate swaps)	EUR / GBP	3,4860%		6,6250%	
	Euro'000	Group Jun 2004		Individual Jun 2004	
Interest-rate contracts:					
Options purchased on interest rates (CAP purchases)	3 735 697	4,82%	2,51%	4,82%	2,51%
Options sold on interest rates (CAP sale)	1 000 000	5,30%	4,10%	5,30%	4,10%
Options sold on interest rates (Floor sale)	3 735 697	3,50%	2,27%	3,50%	2,27%

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36. Social benefits extended to employees

Some companies of the EDP Group grant their employees post-retirement benefits, both under the form of defined-benefit plans and under the form of defined-contribution plans. These include pension plans that pay complimentary old-age, disability and surviving-relative pension complements, and also early retirement pensions. In some cases medical care is provided during the period of retirement and of early retirement, through mechanisms complementary to those of the National Health Service.

The existing plans are presented hereunder, with a brief description of each and of the companies covered by them, as well as of the economic and financial data:

I. Pension Plans - Defined-Benefit Type

In Portugal, the companies of the EDP Group resulting from the split of EDP in 1994 have a social benefits plan financed through a closed Pension Fund, complemented by a specific provision.

This Pension Fund covers liabilities for retirement pension complements as well as liabilities for early retirement.

In Brazil, Bandeirante has two defined-benefit plans managed by the CESP Foundation, a closed complementary welfare entity with its own assets, segregated from those of the Sponsors (Bandeirante and other Brazilian electricity companies) with no contributive solidarity:

- BD Plan in force up to March 31, 1998, a Balance Benefit Plan that grants Balanced Proportional Supplementary Benefit (BSPS) in the form of an annuity payable to participants enrolled by March 31, 1998, of an amount defined in proportion to past services accumulated by the reference date, based on compliance with regulatory granting requirements. The company is totally liable to cover any actuarial insufficiencies of this Plan.

- BD Plan in force after March 31, 1998, which grants an annuity in proportion to the accumulated past services after March 31, 1998, on the basis of 70% of the average actual monthly wage for the last 36 months in service. In the event of death or disability caused by works accident, beneficiaries incorporate the whole of the past service (including that accumulated up to March 31, 1998), not just the past service accumulated after March 31, 1998. The Company and the participants equally share liability for the coverage of the actuarial insufficiencies of this plan.

Escelsa and Enersul has a defined-benefit plan that grants a complementary benefit for past length service, disability, age and pension. Escelsa also has grants a special complementary benefit for retirement, for the former combatants and for dead.

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

	Jun 2004			Dec 2003		
	Portugal Euro'000	Brazil Euro'000	Group Euro'000	Portugal Euro'000	Brazil Euro'000	Group Euro'000
<i>Evolution of Liabilities</i>						
Liabilities at the beginning of period	1 412 541	64 750	1 477 291	1 394 075	54 658	1 448 733
Current services	4 435	499	4 934	11 193	1 047	12 240
Interest Cost	34 776	4 158	38 934	78 843	6 006	84 849
Benefits paid	(66 577)	(1 854)	(68 431)	(139 459)	(1 516)	(140 975)
Actuarial losses	90 329	21 119	111 448	67 889	4 147	72 036
Currency fluctuation	-	(2 161)	(2 161)	-	407	407
<i>Liabilities at the end of the period</i>	<u>1 475 504</u>	<u>86 511</u>	<u>1 562 015</u>	<u>1 412 541</u>	<u>64 750</u>	<u>1 477 291</u>

As at June 30, 2004, the Actuarial losses from Brazil includes the responsibilities reclassified from the Defined Contribution Plan to Defined Benefit Plan of Escelsa and Enersul in the amount of Eur 10.6 million and Eur 7.9 million, respectively.

In calculating the liabilities inherent in these pension plans within the EDP Group the following financial and actuarial assumptions were used:

	Jun 2004		Dec 2003	
	Portugal Euro'000	Brazil Euro'000	Portugal Euro'000	Brazil Euro'000
<i>Assumptions</i>				
Rate of return of the Funds	5,70%	10,24% - 12,82%	5,70%	10,24%
Discount rate	5,20%	10,24% - 10,76%	5,20%	10,24%
Salaries growth rate	3,30%	6,08% - 7,12%	3,30%	7,12%
Pension growth rate	2,25%	7,12%	2,25%	7,12%
Social Security salaries appreciation rate	2,00%	4,00%	2,00%	4,00%
Inflation rate	2,00%	4,00%	2,00%	5,00%
Mortality table	TV 88/90	AT-49(qx)	TV 88/90	AT-49(qx)
Disability table	50% EKV 80	Light-Average (ix)	50% EKV 80	Light-Average (ix)
Expected % of subscription by employees eligible for early retirement	(a)	Not applicable	(a)	Not applicable

(a) In 2002, 100% of the eligible population (employees entitled to early retirement in accordance with the Collective Bargaining Agreement: 36 years of service with at least 60 years of age, or 40 years of service of any age) and 90% of employees aged 55 or more. Starting 2003, 40% of the eligible population.

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As mentioned above, only part of the liabilities for the Pension Plan is financed through the Pension Funds, the remainder being recognised in accordance with IAS 19, by means of a provision detailed hereunder:

	Jun 2004			Dec 2003		
	Portugal Euro'000	Brazil Euro'000	Group Euro'000	Portugal Euro'000	Brazil Euro'000	Group Euro'000
Provision for Pension Plans						
Liabilities at the end of the period	1 475 504	86 511	1 562 015	1 412 541	64 750	1 477 291
Fund assets at the end of the period	(805 685)	(61 075)	(866 760)	(785 147)	(31 355)	(816 502)
Liabilities not covered	669 819	25 436	695 255	627 394	33 395	660 789
Deferred actuarial losses (i)	(585 661)	(1 525)	(587 186)	(506 600)	(4 553)	(511 153)
Value of the provision at the end of the period	84 158	23 910	108 068	120 794	28 842	149 636

(i) The international accounting standards adopted by EDP allowed deferred actuarial gains/losses to be recognised systematically in the statement of income for the year by amortising the amount that exceeded, in the previous year, 10% of the value of the greater of the liabilities or assets of the Fund. Such amortisations are calculated for the period corresponding to the average remaining length of service of the active population.

The components of consolidated net cost recognised during the period with these plans are as follows:

	Jun 2004			Dec 2003		
	Portugal Euro'000	Brazil Euro'000	Group Euro'000	Portugal Euro'000	Brazil Euro'000	Grupo Euro'000
Cost for the period						
Service cost	4 435	499	4 934	11 193	1 047	12 240
Interest cost	34 776	4 158	38 934	78 843	6 006	84 849
Return on the Funds' assets	(21 438)	(5 084)	(26 522)	(44 286)	(5 800)	(50 086)
Contributions by employees	-	(233)	(233)	-	(552)	(552)
Amortisation of deferred actuarial losses	12 168	-	12 168	25 718	-	25 718
Net cost for the period	29 941	(660)	29 281	71 468	701	72 169

As at June 30, 2003, the Cost for the period was in the amount of Eur 36.3 million.

The evolution of the consolidated assets of the Pension Funds was as follows:

	Jun 2004			Dec 2003		
	Portugal Euro'000	Brazil Euro'000	Group Euro'000	Portugal Euro'000	Brazil Euro'000	Group Euro'000
Pension Funds						
Value of the assets at the beginning of the period	785 147	31 355	816 502	727 258	22 687	749 945
Group Contributions	22 609	2 129	24 738	54 340	3 947	58 287
Employees contributions	-	233	233	-	552	552
Pensions paid during the period	(22 609)	(1 780)	(24 389)	(50 340)	(1 516)	(51 856)
Return of the Funds	20 538	5 084	25 622	53 889	5 800	59 689
Actuarial losses	-	25 269	25 269	-	(413)	(413)
Currency fluctuation	-	(1 215)	(1 215)	-	298	298
Value of the assets at the end of the period	805 685	61 075	866 760	785 147	31 355	816 502

As at June 30, 2004, the Actuarial losses from Brazil includes the responsibilities reclassified from the Defined Contribution Plan to Defined Benefit Plan of Escelsa and Enersul in the amount of Eur 12.5 million and Eur 12.7 million, respectively.

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

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

Accounting Directive 19, on the contrary, imposes the recognition of actuarial losses and gains directly in results for the year in which they occur and does not accept the “corridor” alternative or allow deferral of actuarial gains and losses in excess of the “corridor”. It therefore imposes a systematic method of immediate recognition in results.

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

	Jun 2004		Dec 2003	
	Net profit Euro'000	Provisions Euro'000	Net profit Euro'000	Provisions Euro'000
Net profit and provisions reported	274 852	108 068	381 109	149 636
Actuarial deviations of the year	(76 033)	76 033	(23 908)	23 908
Surplus / (insufficiency) of provisions	-	-	(101 836)	101 836
Actuarial deviations of the previous year	-	511 153	-	385 409
Deferred taxes	20 909	-	34 580	-
Amortisation and provisions reported - Pro forma DC 19	219 728	695 254	289 945	660 789

II. Pension Plans - Defined Contribution Type

Hidrocarb ntab rico in Spain and Bandeirante, Escelsa and Enersul in Brazil have Defined-contribution benefit plans that complement those granted by the Social Welfare Systems to the companies' employees, under which they pay a contribution to these plans each year, calculated in accordance with the rules established in each case.

III. Liability for Medical Care Plans - Defined Benefit Type

In Portugal, Group companies resulting from the split of EDP in 1994 have a Medical Care Plan of the defined-benefit type, supported through a provision that covers the whole of these liabilities.

The evolution of consolidated liabilities for past services of the EDP Group medical care plan is analysed as follows:

	Jun 2004			Dec 2003
	Portugal Euro'000	Brazil Euro'000	Group Euro'000	Group Euro'000
Evolution of Liabilities				
Liabilities at the beginning of the period	660 255	-	660 255	496 201
Current service cost	3 952	58	4 010	5 942
Interest cost	16 823	541	17 364	29 049
Benefits paid	(13 208)	(289)	(13 497)	(24 099)
Actuarial losses	10 804	12 196	23 000	153 162
Currency fluctuation	-	(12)	(12)	-
Liabilities at the end of the period	678 626	12 494	691 120	660 255

During 2004, in Brazil, actuarial gains and losses merge actuarial responsibilities reclassified in 2004 from Defined Contribution Plan to Escelsa Defined Benefit Plan, in the amount of Eur 11.9 million.

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

	Group	
	Jun 2004 Euro'000	Dec 2003 Euro'000
Assumptions		
Discount rate	5,20%	5,20%
Annual growth rate of medical services costs	4,5% (a)	4,5% (a)
Mortality table	(b)	(b)
Disability table	(b)	(b)
Expected % of subscription by employees eligible for early retirement	(b)	(b)

(a) 4.5% during the next 10 years and 4.0% during the remaining years

(b) As mentioned in the Pension Plan assumptions

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

	Jun 2004			Dec 2003
	Portugal Euro'000	Brazil Euro'000	Group Euro'000	Group Euro'000
Provision for Medical Care Plans				
Liabilities at the end of the period	678 626	12 494	691 120	660 255
Deferred actuarial losses (i)	(251 901)	(5 139)	(257 040)	(247 628)
Value of the provision at the end of the period	426 725	7 355	434 080	412 627

(i) The international accounting standards adopted by EDP allowed deferred actuarial gains/losses to be recognised systematically in the profit and loss account through amortisation of the amount exceeding, in the previous year, 10% of the amount of the greater of the liabilities or of the assets of the Fund. These amortisations are calculated for the period corresponding to the estimated average remaining length of service of the active population.

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The components of net consolidated cost recognised during period with this plan are as follows:

	Jun 2004			Dec 2003
	Portugal Euro'000	Brazil Euro'000	Grupo Euro'000	Grupo Euro'000
<i>Cost for the period</i>				
Current service cost	3 952	58	4 010	5 942
Interest cost	16 823	541	17 364	29 049
Amortisation of the deferred transitional obligation (i)	6 532	(290)	6 242	5 022
Net cost for the period	27 307	309	27 616	40 013

As at June 30, 2003, the Cost for the period was in the amount of Eur 20 million.

37. Employee Stock Option

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

The programme, approved in 1999, aims to grant over a period of five years purchase options on shares representing the EDP share capital. The number of options to be awarded cannot exceed 16,250,000 (following the stock split in which each share was replaced by 5 shares with a nominal value equal to 1/5 of the value before the stock split), each option giving entitlement to the acquisition of one share. In the event of a change in the EDP share capital, this limit and the number of options already granted may be adjusted so that the size or position of the plan of the beneficiaries of the option remain substantially the same as the size or position existing prior to the fact in question. This provision may be applicable in other cases that, in the opinion of the board of directors of EDP, justify identical treatment.

The price for the acquisition of shares granted under the stock options (exercise price) is the weighted average of the closing prices of EDP shares during the period prior to the date defined as the option-granting date fixed by the EDP board of directors. The exercise price may be adjusted in the event of: a) change in the share capital; b) distribution of dividends and other reserves to shareholders with a significant effect on the price of the EDP shares; and c) the occurrence of other facts of a similar nature that, according with the EDP board of directors, justify such corrections.

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

38. Relevant and subsequent events

EDP is constituent of the Ethical Index Euro

EDP in the year 2003 was a constituent of the Ethical Index Euro, a socially responsible benchmark composed of the 150 most capitalised and socially responsible European companies, created and maintained by E.Capital Partners, an Italian advisor dealing with CSR and SRI.

EDP signed a five-year revolving credit facility

On July, 27 2004, EDP - Electricidade de Portugal, S.A. signed a five year Revolving Credit Facility in the amount of EUR 1, 300 million.

The Facility replaces EDP's two existing and unutilised credit lines - EUR 600 million revolving credit facility maturing on 22nd August 2004 and the EUR 700 million revolving credit facility dated 27th March, 2003 - and will be used as a back up line for the company's "Euro Commercial Paper Programme" as well as for general corporate purposes.

Current international loan market conditions allowed EDP to extend the term of its credit lines in more favourable terms and to reduce the costs associated with the maintenance of these liquidity lines. The syndication process attracted strong support from EDP's international relationship banks and resulted in a significant over-subscription. Since EDP decided not to increase the facility amount, the participating bank's commitments were scaled back accordingly.

EDP increases stake in hidroantábrico to 95.7% by acquiring an additional 56.2% stake from ENBW, CAJASTUR and CÁSER

On July 29, 2004, EDP has today entered into a set of agreements with Energie Baden-Württemberg AG ("EnBW"), Caja de Ahorros de Asturias ("Cajastur") and Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A. ("Cáser") that will lead to the acquisition of an additional 56.2% stake in Hidroeléctrica del Cantábrico, S.A. ("Hidroantábrico"), and permit EDP to increase its current stake from 39.5% to 95.7% of Hidroantábrico's share capital. The total consideration to be paid by EDP within this transaction will be Eur 1.195 million.

Simultaneously, Cajastur will receive shares equivalent to approximately 5.4%-5.8% of EDP share capital to become one of the largest shareholders of EDP, strengthening the strategic partnership between both companies.

This transaction will be financed through a share capital increase by means of a rights issue in the amount of 1,200 million, through the issue of new shares to EDP shareholders. EDP has ensured that a group of financial institutions undertake to subscribe all the shares that are not subscribed for by the shareholders of the company.

The execution of the rights issue is subject to the approval by the Portuguese Government of a privatisation Decree-Law of EDP, and the registration of the subscription public offer with the Comissão do Mercado de Valores Mobiliários. The launching of the offer is expected to occur in October.

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The agreements reached with the remaining shareholders of Hidrocontábrico provide for the acquisition of the entire stake held by EnBW in Hidrocontábrico (34.6%) for a consideration of Eur 649 million to be paid in cash, the acquisition of a 17.5% stake held by Cajastur for a consideration of Eur 453 million to be paid with EDP shares and the acquisition of a 4.1% stake held by Cáser for a consideration of eur 93 million to be paid in cash.

The completion of the transaction will result in the termination of the shareholders agreement of Hidrocontábrico currently in force, allowing for a higher degree of integration of EDP's and Hidrocontábrico's activities.

Within the scope of this new strategic partnership, aimed at the optimisation of the combined operation of EDP and Hidrocontábrico in the Iberian market, Cajastur and Cáser will keep a 3.1% stake in Hidrocontábrico, as well as certain veto rights, particularly in relation with matters concerning regional interests, which will preserve Hidrocontábrico's links with the region of Asturias. In addition, Cajastur will have the right, for a long period of time, to sell out of Hidrocontábrico's share capital through a put option on EDP. The price of this put option is indexed to the value of EDP shares, ensuring the interests of EDP and Cajastur are unequivocally aligned.

The number of EDP shares to be delivered to Cajastur will be determined based on the volume weighted average price of EDP's shares during the six months prior to July 28, 2004 (Eur 2.29 per share), adjusted for the technical dilution effect of the capital increase.

The Board of Directors of EDP requested the Chairman of the General Shareholders Meeting to call a general shareholders meeting for October 7, 2004, in order to obtain the approval of the amendment to the articles of association of the company to delegate to the Board of Directors the ability to execute the share capital increase once the new phase of the company's privatisation is approved. The rights issue will ensure certainty of funds to finance the transaction, preserving the Group's balance sheet strength and sustaining profitability per share in the future. EDP has ensured that a group of financial institutions composed by Caixa Geral de Depósitos, Goldman Sachs, Millennium bcp, Morgan Stanley and UBS undertake to subscribe the shares that are not subscribed for by the shareholders of the company.

Completion of the acquisition by EDP of the shares held by Hidrocontábrico's remaining shareholders is subject to certain conditions precedent including the approval of the transaction at the General Shareholders Meeting of EDP, the approval by the EU Commission with respect to the its compliance with EU antitrust rules and the non-opposition by the Spanish authorities.

The strengthening of the partnership through the acquisition of Hidrocontábrico will enable both companies to maximise management flexibility and optimise business integration at the Iberian level. This is a key factor for EDP to successfully implement its business strategy and for the positioning of the Group as a top tier energy player in the Iberian market. This will be achieved through the optimization of the energy generation assets portfolio, based on dispatch centralization and coordinated expansion of generation capacity, the definition and execution of a joint retail strategy for Portugal and Spain and integrated management of the gas assets portfolio.

EDP believes the completion of this transaction will enable it to implement a series of measures to achieve significant synergies between the companies, including cash savings from implementing coordinated strategies for energy generation and commercialisation, joint management of energy trading in the market, and the coordination of gas and other fossil-fuel sourcing activities.

The agreement reached with Cajastur will also allow Hidrocontábrico to focus on its core-business. A divestment of its cable TV assets is expected once the transaction has been executed. Such divestment is expected to generate a substantial capital gain.

EDP concludes Framework Agreement with a view to Acquisition of Control of the Natural Gas Industry in Portugal

On February 6, 2004, within the context of Council of Ministers' Resolution 68/2003 of May 10, in respect of the restructuring of the Portuguese energy sector, EDP concluded a framework agreement with Eni, S.p.A. (Eni), establishing the heads of agreement reached by the parties with regard to bringing together the gas and electricity industries, and also with regard to the final structure of the share capital of GDP, SGPS, S.A. (GDP), 51% of which is expected to be held by EDP and 49% by Eni. However, during the transition period, REN – Rede Eléctrica Nacional may come to have a minority holding in GDP up to the conclusion of the process of separation of regulated assets such as the high-pressure natural gas network. The direct involvement of these companies in the natural gas business will be undertaken on the basis of a reference figure of Eur 1.2 billion attributed to the whole of the gas assets (including such regulated assets as come to be transferred to REN) currently held by the GALP Energia group. Implementation of this transaction is based on the assumption that the direct involvement of EDP in the natural gas business will be underpinned by the economic value resulting from its sale of its holding in GALP Energia, in which EDP has a 14.7% stake, and for this reason it is not expected that the transaction will require any additional investment by EDP. EDP and Eni are now concerning the contracts to structure the operation and to define the corporate governance of GDP, to be concluded by the end of 2004. The conclusion of the transaction will in any case depend on approval by the respective fair trade authorities.

EDP Clarifies the Market on the Process of Definition of the Compensation Value of the CAEs

On March 5, 2004, EDP informed the market and the public in general that the process of definition of the value of compensation (CMEC – Contractual Balance Maintenance Costs) linked to the possible transition of the energy acquisition contracts (CAEs) to the market system within the scope of MIBEL was still underway and had not therefore been concluded.

On March 8, 2004, in response to several requests for clarification in view of the news published in respect of the early termination of the Energy Acquisition Contracts (CAEs), EDP once again stated:

1. That not being party to the work of the European Commission and the Portuguese Government in progress in Brussels, EDP was entirely unaware of any progress or of the content thereof;
2. That investors and the market in general should not base investment decisions on the figures that had been published, which EDP considered totally unfounded and whose calculation criteria it was unable to reconstitute; and
3. That, as it had disclosed on several occasions, EDP would only formalise the early termination of the CAEs, provided that an economically neutral and equivalent alternative were ensured, certified by independent entities, and that it believed that this could occur until the end of year.

ANNEX - EDP Group Business by Business Segment

Information by business segment - 1st Half 2004

(Amounts expressed in thousands of euros)

	Portugal		Spain			Brazil		Telecoms	Information Technology	Services and other Adjustments	EDP Group
	Generation ^(a)	Distribution + Supply	Generation	Distribution + Supply	Gas ^(b)	Generation	Distribution + Supply				
Turnover											
Sales of electricity	678 224	1 745 221	110 949	124 056	9 286	13 506	462 576	-	-	(6 130)	3 137 688
Other sales	10 393	1 211	3 595	31 596	82 735	1 700	-	5 222	13 083	(22 346)	127 189
Services rendered	36 030	11 800	843	8 533	7 677	3 766	31 908	160 596	77 940	(71 988)	267 105
	724 647	1 758 232	115 387	164 185	99 698	18 972	494 484	165 818	91 023	(100 464)	3 531 982
Raw materials and consumables											
Purchase of electricity	17 974	1 143 337	7 982	124 805	64 532	3 302	302 872	-	-	(43 035)	1 621 769
Fuel costs	163 121	-	53 105	979	407	2 375	-	-	-	-	219 987
Other materials	1 430	53 407	2 480	6 180	2 853	48	4 041	4 495	11 549	(7 751)	78 732
	182 525	1 196 744	63 567	131 964	67 792	5 725	306 913	4 495	11 549	(50 786)	1 920 488
Gross Margin	542 122	561 488	51 820	32 221	31 906	13 247	187 571	161 323	79 474	(49 678)	1 611 494
Other operating income / (costs)											
Supplies and services	(32 156)	(109 382)	(8 207)	(8 944)	(4 643)	(6 090)	(24 191)	(122 341)	(29 474)	43 384	(302 044)
Personnel costs	(63 075)	(189 363)	(8 652)	(7 470)	(3 484)	(4 911)	(30 797)	(27 641)	(29 725)	35 963	(324 735)
Own work capitalised	7 728	90 525	867	660	100	-	-	2	454	3 840	104 176
Other operating income / (costs)	2 073	(89 537)	(2 801)	2 679	629	(98)	(4 496)	1 455	878	(13 073)	(102 291)
	(85 430)	(297 757)	(18 793)	(13 075)	(7 398)	(6 679)	(59 484)	(148 525)	(57 867)	70 114	(624 894)
Gross Operating Margin	456 692	263 731	33 027	19 146	24 508	6 568	128 087	12 798	21 607	20 436	986 600
Depreciation and amortisation	118 490	175 964	20 039	6 868	12 118	2 257	26 842	31 814	14 803	17 576	426 771
Compensation of depreciation of part-funded fixed assets	(115)	(36 909)	(68)	(322)	(248)	-	-	-	-	(313)	(37 975)
Provisions	5 719	23 277	72	264	34	-	8 249	1 737	228	6 657	46 237
Operating Margin	332 598	101 399	12 984	12 336	12 604	4 311	92 996	(20 753)	6 576	(3 484)	551 567
Financial income / (expense)	(51 467)	(16 773)	(8 532)	(4 299)	(2 218)	(4 959)	(54 642)	(18 146)	(3 351)	29 703	(134 684)
(Amortisation of goodwill and concession rights)	-	-	(4 794)	(5 954)	(369)	(36)	-	(8 094)	(2 512)	(25 013)	(46 772)
Current results	281 131	84 626	(342)	2 083	10 017	(684)	38 354	(46 993)	713	1 206	370 111
Extraordinary gains / (losses)	1 780	3 114	120	251	73	(19)	(4 716)	(424)	(825)	(19 429)	(20 075)
Profit before taxes	282 911	87 740	(222)	2 334	10 090	(703)	33 638	(47 417)	(112)	(18 223)	350 036
Income tax	83 864	61 222	807	1 125	3 229	1 016	12 898	5 916	1 818	(68 503)	103 392
Minority interests	(1)	-	185	(59)	3 403	-	(1 657)	(23 445)	1	(6 635)	(28 208)
Net profit	199 048	26 518	(1 214)	1 268	3 458	(1 719)	22 397	(29 888)	(1 931)	56 915	274 852
Other information :											
Tangible fixed assets	4 380 103	4 491 895	728 512	219 314	158 529	334 846	637 558	221 988	90 877	442 431	11 706 053
Intangible fixed assets	5 897	917	1 129	2 428	(8 331)	1 055	35 396	168 987	7 580	718 657	933 715
Current assets	796 583	768 254	66 180	45 608	43 680	48 676	568 972	207 573	113 558	(208 204)	2 450 880
Shareholders' equity	4 014 261	1 546 700	381 994	183 123	115 274	114 241	420 659	(187 359)	52 743	(1 277 415)	5 364 221
Current liabilities	817 255	2 854 054	136 124	89 047	26 762	164 254	492 056	852 132	117 568	(643 359)	4 905 893
CAPEX	131 319	124 410	35 479	6 169	9 127	86 333	27 632	13 541	7 344	5 712	447 064

(a) The electricity generation includes the renewables segment

(b) The commercial activity of the Gas segment is aggregated with the Distribution and Supply

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

EDP - Electricidade de Portugal, S.A.

Consolidated Balance Sheet as at June 30, 2004 and December 31, 2003

(Amounts expressed in thousands of Euros)

	2004			2003		
	Gross assets	Depreciation and provisions	Net assets	Gross assets	Depreciation and provisions	Net assets
ASSETS						
FIXED ASSETS						
Intangible fixed assets						
Star-up costs	85 455	66 210	19 245	85 157	64 855	20 302
Research and development costs	98 129	51 048	47 081	103 302	44 606	58 696
Industrial property and other rights	176 776	28 550	148 226	158 057	32 377	125 680
Intangible fixed assets in progress	13 148	-	13 148	21 944	-	21 944
Other intangible assets	40 209	17 137	23 072	40 209	14 570	25 639
Concession rights	835 583	152 640	682 943	835 366	137 445	697 921
Goodwill	1 022 783	148 934	873 849	1 005 363	105 849	899 514
	2 272 083	464 519	1 807 564	2 249 398	399 702	1 849 696
Tangible fixed assets						
Tangible fixed assets (DL 344-B/82)	240 607	232 832	7 775	240 607	231 528	9 079
Land and natural resources	128 051	-	128 051	128 169	-	128 169
Buildings and other constructions	393 047	168 390	224 657	410 982	166 403	244 579
Plant and machinery	24 180 202	14 229 781	9 950 421	23 790 703	13 911 573	9 879 130
Transport equipment	74 845	56 242	18 603	75 761	54 532	21 229
Tools and utensils	5 837	4 644	1 193	5 554	4 418	1 136
Office equipment	351 661	190 528	161 133	338 696	175 692	163 004
Other tangible fixed assets	36 243	5 836	30 407	22 393	4 422	17 971
Fixed assets in progress	1 183 813	-	1 183 813	1 187 302	-	1 187 302
	26 594 306	14 888 253	11 706 053	26 200 167	14 548 568	11 651 599
Investments						
Shareholdings in Group companies	65	-	65	1 305	-	1 305
Shareholdings in associate companies	431 527	-	431 527	441 449	4	441 445
Shareholdings in other related companies	1 485 225	265 158	1 220 067	1 351 958	285 786	1 066 172
Securities and financial assets	50 897	1 376	49 521	75 608	1 746	73 862
	1 967 714	266 534	1 701 180	1 870 320	287 536	1 582 784
CURRENT						
Inventories						
Raw and subsidiary materials consumables	117 889	-	117 889	134 945	-	134 945
Products and work in progress	6 805	10	6 795	6 206	-	6 206
Merchandise	19 332	-	19 332	18 085	-	18 085
	144 026	10	144 016	159 236	-	159 236
Mediun/long-term debtors						
Customers-local gov.-debt as at 31/12/88	198 751	88 228	110 523	187 119	101 322	85 797
Other debtors	474 660	7 542	467 118	350 045	-	350 045
	673 411	95 770	577 641	537 164	101 322	435 842
Short-term debtors						
Trade accounts receivable	1 029 151	-	1 029 151	1 015 751	-	1 015 751
Trade accounts-bills receivable	1	-	1	46	-	46
Doubtful debt	191 977	189 313	2 664	188 689	181 615	7 074
State and other public entities	104 459	-	104 459	179 775	-	179 775
Other debtors	313 623	10 646	302 977	258 950	9 335	249 615
	1 639 211	199 959	1 439 252	1 643 211	190 950	1 452 261
Trading securities						
Trading securities	56 376	-	56 376	56 291	-	56 291
Other treasury assets	32 745	6	32 739	87 668	6	87 662
	89 121	6	89 115	143 959	6	143 953
Bank deposits and cash						
Bank deposits and cash	111 529		111 529	123 168		123 168
Cash in hand	2 889		2 889	20 375		20 375
	114 418		114 418	143 543		143 543
Accruals and deferrals						
Accrued income and deferred costs	367 385		367 385	347 313		347 313
Deferred costs	296 693		296 693	275 104		275 104
Deferred taxes	546 683		546 683	609 338		609 338
	1 210 761		1 210 761	1 231 755		1 231 755
Total depreciation		15 352 772			14 948 270	
Total provisions		562 279			579 814	
TOTAL	34 705 051	15 915 051	18 790 000	34 178 753	15 528 084	18 650 669

See accompanying to the Financial Statements

EDP - Electricidade de Portugal, S.A.

Consolidated Balance Sheet as at June 30, 2004 and December 31, 2003

(Amounts expressed in thousands of Euros)

	2004	2003
SHAREHOLDERS' EQUITY		
Share Capital	3 000 000	3 000 000
Treasury stock	(24 349)	(21 431)
Share premium of treasury stock	(31 228)	(27 589)
Reserves :		
- Legal reserves	345 446	326 391
- Free reserves	12 830	12 830
- Other reserves	(675 294)	(1 078 371)
Exchange differences arising on consolidation	(585 452)	(572 500)
Fair-value reserves of investments available for sale	160 389	10 756
Retained earnings	2 887 027	3 266 812
	5 089 369	4 916 898
Net profit for the period	274 852	381 109
Total Shareholders' Equity	5 364 221	5 298 007
Minority interests in net profit	149 993	(44 364)
Minority interests in reserves	83 843	280 849
Total Minority Interests	233 836	236 485
Hydrological correction account	375 201	387 506
LIABILITIES		
Provisions for liabilities and charges	804 818	819 574
	804 818	819 574
Medium/long-term creditors		
Bond loans - non convertible	3 513 451	3 524 332
Other loans	2 297 415	2 389 247
Other creditors	595 109	542 942
	6 405 975	6 456 521
Short term creditors		
Bond loans - non convertible	55 475	55 721
Other loans	1 593 591	1 523 409
Trade accounts payable	643 475	678 741
Fixed assets suppliers	59 861	103 885
Other shareholders	27 888	10 541
State and other public entities	204 634	269 103
Other creditors	187 392	176 721
	2 772 316	2 818 121
Accruals and deferrals		
Accrued costs and deferred income	380 376	236 534
Deferred income	1 921 031	1 781 865
Deferred taxes	532 226	616 056
	2 833 633	2 634 455
Total Liabilities	12 816 742	12 728 671
Total Shareholders' Equity and Minority Interests	5 973 258	5 921 998
TOTAL	18 790 000	18 650 669

THE OFFICIAL
ACCOUNTANT N.º 17.713

THE PLANNING, CONTROL
AND CONSOLIDATION MANAGER

THE BOARD OF DIRECTORS

EDP - Electricidade de Portugal, S.A.

Consolidated Profit and Loss Account for the six-months ended June 30, 2004 and 2003

(Amounts expressed in thousands of Euros)

	2004		2003	
COSTS AND LOSSES				
Cost of goods sold and Materials consumed		1 920 487		1 841 065
Supplies and services		302 044		310 239
Personnel costs:				
Remuneration	207 926		220 632	
Social Security charges	116 809		124 641	
Other	-	324 735	-	345 273
		2 547 266		2 496 577
Depreciation and amortisation	388 797		408 346	
Provisions	46 237	435 034	62 523	470 869
		2 982 300		2 967 446
Taxes	9 752		4 465	
Other expenses and losses	100 535	110 287	93 091	97 556
(A)		3 092 587		3 065 002
Financial expenses and losses	327 831		328 960	
Amortisation of goodwill and concession rights	46 773	374 604	48 682	377 642
(C)		3 467 191		3 442 644
Extraordinary costs and losses		52 457		34 494
(E)		3 519 648		3 477 138
Income tax for the year		103 392		110 640
(G)		3 623 040		3 587 778
Minority interests		(28 208)		(8 997)
Consolidated net profit for the year		274 852		182 044
		3 869 684		3 760 825
INCOME AND GAINS				
Sales	3 264 877		3 146 515	
Services rendered	267 105	3 531 982	199 176	3 345 691
Own work capitalised	104 176		116 660	
Supplementary income	4 439		2 033	
Other income and operational gains	3 557	112 172	7 457	126 150
(B)		3 644 154		3 471 841
Financial income and agains		193 148		195 111
(D)		3 837 302		3 666 952
Extraordinary income and gains		32 382		93 873
(F)		3 869 684		3 760 825
Operating profits/(loss)	(B) - (A)	551 567		406 839
Financial income/(expense)	(D - B) - (C - A)	(181 456)		(182 531)
Current Results	(D) - (C)	370 111		224 308
Profit before tax	(F) - (E)	350 036		283 687
Consolidated net profit and minority interests	(F) - (G)	274 852		182 044

See accompanying to the Financial Statements

EDP - Electricidade de Portugal, S.A.

Individual Balance Sheet as at June 30, 2004 and December 31, 2003

(Amounts expressed in thousands of Euros)

	2004			2003		
	Gross assets	Depreciation and provisions	Net assets	Gross assets	Depreciation and provisions	Net assets
ASSETS						
FIXED ASSETS						
Intangible fixed assets						
Star-up costs	7 085	5 936	1 149	7 085	5 228	1 857
Research and development costs	15 193	7 987	7 206	15 193	6 714	8 479
Industrial property and other rights	50	15	35	50	11	39
Intangible fixed assets in progress	3 310	-	3 310	3 277	-	3 277
	25 638	13 938	11 700	25 605	11 953	13 652
Tangible fixed assets						
Land and natural resources	55 838	-	55 838	55 838	-	55 838
Buildings and other constructions	66 355	31 707	34 648	81 413	31 929	49 484
Transport equipment	1 895	895	1 000	2 032	884	1 148
Tools and utensils	85	58	27	74	52	22
Office equipment	60 905	54 041	6 864	59 437	52 826	6 611
Other tangible fixed assets	13 545	840	12 705	23	6	17
Fixed assets in progress	8 438	-	8 438	4 427	-	4 427
	207 061	87 541	119 520	203 244	85 697	117 547
Investments						
Shareholdings in Group companies	5 608 968	3 698	5 605 270	5 598 313	948	5 597 365
Shareholdings in associate companies	998 659	-	998 659	998 617	-	998 617
Securities and financial assets	317 091	-	317 091	599 284	-	599 284
	6 924 718	3 698	6 921 020	7 196 214	948	7 195 266
Concession rights	242 831	53 001	189 830	242 831	49 127	193 704
Goodwill	118 082	12 093	105 989	115 915	9 177	106 738
	360 913	65 094	295 819	358 746	58 304	300 442
	7 285 631	68 792	7 216 839	7 554 960	59 252	7 495 708
CURRENT						
Medium/long-term debtors						
Group companies	3 529 665	-	3 529 665	2 431 644	-	2 431 644
Associated companies	3 090	-	3 090	90	-	90
Other companies	3	-	3	2	-	2
	3 532 758	-	3 532 758	2 431 736	-	2 431 736
Short-term debtors						
Trade accounts receivable	3 280	-	3 280	4 171	-	4 171
Doubtful debt	10 917	10 917	-	9 119	9 119	-
Group companies	9 026	-	9 026	842 244	-	842 244
Related companies	1 961	-	1 961	-	-	-
State and ther public entities	16 871	-	16 871	206 597	-	206 597
Other debtors	568 696	-	568 696	644 054	-	644 054
	610 751	10 917	599 834	1 706 185	9 119	1 697 066
Trading securities						
Trading securities	-	-	-	-	-	-
Other treasury assets	15 841	-	15 841	85 641	-	85 641
	15 841	-	15 841	85 641	-	85 641
Bank deposits and cash						
Bank deposits and cash	5 710		5 710	8 332		8 332
Cash in hand	5		5	-		-
	5 715		5 715	8 332		8 332
Accruals and deferrals						
Accrued income and deferred costs	284 005		284 005	296 988		296 988
Deferred costs	149 182		149 182	135 853		135 853
Deferred taxes	284 231		284 231	336 924		336 924
	717 418		717 418	769 765		769 765
Total depreciation		166 573			155 954	
Total provisions		14 615			10 067	
TOTAL	12 400 813	181 188	12 219 625	12 785 468	166 021	12 619 447

See accompanying to the Financial Statements

EDP - Electricidade de Portugal, S.A.

Individual Balance Sheet as at June 30, 2004 and December 31, 2003

(Amounts expressed in thousands of Euros)

	2004	2003
SHAREHOLDERS' EQUITY		
Share Capital	3 000 000	3 000 000
Treasury stock	(24 349)	(21 431)
Share premium of treasury stock	(31 228)	(27 589)
Reserves :		
- Legal reserves	345 446	326 391
- Free reserves	12 830	-
- Other reserves	(894 690)	1 003 566
Exchange differences	(585 452)	(572 500)
Retained earnings	3 266 812	1 208 461
	5 089 369	4 916 898
Net profit for the period	274 852	381 109
Total Shareholders' Equity	5 364 221	5 298 007
Hydrological correction account	375 201	387 506
LIABILITIES		
Provisions for liabilities and charges	226 356	383 608
	226 356	383 608
Medium/long-term creditors		
Bond loans - non convertible	2 466 323	2 476 551
Other loans	692 133	631 021
Other creditors	315 564	315 646
	3 474 020	3 423 218
Short term creditors		
Bond loans - non convertible	9 975	10 221
Other loans	2 168 655	2 266 711
Trade accounts payable	6 346	40 924
Fixed assets suppliers	606	839
State and other public entities	95 479	59 844
Other creditors	857	164 858
	2 281 918	2 543 397
Accruals and deferrals		
Accrued costs and deferred income	114 200	100 204
Deferred income	6 742	8 668
Deferred taxes	376 967	474 839
	497 909	583 711
Total Liabilities	6 480 203	6 933 934
Total Shareholders' Equity and Liabilities	12 219 625	12 619 447

THE OFFICIAL
ACCOUNTANT N.º 17.713

THE PLANNING, CONTROL
AND CONSOLIDATION MANAGER

THE BOARD OF DIRECTORS

EDP - Electricidade de Portugal, S.A.

Individual Profit and Loss Account for the six-months ended June 30, 2004 and 2003

(Amounts expressed in thousands of Euros)

	2004		2003	
COSTS AND LOSSES				
Cost of goods sold and Materials consumed		-		-
Supplies and services		35 809		22 659
Personnel costs:				
Remuneration	1 760		1 200	
Social Security charges	669		1 096	
Other	-	2 429	-	2 296
		38 238		24 955
Depreciation and amortisation	4 464		3 685	
Provisions	5 244	9 708	286	3 971
		47 946		28 926
Taxes	2 579		1 334	
Other expenses and losses	508	3 087	278	1 612
(A)		51 033		30 538
Financial expenses and losses	271 825		350 396	
Amortisation of goodwill and concession rights	6 790	278 615	6 770	357 166
(C)		329 648		387 704
Extraordinary costs and losses		4 039		19 230
(E)		333 687		406 934
Income tax for the year		(92 628)		15 303
(G)		241 059		422 237
Net profit for the period		274 852		182 044
		515 911		604 281
INCOME AND GAINS				
Sales	-		-	
Services rendered	12 194	12 194	4 987	4 987
Own work capitalised	-		-	
Supplementary income	83		474	
Other income and operational gains	5	88	5	479
(B)		12 282		5 466
Financial income and agains		464 619		521 680
(D)		476 901		527 146
Extraordinary income and gains		39 010		77 135
(F)		515 911		604 281
Operating profits/(loss)	(B) - (A)	(38 751)		(25 072)
Financial income/(expense)	(D - B) - (C - A)	186 004		164 514
Current Results	(D) - (C)	147 253		139 442
Profit before tax	(F) - (E)	182 224		197 347
Net profit for the period	(F) - (G)	274 852		182 044

See accompanying to the Financial Statements

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**V DOCUMENTS OF THE
CMVM-REGISTERED AUDITOR
AND OF THE EXTERNAL AUDITORS**

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REPORT AND OPINION OF THE STATUTORY AUDITORS

(Free translation from the original in Portuguese)

CONSOLIDATED ACCOUNTS

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

- 1 We have reviewed the accompanying consolidated financial statements of EDP – Electricidade de Portugal, S.A. as at June 30, 2004, comprising of a consolidated balance sheet, consolidated income statement and consolidated cash flow statement for the six month period then ended and accompanying explanatory notes. These financial statements are the responsibility of the company's Management. Our responsibility is to issue a report on these financial statements based on our review.
- 2 We conducted our review in accordance with the International Standard on Auditing applicable to review engagements. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the consolidated financial statements are free of material misstatement.
3. A review is limited primarily to enquiries of company personnel and analytical procedures applied to financial data, and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.
- 4 Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements are not presented fairly, in all material respects, in accordance with generally accepted accounting principles in Portugal, derogated by the application of the international accounting standards IAS 19, IAS 32, IAS 36 and IAS 39 as referred in the notes 2, 35 and 36.

Lisbon, September 6, 2004

PricewaterhouseCoopers

INDIVIDUAL ACCOUNTS

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

- 1 We have reviewed the accompanying financial statements of EDP – Electricidade de Portugal, S.A. as at June 30, 2004, comprising of a balance sheet, income statement and cash flow statement for the six-month period then ended and accompanying explanatory notes. These financial statements are the responsibility of the company's Management. Our responsibility is to issue a report on these financial statements based on our review.
- 2 We conducted our review in accordance with the International Standard on Auditing applicable to review engagements. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement.
3. A review is limited primarily to enquiries of company personnel and analytical procedures applied to financial data, and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.
- 4 Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial statements are not presented fairly, in all material respects, in accordance with generally accepted accounting principles in Portugal, derogated by the application of the international accounting standards IAS 19, IAS 32, IAS 36 and IAS 39 as referred in the notes 2, 35 and 36.

Lisbon, September 6, 2004

PricewaterhouseCoopers

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

**Review report by the Statutory Auditor Registered in CMVM
over consolidated semester information
(Free translation from the original in Portuguese)**

INTRODUCTION

- 1 For the purpose of article 246 of the Portuguese Securities Market Code, we are pleased to submit our review Report on the consolidated financial information of EDP – Electricidade de Portugal, S.A. contained: in the Management Report, in the consolidated balance sheet as at June 30, 2004 (which shows a total of 18.790.000 thousand, minority interests of 233.836 thousand and shareholders' net equity of 5.364.221 thousand, including net income for the period of 274.852 thousand), the consolidated income statement and the consolidated cash flow statement for the six month period then ended and corresponding notes to the accounts.
- 2 The amounts in the consolidated financial statements, as well as those in the additional financial information are derived from the respective accounting records.

RESPONSIBILITIES

- 3 The Board of Directors is responsible
 - (a) for the preparation of consolidated financial statements that truly and fairly present the financial position of the Companies included in the consolidation and the consolidated results of its operations and cash flows;
 - (b) for the preparation of the historical financial information in accordance with generally accepted accounting principles and for ensuring that it is complete, true, timely, clear, objective and lawful as required by the Portuguese Securities Market Code;
 - (c) for the adoption of adequate accounting policies and criteria;
 - (d) for maintaining appropriate systems of internal control; and
 - (e) for disclosing any relevant matters influencing its operations, its financial position or results of the companies included in the consolidation.
- 4 Our responsibility is to verify the financial information included in the documents referred to above, namely if it is complete, true, timely, clear, objective and lawful as required by the Portuguese Securities Market Code, and to issue a professional and independent report based on our review.

SCOPE

- 5 The work we have performed had the objective to obtain a reasonable degree of certainty as to whether the financial information referred to above do not contain materially relevant distortions. Our review was performed in accordance with the Technical Standards and Directives approved by the Institute of Statutory Auditors, which require that it be so planned and conducted according to that objective and consisted primarily, in enquiries and analytical procedures, to review the :
 - (i) reliability of assumptions used in preparation of the financial information;
 - (ii) the adequacy of the accounting policies adopted taking into account the circumstances and the consistency of their application;
 - (iii) the applicability, or not, of the going concern principle;
 - (iv) appraisal of the overall adequacy of the presentation of the consolidated financial statements; and
 - (v) appraisal as to whether the consolidated financial information is complete, true, timely, clear, objective and lawful.
- 6 Our work also covered the verification of the consistency of the consolidated financial information included in the management report with the remaining documents referred above.
- 7 We believe that the work performed provides an acceptable basis for the issue of our review report in respect of the information for the semester.

REPORT

- 8 Based on the work performed, that has been performed in order to obtain a reasonable assurance, nothing has come to our attention that causes us to believe that the consolidated financial statements for the six month period ended June 30, 2004 contain materially relevant distortions that affect its conformity with generally accepted accounting principles in Portugal, derogated by the application of the international accounting standards IAS 19, IAS 32, IAS 36 and IAS 39 as referred in the notes 2, 35 and 36, and the information included is complete, true, timeliness, clear, objective and licit.

Lisbon, September 6, 2004

PricewaterhouseCoopers

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

**Review report by the Statutory Auditor Registered in CMVM
over semester information
(Free translation from the original in Portuguese)**

INTRODUCTION

- 1 For the purpose of article 246 of the Portuguese Securities Market Code, we are pleased to submit our review Report on the financial information of EDP – Electricidade de Portugal, S.A. contained: in the Management Report, in the balance sheet as at June 30, 2004 (which shows a total of 12.219.625 thousand and shareholders' net equity of 5.364.221 thousand, including net income for the period of 274.852 thousand), the income statement and the cash flow statement for the six month period then ended and corresponding notes to the accounts.
- 2 The amounts in the financial statements, as well as those in the additional financial information are derived from the respective accounting records.

RESPONSIBILITIES

- 3 The Board of Directors is responsible:
 - (a) for the preparation of the historical financial information in accordance with generally accepted accounting principles and for ensuring that it is complete, true, timely, clear, objective and lawful as required by the Portuguese Securities Market Code;
 - (b) for the adoption of adequate accounting policies and criteria;
 - (c) for maintaining appropriate systems of internal control; and
 - (d) for disclosing any relevant matters influencing its operations, its financial position or results.
- 4 Our responsibility is to verify the financial information included in the documents referred to above, namely if it is complete, true, timely, clear, objective and lawful as required by the Portuguese Securities Market Code, and to issue a professional and independent report based on our review.

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 - (i) reliability of assumptions used in preparation of the financial information;
 - (ii) the adequacy of the accounting policies adopted taking into account the circumstances and the consistency of their application;
 - (iii) the applicability, or not, of the going concern principle;
 - (iv) appraisal of the overall adequacy of the presentation of the financial statements; and
 - (v) appraisal as to whether the financial information is complete, true, timely, clear, objective and lawful.
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REPORT

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Lisbon, September 6, 2004

PricewaterhouseCoopers