EDP ENERGIAS DE PORTUGAL SA
Form 6-K
November 08, 2004
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO

RULE 13a-16 OR 15d-16 UNDER THE SECURITIES

EXCHANGE ACT OF 1934

For the Month of November 2004

EDP- Energias de Portugal, S.A.

Praça Marquês de Pombal, 12

1250-162 Lisbon, Portugal

(Address of principal executive offices)

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

Form 20-F x Form 40-F ¨

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

Yes ¨ No x

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PROSPECTUS SUPPLEMENT

(To the prospectus dated October 29, 2004)

Offering of 656,537,715 Ordinary Shares

including ordinary shares in the form of American Depositary Shares

EDP ENERGIAS DE PORTUGAL, S.A.

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

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

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

If you own ADSs:

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

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

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

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

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

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

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

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

If you own ordinary shares:

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

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

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

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

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

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

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

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

Listing and Trading:

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

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

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

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

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

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

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

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

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

Joint Global Coordinators

Caixa Banco de Investimento, S.A.

Goldman, Sachs & Co.

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

Morgan Stanley

UBS Limited

Rights Offering Coordinators

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

Caixa Banco de Investimento, S.A.

November 8, 2004

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ABOUT THIS PROSPECTUS SUPPLEMENT

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

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

FORWARD-LOOKING STATEMENTS

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

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

- the effect of, and changes in, regulation and government policy, including, in particular, Portuguese government and municipal concessions and environmental regulations;
- the effect of, and changes in, macroeconomic, social and political conditions in countries in which we operate;
- the effects of competition, including competition that may arise in connection with the development of an Iberian electricity market;
- our ability to reduce costs;
- hydrological conditions and the variability of fuel costs;
- anticipated trends in our business, including trends in demand for electricity;

our success in developing our telecommunications business;

our success in new businesses, such as gas;

future capital expenditures and investments;

the timely development and acceptance of our new services;

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

our success at managing the risks of the foregoing.

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

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PRESENTATION OF FINANCIAL INFORMATION

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

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

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

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

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SUMMARY

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

RECENT EVENTS

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

- strong sales growth in our electricity markets, with electricity consumption increasing 5.1% in Portugal, 4.2% in Spain and 5.3% in our Brazilian concession areas in the first nine months of 2004 compared to the same period in 2003;
- cost controls and improvements in efficiency, with personnel costs decreasing 4.3% as a result of our HR Restructuring Program;
- The entry of TER s first unit into industrial service, which contributed 1.9 TWh of electricity emission;
- tariff revisions in Brazil, which were partially offset by provisional retroactive changes in tariffs granted to Bandeirante (as further described below); and
- the contribution of Naturcorp to our results in the first nine months of 2004, following the acquisition of a 56.8% stake in that company by Hidrocantábrico in July 2003.

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

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

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

Our capital expenditure for the first three quarters of 2004 totalled 706.9 million, a 34% increase compared to the same period in 2003. The expenditures principally reflect EDP Produção s investment in the second 400 MW group at its TER CCGT facility, investment by Enernova in new wind farms, investment by Hidrocantábrico at the Albacete wind farm, increased investment by EDPD to improve service quality and increased investments at the Peixe Angical hydro power plant in Brazil, partially offset by decreased investment by ONI following completion of major investments for network expansion. Our cash flow generation after capital expenditures at our core businesses, EDP Produção and EDPD, accounted for 646.2 million of our total cash flow in the first three quarters of 2004, which amounted to 586.4 million, and enabled us to reduce our gross financial debt by 64.7 million, from 7,492.7 million as of December 31, 2003 to 7,428.0 million as of September 30, 2004.

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

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

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BUSINESS

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

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

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

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

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

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

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FINANCIAL INFORMATION

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

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

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

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

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

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

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

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

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

(6) Includes interest and related expenses and interest and related income.

(7) Basic and diluted earnings per ordinary share are based on our historical average number of ordinary shares outstanding after giving effect to a 5 for 1 stock split and our average number of ordinary shares outstanding after giving effect to the 5 for 1 stock split plus the effect of the exercise of employee stock options, respectively. Basic and diluted earnings per ADS are based upon basic and diluted earnings per ordinary share multiplied by 10 as each ADS is equivalent to 10 ordinary shares on a post-split basis.

(8) Based on 3,000,000,000 ordinary shares issued and outstanding.

(9) Substantially all of these assets are subject to reversion to the Republic or the municipalities.

(10) U.S. GAAP amounts for 2001 are not comparable to 2002 and 2003 due to the implementation of SFAS 142.

(11) Commencing with 2003, the hydrological correction account is no longer presented in our consolidated balance sheet as a liability.

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THE OFFERING

Holders of ADSs

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

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

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

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

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

Underwriting	The underwriters have severally agreed, subject to certain conditions, to procure subscribers, or otherwise themselves to subscribe, for any remaining offered shares. See Underwriting.
Cum-rights date	The ADSs began trading with ADS rights on the NYSE following our board meeting on November 4, 2004.
Ex-rights date	The ex-rights date for the ADSs is expected to be November 9, 2004. The ADSs are expected to commence trading on the NYSE without any rights on and after that date.

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ADS record date	The ADS record date for the purpose of determining entitlement to ADS rights is expected to be the close of business on November 12, 2004. The ADS rights will be credited to the book-entry system of DTC for further credit to the accounts of persons who held ADSs on the record date and registered holders will be sent their ADS rights certificates via first class mail as promptly as practicable thereafter.
ADS subscription period	From 9.00 a.m. (New York City time) on November 13, 2004 to 3.00 p.m. (New York City time) on November 23, 2004.
ADS subscription price	The ADS subscription price is U.S.$23.70 per offered ADS subscribed. The ADS subscription price is the U.S. dollar equivalent of the share subscription price, using an exchange rate of U.S.$1.2883 per Euro, multiplied by ten to reflect that each ADS represents ten ordinary shares. A subscriber of the offered ADSs must tender U.S.$24.89 per offered ADS subscribed, which represents 105% of the ADS subscription price, upon the exercise of each ADS right. This is to increase the likelihood that the ADS rights agent will have sufficient funds to pay the ADS subscription price in light of possible U.S. dollar to euro exchange rate fluctuations.
Transfer of ADS rights	The ADS rights are non-transferable. ADS rights that are not exercised by the end of the ADS subscription period will expire valueless without any compensation.
Exercise of ADS rights	Each holder or beneficial owner of ADS rights may exercise all or only part of its ADS rights, and may elect to exercise its oversubscription rights. Subscriptions must be received prior to 3.00 p.m. (New York City time) on November 23, 2004 by the ADS Rights Agent.

Each beneficial owner of ADS rights who wishes to exercise its ADS rights should consult with the financial intermediary through which it holds its ADSs and ADS rights as to the manner, timing and form of exercise documentation, method of payment of the ADS subscription price and other related matters required to effect such exercise. The financial intermediary with whom the subscription is made may require any person exercising rights to pay or block the ADS subscription price for the offered ADSs being subscribed for in a deposit account as a condition to accepting the relevant subscription.

We provide further details on how to exercise rights under The Rights Offering.

ADS rights exercise irrevocable	Any exercise of ADS rights will be irrevocable upon exercise and may not be canceled or modified after such exercise.
Unexercised ADS rights	**ADS rights that are not exercised prior to the end of the ADS subscription period will expire valueless without any compensation.**
Delivery of offered ADSs	We expect to have issued all the offered shares underlying the offered ADSs by December 2, 2004. Following the registration of the resulting share capital increase with the Portuguese Commercial

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

Holders of Ordinary Shares

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

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

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

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

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

Share record date The share record date for the purpose of determining entitlement to share rights will be 4.30 p.m. (Lisbon time) on November 8, 2004, which is the last day that the ordinary shares will trade with share rights on Euronext Lisbon. At the start of business on November 12, 2004, the share rights will be credited through the book-entry system of the *Central de Valores Mobiliários*, or CVM, the Portuguese book-entry system, to the accounts of persons who held ordinary shares on the record date.

Ex-rights date The ex-rights date for the ordinary shares is November 9, 2004. The ordinary shares will commence trading on Euronext Lisbon without any rights on and after that date.

Share subscription period From 8.30 a.m. (Lisbon time) on November 12, 2004 to 3.00 p.m. (Lisbon time) on November 25, 2004.

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

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

Exercise of share rights Each holder of share rights may exercise all or only part of its share rights, and may elect to exercise its oversubscription rights. Each holder of share rights can subscribe for offered shares pursuant to the exercise of share rights and oversubscription rights by delivering a duly executed subscription form to an authorized financial intermediary or by any other means approved by such authorized financial intermediary with whom the subscription is made. Subscription forms will be available during the subscription period at any of the branches of the rights offering coordinators in Portugal. Subscriptions must be received prior to 3.00 p.m. on November 25, 2004.

Each holder of share rights who wishes to exercise its share rights should consult with the financial intermediary through which it holds its ordinary shares and share rights as to the manner, timing and form of exercise documentation, method of payment of the share subscription price and other related matters required to effect such exercise. The authorized financial intermediary through whom the subscription is made may require any person exercising share rights to pay or block the share subscription price for the offered shares being subscribed for in a deposit account as a condition to accepting the relevant subscription.

We provide further details on how to exercise rights under The Rights Offering.

Share rights exercise irrevocable Any exercise of share rights will become irrevocable and may not be canceled or modified after the close of business on November 22, 2004.

Unexercised share rights **Share rights that are not exercised prior to the end of the share subscription period will expire valueless without any compensation.**

Delivery of offered shares Upon due exercise of any share rights and payment of the share subscription price, the authorized financial intermediary with whom

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

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

For additional information regarding the rights offering, see The Rights Offering.

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RISK FACTORS

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

RISKS RELATED TO OUR CORE ELECTRICITY BUSINESS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our operational cash flow is affected by variable hydrological conditions.

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

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

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

Our electricity business is subject to extensive environmental regulations. These include regulations under Portuguese law, laws adopted to implement EU regulations and directives and international agreements on the environment. Environmental regulations affecting our business primarily relate to air emissions, water pollution, waste disposal and electromagnetic fields. The principal waste products of fossil-fueled electricity generation are sulfur dioxide, or SO_2, nitrogen oxides, or NO_X, carbon dioxide, or CO_2, and particulate matters such as dust and ash. A primary focus of environmental regulation applicable to our business is to reduce these emissions.

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

Under the EU Directive relating to the emission of pollutants from Large Combustion Plants, Portuguese environmental authorities are currently creating a plan, called the National Emissions Reduction Plan, to reduce SO_2 and NO_x emissions. This plan is expected to be formally approved at the end of 2004. Additionally, with regard to CO_2 emissions, new proposals defining greenhouse gas emission reduction measures were put forward for public comment in 2003, and are expected to be implemented in Portugal later this year. Although we expect to be in timely compliance with these new requirements, such requirements could necessitate additional licenses or the acquisition of emission rights and result in higher electricity costs.

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

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

For further information on environmental matters, see Information on the Company Environmental Matters below.

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RISKS RELATED TO OUR OTHER BUSINESSES

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

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

- economic volatility;
- exchange rate fluctuations and exchange controls;
- strong inflationary pressures;
- government involvement in the domestic economy;
- political uncertainty; and
- unanticipated changes in regulatory or legal regimes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We intend to develop an Iberian gas business as complimentary to and strategically aligned with our electricity business, as described in more detail in Strategy Iberian Energy Developing an Iberian Gas Business. The development of a significant position in the Portuguese gas sector depends on the closing of the acquisition provided for in the agreement we entered in March 2004 to purchase, together with Eni and REN, the entire share capital of GDP, the largest gas distribution company in Portugal. The completion of the acquisition is subject, among other conditions, to approval of the relevant competition authorities, which has been requested and in connection with which the EU Commission has decided to initiate proceedings under article 6.1(c) of Commercial Regulation (EC) no. 139/2004 of January 20, 2004 on the control of concentrations between undertakings. We may also face difficulties integrating this business with our current activities and the development of the business will expose us to new risks, including governmental and environmental industry regulation and economic risks relating to the fluctuations in the price of energy, currencies and time-lags between purchase and sale prices. We cannot assure you that we will successfully manage the development of our gas business, and a failure to do so could have an adverse effect on our business, results of operations or financial condition.

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OTHER RISKS

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

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

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

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

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

- amendments to our by-laws, including share capital increases, mergers, spin-offs or winding-up;
- authorization for us to enter into group/partnership or subordination agreements; or
- waivers of, or limitations on, our shareholders rights of first refusal to subscribe to share capital increases.

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

RISKS RELATED TO THE RIGHTS OFFERING

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

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

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

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

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

Holders of ADSs are subject to exchange rate risk.

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

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

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

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

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

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

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

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USE OF PROCEEDS

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

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CAPITALIZATION AND INDEBTEDNESS

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

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

(1) The issued share capital is fully paid.

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

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

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

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DILUTION

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

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INFORMATION ON THE COMPANY

OVERVIEW

Electricity

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

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

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

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

The following table shows our revenues by activity and geography:

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

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

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

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

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

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

Acquiring an Increased Stake in Hidrocantábrico

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

- a 34.6% interest in Hidrocantábrico from Energie-Baden-Württemberg AG, or EnBW, for consideration of 649 million in the form of cash;
- a 17.5% interest in Hidrocantábrico from Cajastur Caja de Ahorros de Asturias, or Cajastur, for consideration of 453 million in the form of EDP shares; and
- a 4.1% interest in Hidrocantábrico from Cáser Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A., or Cáser, for consideration of 93 million in the form of cash.

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

Gas

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

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

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

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

Telecommunications

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

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

Information Technology

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

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Group capital expenditures and investments

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

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

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

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

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

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

(3) Distribution includes capital expenditures of EDPD.

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

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

(6) Investments for telecommunications include primarily infrastructure.

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

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

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

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

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

Having reduced the exchange rate risk relating to U.S. dollar debt of our Brazilian subsidiaries, we did not enter into any further debt acquisition programs in 2003. The decrease in total capital expenditures and investments from 2002 to 2003 was also due to a lower level of operational investments in 2003. In Portugal, we made lower operating investments in our distribution business in 2003, reflecting the internal transfer from EDINFOR to EDPD of a commercial and administrative information technology system in 2002, and overall investments in generation were lower as a result of the internal transfer in 2002, from EDP to EDP Produção Bioeléctrica, of the investment made in 1999 related to the Mortágua biomass power plant, which does not represent a cash outflow, but was included in our 2002 capital expenditures and investments. Additionally, we had lower expenditures in telecommunications in 2003, as a result of the divestment of our UMTS business.

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

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

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

In recent years, a significant part of our capital expenditures on electricity projects in mainland Portugal has been in distribution. Since EDPD is required by law to connect all customers who wish to be supplied by the PES, a large part of capital expenditures is spent in connecting new customers, improving network efficiency and developing the network (installing new cables and lines) to accommodate the growth in consumption. In addition, we are required to meet government standards for meter control, which requires us to make further investments in new meters. Our investment in distribution in Portugal in 2003 totaled 395.8 million compared with 433.0 million in 2002 and 330.0 million in 2001, and mainly consisted of recurring capital expenditures necessary for the operation, improvement and expansion of our distribution network in Portugal, including expansion to accommodate growth in consumption and maintenance. In keeping with our strategic goal of reducing recurring capital expenditures in our core electricity business, capital expenditures in distribution declined between 1998 and 2000 due to lower costs in materials and services and a reduced allocation of these costs to capital expenditures. Between 2000 and 2003, EDPD s capital expenditures increased due to higher investments in the distribution network pursuant to our public commitment to improve the quality of service by reducing the equivalent interruption time in the distribution of electricity. In 2002, the increase in EDPD capital expenditures also reflects the internal transfer from EDINFOR to EDPD of 80.5 million worth of assets that relate to non-recurring investments made in a commercial and administrative information technology system based on the SAP platform. In 2003, EDPD capital expenditures also included 12.0 million related to the transfer of this information technology system. As such, this transfer did not affect our cash flow in 2002 and 2003.

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

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

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

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

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

We made capital expenditures related to environmental matters in 2003 and 2002 of approximately 15 million. We expect these capital expenditures to amount to approximately 40 million in 2004, of which 20 million will be related to new investments in emissions abatement equipment in the Sines power plant, in order to adapt the facility to the new environmental regulations relating to SO_2 and NO_x emissions.

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

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

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

International Investments

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

STRATEGY

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

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

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

Iberian Energy

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

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In the Iberian energy market our strategic objectives are:

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

Preserving the Value of our Business in the Portuguese Energy Sector

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

In response to these challenges, we plan to:

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

In pursuing these objectives, we intend to:

- pursue effective marketing to both new and existing customers, particularly those that benefit, or will benefit, from competitive alternatives in the Non-Binding Sector (where we are present through our subsidiary EDP Energia);
- continue to provide high-quality and cost-effective services to the Binding Sector and the Non-Binding Sector;
- further centralize our corporate structure, as we have done with the merger of our four distribution companies into EDPD and the centralization of most of our generation companies in EDP Produção;

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

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

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

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

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

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

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

Growing our Iberian Electricity Platform

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

To grow our Iberian electricity platform, we intend to:

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

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

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

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

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

Developing an Iberian Gas Business

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

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

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

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

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

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

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

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

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

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

International Activities

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

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

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

Telecommunications

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

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

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

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

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For a more detailed discussion of our telecommunications activities, please see Telecommunications below.

Information Technology

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

Development of Complementary Business Activities/Other Utilities

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

For more information on our complementary business activities you should read Subsidiaries, Affiliates and Associated Companies below.

THE IBERIAN ELECTRICITY MARKET

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

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

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PORTUGAL

Electricity System Overview

Portuguese Electricity System

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

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

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

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

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

The Public Electricity System or Binding Sector

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

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

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

The Independent Electricity System

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

The Non-Binding Sector

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

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

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

Other Independent Producers

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

Size and Composition of Portugal s Electricity Market

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

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

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

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

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

(1) PES.
(2) Non-binding Electricity System, which consists of generation in the Independent Electricity System other than the other independent producers. All of the NBES hydroelectric plants with an installed capacity less than or equal to 10 MW became special regime producers in October 2002. Special regime generation generally consists of small or renewable energy facilities, from which the electricity system must acquire all electricity offered, at tariffs fixed according to the type of generation. Installed capacity of the NBES in 2003 includes the first 392 MW unit of TER CCGT that was in testing at the end of the year.
(3) Provisional values from 1999 to 2001 take into account the restructuring of the Vila Cova plant in 1999.

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

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

Generation

As of December 31, 2003, our Portuguese electricity generation facilities consist of hydroelectric, thermal (coal, fuel oil, natural gas and gas oil), biomass, cogeneration and wind generation facilities, and had a total installed capacity of 7,939 MW (including one 392 MW unit of the new TER CCGT plant, which was in service by the end of 2003 for testing purposes and began commercial operations in early 2004), 7,052 MW of which was in the PES and 888 MW of which was in the Independent Electricity System, and approximately 53% of which was represented by hydroelectric facilities, 28% by fuel oil/natural gas facilities, 15% by coal-fired facilities, 2% by gas oil facilities and 2% by wind-driven, biomass and cogeneration facilities. We do not own or operate any nuclear-powered facilities in Portugal.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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The following table sets forth the global gross margin of our PPAs per year until 2027, assuming that contracted availability is met, and including the PPA capacity charge, environmental capital expenditure at Sines (SO_2 and NO_x reduction) and other charges, such as land rentals and startup costs.

CPPE s Power Purchase Agreements - Gross Margin

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

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

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

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

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

(1) Includes the following amounts of our own consumption for hydroelectric pumping, 491 GWh in 1999, 558 GWh in 2000, 485 GWh in 2001, 670 GWh in 2002, 485 GWh in 2003 and 176 GWh in June 2004.

(2) Since the beginning of 1998, our existing plant at Tapada do Outeiro uses only fuel oil. Production in 2003 reflects the fact that our plant at Tapada do Outeiro generated an amount of electricity that was less than the plant s own consumption.

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

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

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

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

	Average capacity utilization [(1)]						**Average availability factor**					
	Year ended December 31,					**Six months ended June 30,**	**Year ended December 31,**					**Six months ended June 30,**
Type of facility	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Hydroelectric	18.9%	29.8%	36.9%	19.8%	40.8%	31.3%	95.1%	95.0%	94.8%	95.9%	96.8%	98.5%
Thermal:												
Coal[(2)]	89.3%	86.8%	83.1%	91.3%	90.7%	93.9%	90.5%	89.2%	90.5%	94.0%	94.2%	96.3%
Fuel oil and natural gas	50.6%	30.8%	37.2%	52.3%	20.8%	7.3%	93.2%	94.6%	96.6%	93.7%	90.8%	93.2%
Coal and fuel oil[(3)]	10.3%	2.8%	7.2%	10.8%	0.0%	0.0%	98.6%	99.6%	98.9%	98.2%	94.9%	100.0%
Gas oil[(4)]	0.1%	1.3%	1.7%	0.4%	1.2%	0.6%	99.6%	99.4%	98.4%	99.1%	98.0%	99.7%
Total weighted average thermal[(5)]	58.3%	47.8%	49.9%	60.7%	44.8%	39.5%	93.0%	93.2%	94.6%	94.4%	92.7%	94.8%

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

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

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

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

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

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

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Hydroelectric Plants

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

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

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

(1)

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

(2) Hidrocenel, which operates 15 plants with capacities ranging from 0.1 MW to 24.4 MW and dates of entry into service from 1906 to 2003, was merged into CPPE in 2004.

(3) HDN, which operates 13 plants with capacities ranging from 0.9 MW to 44.1 MW and dates of entry into service from 1922 to 1992, was merged into CPPE in 2004.

(4) EDP Energia owns five plants with capacities ranging from 0.2 MW to 80.7 MW and dates of entry into service from 1927 to 1951.

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

Profile of CPPE s Hydroelectric Power Plants under PPA with REN

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

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

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Thermal plants

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

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

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

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

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

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

Profile of CPPE s Thermoelectric Power Plants under PPA with REN

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

Carregado (I and II)	2010	2,408	1,091	92,121	51,075
Barreiro	2009	249	195	16,003	16,971
Other					